TSB Bank
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TSB Bank Annual Report 2011

TSB BANK NELSON

Highlights 2011

The 2011 financial year delivered a mix of milestone achievements, record results and award-winning recognition:

- The Bank is reporting a pre-tax profit of $60.2 million.
- Depositors funds for the year increased by $418 million or 10%, to a record $4.4 billion.
- The Bank's loan portfolio increased by $219 million bringing the total portfolio to $2.6 billion.
- A dividend of $9 million was paid to the TSB Community Trust for donation to deserving community groups, organisations and causes.
- TSB Bank celebrated its 160th birthday, marking the occasion with the publication of "From Faith to Fortune - The TSB Bank Story 1850-2010", chronicling the Bank's history and the opening of a bank museum.
- Customer Satisfaction research findings from a number of independent, industry-wide surveys have seen the Bank retain its 'Best Bank' rating for a record 11th year. The most recent results, a Roy Morgan Research survey, reported a Bank customer satisfaction rating of 92.4%.
- Independent customer advocacy research undertaken by The Nielsen Company revealed TSB Bank is 'New Zealand's most recommended bank'.
- Financial services research company Canstar Cannex named TSB Bank the winner of the 'Best value savings in New Zealand' award, recognising outstanding value across a variety of cash accounts.
- The Bank's branch network continued to expand, with the opening of a new office in the heart of Nelson. Further expansion is planned.
- The Bank's Capital Adequacy Ratio, an industry measure of financial strength, remains the highest of all New Zealand retail banks at 15.78%.
- TSB Bank Direct was named 'New Zealand's Best Banking Contact Centre' at the 2010 CRM Contact Centre awards.

Chairperson's and Managing Director's report

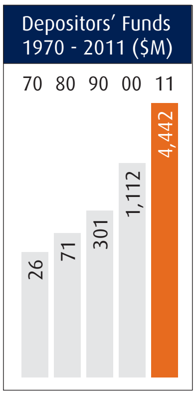
ELAINE GILL: CHAIR – BOARD OF DIRECTORS

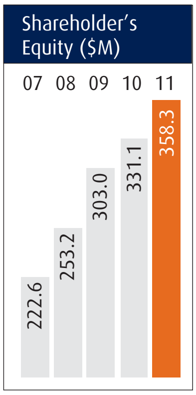
KEVIN MURPHY: MANAGING DIRECTOR/CEO

Despite a challenging economic environment the financial results for the year reveal a solid performance for TSB Bank. An operating profit of $60.2 million before taxation was achieved. This is an increase of 1.55% in the underlying profit (removal of the impact of derivative income): a creditable result when many sectors of the community are struggling to deliver positive returns.

In an endeavour to maintain our cost structures the Bank continues to drive efficiencies and it is pleasing to note a 12% decrease in operating expenses before impairments. The bank's cost to income ratio, a key measure of efficiency, sits at 39.8% significantly better than International Benchmarks. This profit result enables the bank to pay a dividend of $9 million to the TSB Community Trust.

Changes by the Reserve Bank of New Zealand to the liquidity rules, along with the introduction of a new measure, the Core Funding Ratio, intensified the competition between banks for funding. Despite a tough market, deposits have grown by $418 million, $45 million of which is domestic wholesale funding. As a prudent measure and as a means of diversification, the bank has entered the wholesale market for the first time in a number of years. Contributing to the strong retail deposit growth was an enhanced product offering with the successful launch of our new Websaver account for which we received a Cannex 5 star award for Best Value Savings Account. The aggressive competition for funds has continued to put pressure on margins for all banks, with our margin excluding derivatives, falling to a record low of 1.88%.





In a market where credit growth could be described as soft at best, growth of 9% in the portfolio is a sign we are continuing to gain market share. Growth has been achieved without comprising our standards for quality lending. Loan approvals for the year totalled $600 million, a decrease of 15% from the previous year, due mainly to lower demand for credit as the New Zealand economy slowed. The bank has always maintained a prudent and conservative approach to lending risk, and as such our exposure to write downs has been limited, with impaired assets at year end standing at $3.3 million.

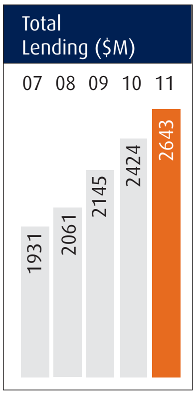
Capital Adequacy is the key international measure used to gauge strength and stability. TSB Bank with a ratio of 15.78% continues to maintain the highest ratio of all New Zealand retail banks. With such a strong ratio we are well positioned to meet the requirements of Basel III when they are introduced.

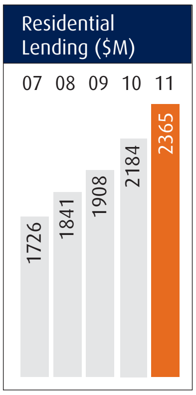
October saw the expiry of the Retail Deposit Guarantee Scheme, introduced by the Government at the height of the Global Financial Crisis in October 2008. TSB Bank, like other major banks elected not to join an extended scheme – the decision based on the fact that the bank has a very strong balance sheet and does not need a government guarantee to continue to attract new business and to grow.

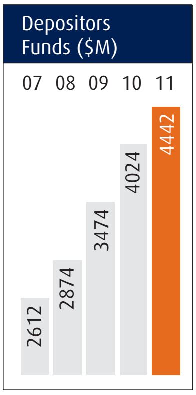
During the year the bank celebrated 160 years since our establishment, on 5 June 1850, by Governor George Grey. We owe much to the early settlers who had the foresight and tenacity to establish one of the first New Zealand owned banks in the heartland of provincial New Zealand. The history of TSB Bank, a success story well worth telling, has been superbly captured in a book "From Faith to Fortune" by author David Walter. The bank also opened a banking museum and we are indebted to former staff members Kevin Rimmington and Daryl Finderup for the dedication they have shown to ensure the bank's proud history is accurately displayed.

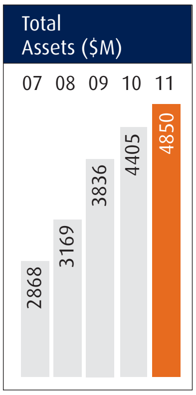
TSB Bank continues to perform strongly relative to its peers and this is reflected in the recently released 2010 KPMG Financial Institutions Performance Survey where TSB Bank came out on top when ranked against all New Zealand Incorporated Banks in key performance indicator measures.

Technology and the speed of advancement and change it brings is ever present in the lives of all New Zealanders. Banking is at the forefront of technology advancement









and the team at TSB Bank continue to develop and enhance our technology platforms. At the same time however we recognize the importance of customer choice for service delivery. We continue to invest in face-to-face service options alongside the latest technology, ultimately putting the power of how customers interact with us in their hands.

The bank continues to receive recognition as New Zealand's best for customer service, again achieving recognition through independent surveys conducted by Nielsen and Roy Morgan research. For the last 10 years TSB Bank has received the number one best bank accolade, a result that can only be achieved through the continued dedication and commitment by staff to deliver the best possible customer experience. Entering the CRM Contact Centre awards for the first time we were delighted to receive the Banking award, which is testimony to the quality of staff we have in this key service area for the bank.

A new marketing campaign was launched during the year focused around TSB Bank being "the most recommended bank". The campaign has yielded some pleasing results to date and builds upon previous campaigns and our brand promise of "Expect More".

In November our on-going branch expansion programme saw a new Service Centre opened in Nelson. The new centre has shown encouraging results to date and indicates that we are already gaining market share in that region. We have made significant and very pleasing market share growth across all business channels throughout the country.

Director, Colleen Tuuta has advised that she is not seeking reappointment for a further term to the TSB Community Trust and as a Trust appointee to the Board she will automatically retire as a Director at the AGM. Colleen has made a valued contribution in the seven years she served on the board and we wish her well for the future. It was also with sadness that we record the death of former Director Gerry Brennan.

Sponsorship plays a key role in growing brand awareness and we were delighted to lend our support, as a key event partner, to the annual WOMAD festival. The World of Music Art and Dance (WOMAD) is a unique cultural, musical, educational and culinary experience. It is an event like no other and is being recognised as one of THE festival events not to be missed on the New Zealand entertainment calendar. Another first was our association with the TSB Bank Women's Surf Festival. Surfing is an increasingly popular sport for young New Zealanders, particularly woman, so our association is a good fit.

Staff, Management and the Board have all contributed to the success of the bank but ultimately we could not achieve what we have without the loyal support of our customers – to you all a huge vote of thanks.

This has been a challenging year. We look forward with anticipation to 2011-12 knowing that this too will be challenging, but deeply aware that we have a 100% New Zealand owned bank with a strong brand awareness, giving us the foundation on which to continue to grow and prosper.

E. Gill
Chair – Board of Directors
26 May 2011

K. J. Murphy
Managing Director/CEO
26 May 2011

TSB BANK MUSEUM AT CITY BRANCH

WOMAD AT TSB BOWL OF BROOKLANDS

Directors' Report for the year ended 31 March 2011

The Directors are pleased to present the Financial Statements of TSB Bank Limited for the year ended 31 March 2011.

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.

Results and Distributions	($000)
Net Surplus after Taxation	39,847
Dividends	
Interim Dividend Paid	2,600
Final Dividend	6,450
Total Dividend	9,050
Retained Surplus for the Year	30,797

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 following information specified in Section 211 of the Companies Act 1993 has not been included in the Annual Report following agreement to its non-inclusion by TSB Bank's shareholder:

- 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 $362,759.

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

E. Gill
Chair – Board of Directors
26 May 2011

K.J. Murphy
Managing Director/CEO
26 May 2011

Historical Summary of Financial Statements

	2011	2010	2009	2008	2007
All in $000's					
Financial performance					
Interest Income	271,730	263,984	284,442	255,749	218,014
Interest Expense	179,052	153,713	192,826	166,601	139,047
Net Interest Income	92,678	110,271	91,616	89,148	78,967
Other Income	12,884	13,709	15,409	12,023	11,470
Net Operating Income	105,562	123,980	107,025	101,171	90,437
Impairment Losses	3,314	4,492	4,152	2,485	1,596
Operating Expenses	41,999	45,131	41,587	39,985	36,586
Net Profit before Taxation	60,249	74,357	61,286	58,701	52,255
Taxation	20,402	23,179	18,394	19,371	17,253
Net Surplus Attributable to Shareholder	39,847	51,178	42,892	39,330	35,002
Dividend	9,050	11,150	9,200	8,800	7,800
Retained Surplus for the Year	30,797	40,028	33,692	30,530	27,202
Financial position					
Total Assets	4,849,952	4,405,082	3,832,020	3,168,673	2,868,076
Total Impaired Assets	3,991	3,421	2,429	905	119
Depositors' Funds	4,441,969	4,023,884	3,474,351	2,874,235	2,611,598
Total Liabilities	4,491,636	4,073,957	3,529,031	2,915,514	2,645,447
Shareholder's Equity					
Retained Surplus for the Year	30,797	40,028	33,692	30,530	27,202
Total Shareholder's Equity	358,316	331,125	302,989	253,159	222,629
Performance					
Return on Shareholder's Equity	11.12%	15.46%	14.16%	15.54%	16.46%
Return on Total Average Assets	0.86%	1.24%	1.23%	1.30%	1.28%
Growth in Total Assets	10.10%	14.95%	20.93%	10.48%	10.47%
Growth in Depositors' Funds	10.39%	15.82%	20.88%	10.06%	10.65%
Residential Lending	2,364,688	2,184,121	1,909,325	1,840,680	1,725,716
Total Lending	2,625,884	2,407,158	2,130,669	2,049,780	1,921,169
Operating Surplus after tax					
- as a % of Average Shareholder's Equity	11.56%	16.14%	15.42%	16.53%	16.83%
- per employee	152.09	187.47	157.11	143.54	123.68
Expenses to Net Operating Income	39.79%	36.40%	38.86%	39.52%	40.45%
Prudential					
Shareholder's Equity as a % of Total Assets	7.39%	7.52%	7.91%	7.99%	7.76%
Capital Adequacy Tier 1	15.78%	15.90%	16.71%	17.66%	16.08%
Capital Adequacy Total	15.78%	15.90%	16.71%	17.66%	16.08%

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 2011

All in $000's	Note	2011	2010
Interest Income	2	265,203	242,528
Derivative Financial Instruments Income	2	6,527	21,456
Interest Expense	2	179,052	153,713
Net Interest Income		92,678	110,271
Other Operating Income	3	12,884	13,709
Net Operating Income		105,562	123,980
Operating Expenses	4	41,999	45,131
Net Profit before Impairment Loss and Taxation		63,563	78,849
Provision for Impairment Loss	15	3,314	4,492
Net Profit before Taxation		60,249	74,357
Taxation	5	18,091	23,179
Effect of Change in Tax Legislation	5	2,311	-
Net Profit after Taxation		39,847	51,178

Statement of Comprehensive Income for the year ended 31 March 2011

All in $000's	Note	2011	2010
Net Profit after Taxation		39,847	51,178
Other Comprehensive Income:			
Effective portion of changes in fair value of cash flow hedges	18	1,350	4,467
Fair Value movements of cash flow hedges transferred to income statement	18	(6,527)	(21,456)
Income Tax on Other Comprehensive Income	18	1,571	5,097
Other Comprehensive Income for the Year		(3,606)	(11,892)
Total Comprehensive Income for the Year		36,241	39,286

These financial statements are to be read in conjunction with the notes on pages 13 to 42.

TSB Bank expect more

Statement of Changes in Equity for the year ended 31 March 2011

All in $000's	Note	Share Capital	Cash Flow Hedge Reserve	Retained Earnings	Total Equity
Balance at 1 April 2010		10,000	4,246	316,879	331,125
Total Comprehensive Income for the Year					
Net Profit after Tax		-	-	39,847	39,847
Other Comprehensive income					
Effective Portion of Changes in Fair Value (net of tax)	18	-	945	-	945
Fair Value Movements Transferred to Income Statement (net of tax)	18	-	(4,551)	-	(4,551)
Total Other Comprehensive Income		-	(3,606)	-	(3,606)
Total Comprehensive Income for the Year		-	(3,606)	39,847	36,241
Transactions with owners, recorded directly in equity					
Dividends to Equity Holders	20	-	-	(9,050)	(9,050)
Total Transactions with Owners		-	-	(9,050)	(9,050)
Balance at 31 March 2011		10,000	640	347,676	358,316

Statement of Changes in Equity for the year ended 31 March 2010

All in $000's	Note	Share Capital	Cash Flow Hedge Reserve	Retained Earnings	Total Equity
Balance at 1 April 2009		10,000	16,138	276,851	302,989
Total Comprehensive Income for the Year					
Net Profit after Tax		-	-	51,178	51,178
Other Comprehensive income					
Effective Portion of Changes in Fair Value (net of tax)	18	-	3,127	-	3,127
Fair Value Movements Transferred to Income Statement (net of tax)	18	-	(15,019)	-	(15,019)
Total Other Comprehensive Income		-	(11,892)	-	(11,892)
Total Comprehensive Income for the Year		-	(11,892)	51,178	39,286
Transactions with owners, recorded directly in equity					
Dividends to Equity Holders	20	-	-	(11,150)	(11,150)
Total Transactions with Owners		-	-	(11,150)	(11,150)
Balance at 31 March 2010		10,000	4,246	316,879	331,125

These financial statements are to be read in conjunction with the notes on pages 13 to 42.

Statement of Financial Position as at 31 March 2011

All in $000's	Note	2011	2010
Assets			
Cash and Cash Equivalents	6	86,170	94,063
Derivative Financial Instruments	7	1,065	9,127
Investment Securities	8	2,110,334	1,869,657
Loans and Advances to Customers	9	2,625,884	2,407,158
Other Assets	10	2,964	768
Deferred Tax Asset	11	4,738	5,063
Property, Plant and Equipment	13	18,366	18,743
Intangible Assets	14	431	503
Total Assets		4,849,952	4,405,082
Liabilities			
Deposits	16	4,441,969	4,023,884
Derivative Financial Instruments	7	1,157	1,248
Current Tax Liability		5,907	7,073
Other Liabilities	17	42,603	41,752
Total Liabilities		4,491,636	4,073,957
Shareholder's Equity			
Share Capital	19	10,000	10,000
Cash Flow Hedge Reserve	18	640	4,246
Retained Earnings	19	347,676	316,879
Total Shareholder's Equity		358,316	331,125
Total Liabilities and Shareholder's Equity		4,849,952	4,405,082
Total Interest Earning and Discount Bearing Assets		4,814,495	4,363,994
Total Interest and Discount Bearing Liabilities		4,245,150	3,833,859

These financial statements are to be read in conjunction with the notes on pages 13 to 42.

Statement of Cashflows for the year ended 31 March 2011

All in $000's	2011	2010
Cash Flows from Operating Activities		
Cash provided from (applied to):		
Interest Income Received	268,353	258,875
Other Income Received	10,689	14,093
Interest Paid	(173,677)	(157,260)
Operating Expenditure	(38,022)	(50,855)
Taxation Paid	(19,423)	(22,629)
Cash Flows from Operating Profits before changes in Operating Assets and Liabilities	47,920	42,224
Changes in Operating Assets and Liabilities		
Increase in Loans and Advances to Customers	(220,848)	(279,259)
Derivative Financial Instruments	2,545	937
Increase in Deposits from Customers	412,710	553,080
Cash Flow from Operating Assets and Liabilities	194,407	274,758
Net Cash Flow from Operating Activities	242,327	316,982
Cash Flows from Investing Activities		
Cash provided from (applied to):		
Property, Plant and Equipment Sold	-	154
Net Maturity/(Purchase) of Investment Securities*	(237,283)	(273,100)
Property, Plant and Equipment Purchased	(1,800)	(2,871)
Intangible Assets Purchased	(187)	(28)
Net Cash Flow from Investing Activities	(239,270)	(275,845)
Cash Flows from Financing Activities		
Cash provided from (applied to):		
Dividends Paid	(10,950)	(9,400)
Net Cash Flow from Financing Activities	(10,950)	(9,400)
Net Increase/(Decrease) in Cash and Cash Equivalents	(7,893)	31,737
Add Cash and Cash Equivalents at beginning of the Year	94,063	62,326
Cash and Cash Equivalents at End of Year	86,170	94,063

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

These financial statements are to be read in conjunction with the notes on pages 13 to 42.

Statement of Cashflows for the year ended 31 March 2011 continued

All in $000's	2011	2010
Reconciliation of Net Profit after Taxation to Net Cash Flows from Operating Activities		
Net Profit after Taxation	39,847	51,178
Add Movements in Statement of Financial Position Items:		
Accounts Payable	8,125	(10,117)
Provision for Tax	(3,476)	1,302
Deposits from Customers	412,710	553,080
Deferred Tax Asset	2,144	(752)
Accounts Receivable	(5,572)	(4,725)
Derivative Financial Instruments	2,545	937
Loans and Advances to Customers	(220,848)	(279,259)
	195,628	260,466
Add Non-Cash Items:		
Depreciation	2,177	2,651
Effect of Change in Tax Legislation	2,311	-
Impairment Losses on Advances to Customers	2,105	2,430
Amortisation of Intangible Assets	259	257
	6,852	5,338
Net Cash Flow from Operating Activities	242,327	316,982
Reconciliation of Cash and Cash Equivalents to the Statement of Financial Position		
Cash and Balances with Central Bank	82,442	88,312
Cash and Cash at Bank	3,728	5,751
Total Cash and Cash Equivalents at End of Year	86,170	94,063

These financial statements are to be read in conjunction with the notes on pages 13 to 42.

Notes to the Financial Statements for the year ended 31 March 2011

1. Statement of Accounting Policies

General Accounting Policies

TSB Bank Limited is a profit-oriented company registered under the Companies Act 1993 and incorporated in New Zealand. The Bank's principal business 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 1993, and the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2011.

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.

The financial statements were approved by the Board of Directors on 26 May 2011.

Basis of Preparation

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

Changes in Accounting Policies

There have been no changes in accounting policies.

Particular Accounting Policies

A) Segment Reporting

The Bank operates in the retail banking industry. In accordance with NZ IFRS 8, the operating segments reported are in line with the organisational structure of the Bank's chief operating decision maker and take into account the nature of the product and services provided.

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, service charges and commission.

<u>Interest Income and Expense</u>

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

For financial instruments measured at amortised cost, the effective interest 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 and loss, interest income or interest expense is recognised on an accrual basis, either daily or on a yield to maturity basis.

1. Statement of Accounting Policies - continued

Lending Charges

Service 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.

Commission and Other Service Charges

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.

Other Income

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

Basis of Recognition and Measurement

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. 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.

For categories requiring measurement at fair value, quoted market prices are used as a measure of fair value. Where quoted market prices do not exist, fair values are estimated using present value or other market accepted valuation techniques, using methods and assumptions that are based on market conditions and risks existing as at balance date.

Financial Assets at Fair Value through Profit or Loss

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

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. Refer G) for more details on derivatives.

Available for Sale Financial Assets

Available for sale financial assets, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within twelve months of the Statement of Financial Position date.

Available for Sale Financial Assets are measured initially at fair value plus transaction costs and subsequently at fair value, with changes in fair value recognised directly in Shareholder's Equity.

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.

Loans and Receivables

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:

Notes to the Financial Statements for the year ended 31 March 2011

1. Statement of Accounting Policies - continued

(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.

Cash and Cash Equivalents
This encompasses cash and demand balances with the Central Bank, deposits due from other banks, as well as cash and cash equivalents held for day to day operations. As this is all short duration, the carrying amount is a fair reflection of their fair value.

Held to Maturity Investments
Held to Maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank has the positive intention and ability to hold to maturity.

Assets in this category are measured initially at fair value plus transaction costs that are directly attributable to the acquisition of the asset and subsequently at amortised cost. The Bank's investment securities are designated as held 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:

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 from Customers
Deposits from customers cover all forms of funding, and include savings accounts, term deposits, 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 types used by the Bank include interest rate options and interest rate swaps.

The Bank recognises derivatives in the Statement of Financial Position initially at their fair value and these are subsequently remeasured to their fair value at each Statement of Financial Position date. Fair Values are obtained from market yields and discounted cash flow models or option pricing models as appropriate.

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.

1. Statement of Accounting Policies - continued

The Bank designates interest rate options 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.

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.

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) Fair Value Hedge
Subsequent to the initial designation, changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss on an effective yield basis over the remaining period to maturity of the hedged item.

(ii) 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 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.

Notes to the Financial Statements for the year ended 31 March 2011

1. Statement of Accounting Policies - continued

Provision for Impairment

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.

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 that did not affect the period on which the historical loss experience is based, and to remove the effects of conditions in the historical period that do not currently exist. 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 and 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.

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	2 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.

1. Statement of Accounting Policies - continued

J) Intangible Assets

Intangible Assets comprise acquired computer software licences and certain application 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. Costs associated with maintaining software are recognised as an expense as incurred. These costs are amortised over their expected useful lives (two to five years) on a straight line basis.

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

K) Taxation

Income tax on the Net 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 Equity, in which case it is recognised directly in the Statement of 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.

Deferred tax is accounted for using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts used for taxation 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 Taxation 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 available for sale financial assets, Cash Flow Hedges and the revaluation of Non-Current Assets (if applicable), are charged or credited directly to 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 Statement of Financial Position 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.

Notes to the Financial Statements for the year ended 31 March 2011

1. Statement of Accounting Policies - continued

N) Cash Flow Statement

The Cash Flow Statement has been prepared using the direct approach modified by 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 not presented 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.

Investment Securities
For Investment Securities, these are designated as being held to maturity, and are measured initially at fair value plus transaction costs that are directly attributable to the acquisition of the asset and subsequently at amortised cost. 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 21, 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.

Off Balance Sheet Items
Off balance sheet items such as Direct Credit Substitutes (including acceptance and endorsement of Bills of Exchange), Trade Related Items, and Commitments are short-term in nature and therefore their initial value is not significant. TSB Bank does not have any Direct Credit Substitutes or Trade Related Items.

All instruments (other than derivatives) are carried at amortised cost. Derivatives are valued using valuation models based on observable market inputs (level 2 inputs).

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.

1. Statement of Accounting Policies - continued

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.

Collective Provision for Doubtful Debts

TSB Bank Limited 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 are not yet effective and have not been applied in the preparation of these financial statements:

NZ IFRS 7 - Financial Instruments: Disclosures. This standard is effective for annual reporting periods beginning on or after 1 January 2011.

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

NZ IAS 1 – Presentation of Financial Statements. This standard is effective for annual reporting periods beginning on or after 1 January 2011.

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

TSB Bank
expect more

Notes to the Financial Statements for the year ended 31 March 2011

All in $000's	2011	2010

2. Net Interest Income

	2011	2010
Interest Income		
Cash and Cash Equivalents	1,816	1,479
Investment Securities	93,582	76,508
Loans and Advances to Customers*	169,805	164,541
Total Interest Income	265,203	242,528
Derivative Financial Instrument Income		
Derivative Financial Instrument Income	6,527	21,456
Interest Expense		
Deposits from Customers	179,052	153,713
Net Interest Income	92,678	110,271

* Interest income on Loans and Advances to Customers includes interest earned on Impaired Assets of $0.243m (31 March 2010; $0.343m)
Interest income from investment securities relates to investment securities that are held to maturity.
Interest income from Loans and Advances to Customers relates to financial assets that are designated as loans and receivables.
The only component of interest income reported above that relate to financial assets carried at fair value through profit or loss is the income on derivative financial instruments.
Interest expense on deposits from customers relates to financial liabilities measured at amortised cost.

3. Other Operating Income

	2011	2010
Lending and Credit Facility Related Income	3,291	5,208
Commission and Other Trading Income*	9,014	8,709
Gain/(Loss) in Fair Value on Derivatives	(378)	(925)
Other Income	957	717
	12,884	13,709

* Includes income from TSB Realty and TSB Foreign Exchange.

4. Operating Expenses

	2011	2010
Auditors Remuneration:		
Statutory Audit	125	120
Depreciation:		
Buildings	1,018	1,129
Computer Equipment	374	591
Other	785	931
Amortisation of Intangible Assets	259	257
Directors' Fees	363	311
Personnel Expenses	16,583	17,633
Defined Contribution Plan	456	1,018
Information Technology Expenses	5,426	5,307
Premises Occupancy	2,062	1,637
Marketing	6,368	8,273
Other Expenses	8,180	7,924
	41,999	45,131

All in $000's

5. Taxation

	2011	2010
Net Profit before Taxation	60,249	74,357
Tax at 30%	18,075	22,307
Tax Effect of Expenses not Deductible	16	14
Tax Effect of Change in Tax Legislation	2,311	-
Prior Period Adjustments	-	858
Taxation Expense	20,402	23,179
Reconciliation of Income Tax Expense		
Current Taxation	18,506	23,931
Deferred Taxation (refer to note 11)	1,896	(752)
Taxation Expense	20,402	23,179

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

The combined effect of the above changes and temporary differences has given rise to an adjustment to deferred tax of $2.311m.

6. Cash and Cash Equivalents

	2011	2010
Cash and Cash at Bank	3,728	5,751
Cash and Balances with Reserve Bank	82,442	88,312
	86,170	94,063

Notes to the Financial Statements for the year ended 31 March 2011

All in $000's

7. Derivative Financial Instruments

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

As at 31 March 2011	Notional Amount	Fair Value Assets	Fair Value Liabilities
Interest Rate Contracts			
Swaps	24,500	-	1,157
	24,500	-	1,157

As at 31 March 2010			
Interest Rate Contracts			
Swaps	24,500	-	1,248
	24,500	-	1,248

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 March 2011	Notional Amount	Fair Value Assets	Fair Value Liabilities
Interest Rate Contracts			
Options	1,200,000	1,065	-
	1,200,000	1,065	-

As at 31 March 2010			
Interest Rate Contracts			
Options	1,650,000	9,127	-
	1,650,000	9,127	-

The time periods in which the cash flows are expected to occur and affect the income statement are:

As at 31 March 2011	Within 1 year	1-5 years	Over 5 years
Cash inflows	928	29	-
As at 31 March 2010			
Cash inflows	8,917	-	-

All in $000's	2011	2010
8. Investment Securities		
Local Authority Securities	640,751	664,999
Registered Bank Certificates of Deposit	399,671	315,848
Registered Bank Term Investments	545,000	480,000
Other Investments*	524,912	408,810
	2,110,334	1,869,657

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

9. Loans and Advances to Customers

	2011	2010
Residential Mortgages	2,364,311	2,184,121
Community	4,873	5,418
Commercial	143,260	114,018
Farming	80,251	71,239
Other*	50,394	49,222
Total Gross Loans and Advances To Customers	2,643,089	2,424,018
Less Provision for Impairment Loss (see note 15)	(17,205)	(16,860)
Total Loans and Advances to Customers	2,625,884	2,407,158

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

10. Other Assets

	2011	2010
Trade and Other Receivables	2,964	768
	2,964	768

11. Deferred Tax Asset/(Liability)

	2011	2010
Balance at Beginning of Period	5,063	(786)
Deferred Tax recognised in the Income Statement	(1,896)	752
Deferred Taxation Recognised in Equity	1,571	5,097
Balance at End of Period	4,738	5,063
Deferred Tax relates to:		
Property, Plant, and Equipment	(1,495)	817
Amortisation of Intangibles	171	201
Provision for Impairment Losses	4,817	5,058
Fair value adjustments for Derivative Financial Instruments	26	(2,208)
Other Temporary Differences*	1,219	1,195
Total Deferred Tax Asset/(Liability)	4,738	5,063

* Other temporary differences reflects adjustments for employee benefits.

Notes to the Financial Statements for the year ended 31 March 2011

All in $000's	2011	2010
11. Deferred Tax Asset/(Liability) - continued		
Deferred Taxation Recognised in the Income Statement:		
Depreciation	(162)	115
Legislative changes: Building Assets	(2,095)	-
Amortisation of Intangibles	(17)	1
Provision for Impairment Losses	96	729
Derivative Financial Instruments	395	228
Other Temporary Differences	103	(321)
Change in Tax Rate	(216)	-
Total Deferred Taxation Recognised in the Income Statement	(1,896)	752
Deferred Taxation Recognised in Equity:		
Cash Flow Hedge Reserve	1,571	5,097
Total Deferred Taxation Recognised in Equity	1,571	5,097

12. Imputation Credit Account

	2011	2010
Balance at Beginning of Period	152,067	133,878
Income Tax Paid	19,575	22,650
Income Tax Refund	(9)	(433)
Imputation Credits attached to Dividends Paid	(4,693)	(4,028)
Balance at End of Period	166,940	152,067

13. Property, Plant and Equipment

As at 31 March 2011	Land	Buildings	Computer Equipment	Other*	Work in Progress	Total
Cost						
Opening Balance	4,318	15,351	8,268	12,020	-	39,957
Additions	-	349	336	329	1,800	2,814
Disposals	-	-	-	(3)	-	(3)
Transfers	-	-	-	-	(1,014)	(1,014)
Closing Balance	4,318	15,700	8,604	12,346	786	41,754
Depreciation and Impairment Losses						
Opening Balance	-	4,541	7,754	8,919	-	21,214
Depreciation for the period	-	1,018	374	785	-	2,177
Impairment Loss	-	-	-	-	-	-
Disposals	-	-	-	(3)	-	(3)
Closing Balance	-	5,559	8,128	9,701	-	23,388
Closing Net Book Value						
Balance as at 1 April 2010	4,318	10,810	514	3,101	-	18,743
Balance as at 31 March 2011	4,318	10,141	476	2,645	786	18,366

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

All in $000's

13. Property, Plant and Equipment - continued

	Land	Buildings	Computer Equipment	Other*	Work in Progress	Total
As at 31 March 2010						
Cost						
Opening Balance	4,318	13,779	8,046	11,297	23	37,463
Additions	-	1,572	222	1,167	2,938	5,899
Disposals	-	-	-	(444)	-	(444)
Transfers	-	-	-	-	(2,961)	(2,961)
Closing Balance	4,318	15,351	8,268	12,020	-	39,957
Depreciation and Impairment Losses						
Opening Balance	-	3,412	7,163	8,211	-	18,786
Depreciation for the period	-	1,129	591	931	-	2,651
Impairment Loss	-	-	-	-	-	-
Disposals	-	-	-	(223)	-	(223)
Closing Balance	-	4,541	7,754	8,919	-	21,214
Closing Net Book Value						
Balance as at 1 April 2009	4,318	10,367	883	3,086	23	18,677
Balance as at 31 March 2010	4,318	10,810	514	3,101	-	18,743

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

14. Intangible Assets

	2011	2010
Cost		
Opening Balance	4,063	4,035
Additions	187	28
Disposals	-	-
Closing Balance	4,250	4,063
Amortisation and Impairment		
Opening Balance	3,560	3,303
Amortisation for the period	259	257
Accumulated Amortisation (Disposals)	-	-
Closing Balance	3,819	3,560
Closing Net Book Value		
Balance as at 1 April 2010	503	732
Closing Balance as at 31 March 2011	431	503

Notes to the Financial Statements for the year ended 31 March 2011

All in $000's

15. Credit Risk Management and Asset Quality

As set in the Accounting Policies, Other Impaired Assets are any credit exposures for which an impairment loss is required to be recognised in accordance with NZ IAS 39. The majority of the Bank's provisions for impairment are made on a collective basis. The loan portfolio is predominantly residential mortgages which are secured by a first mortgage over freehold dwellings. For overdrafts and visa balances, some are unsecured as well as secured by obligation mortgages, which cover all undertakings with the Bank. The Bank does not have any restructured assets, assets acquired through the enforcement of security, or assets under administration.

The credit quality of Loans and Advances to Customers that were neither past due or impaired can be assessed by reference to the Bank's internal rating system. At 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 loans life. Interest continues to be accrued on all loans. No interest has been foregone in either period.

(a) Credit Quality Information for Loans and Advances to Customers	2011	2010
Gross Loans and Advances to Customers by Credit Quality		
Neither Past Due or Impaired	2,622,273	2,401,761
Past Due Assets	16,825	18,836
Impaired Assets	3,991	3,421
Total Gross Loans and Advances to Customers	2,643,089	2,424,018
Lending commitments to customers were $80.9m as at 31 March 2011 (31 March 2010; $78.0m)		
Aging Analysis of Past Due Assets		
Over 30 days	5,214	9,486
60 to 89 days	3,624	2,496
Over 90 days	7,987	6,854
Balance at End of Period	16,825	18,836
90-day Past Due Assets		
Balance at Beginning of Period	6,854	8,055
Additions	14,012	13,648
Deletions	(12,879)	(14,849)
Balance at End of Period	7,987	6,854
Impaired Assets		
Balance at Beginning of Period	3,421	2,429
Additions	6,724	6,345
Amounts Written Off	(2,211)	(1,343)
Transfers back to Loans and Advances to Customers	(3,943)	(4,010)
Balance at End of Period	3,991	3,421

(b) Provision for Impairment Loss	2011	2010
Collective Provision for Doubtful Debts		
Balance at Beginning of Period	15,100	13,600
Charged to Income Statement	1,000	1,500
Balance at End of Period	16,100	15,100
Specific Provision for Doubtful Debts		
Balance at Beginning of Period	1,760	830
Add New Provisions	2,511	2,589
Less Amounts Written Off	(2,417)	(1,343)
Less Amounts Received	(749)	(316)
Balance at End of Period	1,105	1,760
Total Provision for Impairment Loss	17,205	16,860

All in $000's	2011	2010

15. Credit Risk Management and Asset Quality - continued

Impairment Losses charged to Income Statement		
Collective Provisions	1,000	1,500
Specific Provisions	655	930
Bad Debts Written Off	1,659	2,062
Total Impairment Losses charged to Income Statement	**3,314**	**4,492**

The estimated fair value of collateral and other charges related to financial assets that are individually impaired is $3.199 million.
The Collective Provision for Doubtful Debts has been reviewed following the February 2011 Christchurch Earthquake and the provision is considered sufficient.

(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. 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:

	2011	2010
Taranaki	1,509,416	1,296,261
Rest of New Zealand	3,330,177	3,091,477
Provision for Impairment Loss	(17,205)	(16,860)
Total Exposures by Geographic Region	**4,822,388**	**4,370,878**
Agriculture	80,251	71,239
Utilities	347,393	225,074
Communications	40,500	40,500
Government and Public Authorities	748,804	664,999
Finance	948,302	903,577
Housing	2,393,120	2,202,044
Personal	45,839	44,829
Community	4,874	5,418
Commercial	230,510	230,058
Provision for Impairment Loss	(17,205)	(16,860)
Total Exposures by Industry	**4,822,388**	**4,370,878**
Derivative Financial Instruments	1,065	9,127
Other Assets	2,963	768
Deferred Tax Asset	4,739	5,063
Property, Plant and Equipment	18,366	18,743
Intangible Assets	431	503
Total Assets	**4,849,952**	**4,405,082**

(d) 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	2011	2010
Taranaki	2,207,851	2,108,109
Rest of New Zealand	2,234,118	1,915,775
Total Funding by Geographic Region	**4,441,969**	**4,023,884**
Government and Public Authorities	18,705	38,493
Finance	44,802	-
Households	4,296,283	3,908,179
Community	31,998	32,120
Commercial	50,181	45,092
Total Funding by Industry	**4,441,969**	**4,023,884**
Derivative Financial Instruments	1,157	1,248
Current Tax Liability	5,907	7,073
Other Liabilities	42,602	41,752
Total Liabilities	**4,491,635**	**4,073,957**

15. Credit Risk Management and Asset Quality - continued

(e) 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 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	Year Ended 31 March 2011				Year Ended 31 March 2010			
	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%	1	2	2	5	5	1		6
16% - 20%	-	-	1	1	1	2	2	5
21% - 25%	1	1	-	2	-	-	1	1
26% - 30%	-	-	-	-	1	-	-	1
46% - 50%	1	-	-	1	-	-	-	-
Total	3	3	3	9	7	3	3	13
Peak Exposure								
11% - 15%	2	2	2	6	5	1	-	6
16% - 20%	-	-	1	1	1	2	1	4
21% - 25%	1	1	-	2	1	-	2	3
26% - 30%	-	-	-	-	1	-	-	1
46% - 50%	1	-	-	1	-	-	-	-
Total	4	3	3	10	8	3	3	14

(f) Credit Exposure 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 connected and non-bank connected persons are calculated using the Bank's tier one capital at the end of the period. The rating-contingent limit, which is applicable to the Bank as at balance date, is 15%. There have been no rating-contingent limit changes during the last quarter. Within the rating-contingent limit there is a sub-limit of 15%, which applies to non-bank connected persons. All limits on aggregate credit exposure to all connected persons and non-bank connected persons in the Bank's Conditions of Registration have been complied with at all times over the last quarter. 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 October 2010. There are no specific provisions against credit exposures to connected persons as at 31 March 2011 (31 March 2010: nil).

All in $000's	2011	2010
Credit exposures to non-bank connected persons at period end	252	271
Credit exposures to non-bank connected persons at period end expressed as a percentage of total tier one capital	0.1%	0.1%
Peak credit exposures to non-bank connected persons during the period	287	495
Peak credit exposures to non-bank connected persons during the period expressed as a percentage of total tier one capital	0.1%	0.2%

All in $000's	2011	2010

16. Deposits

	2011	2010
Retail Term Deposits	2,141,652	1,878,189
On Call Deposits Bearing Interest	2,083,248	1,955,670
On Call Deposits Not Bearing Interest	172,267	190,025
Wholesale Deposits	44,802	-
	4,441,969	4,023,884

All creditors and depositors are ranked equally and have equal priority to any creditor claims. Wholesale Deposits consist of Registered Certifcates of Deposit.

17. Other Liabilities

	2011	2010
Employee Entitlements	5,287	5,677
Dividend Payable	6,450	8,350
Trade and Other Payables	30,866	27,725
	42,603	41,752

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

18. Cash Flow Hedge Reserve

	2011	2010
Opening Balance	4,246	16,138
Effective Portion of Changes in Fair Value	1,350	4,467
Fair Value Movements Transferred to Income Statement	(6,527)	(21,456)
Deferred Income Tax	1,571	5,097
Balance at End of Period	640	4,246

19. Share Capital & Retained Earnings

Share Capital	2011	2010
Issued and Fully Paid Up Capital		
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. Dividends are recognised in the financial year in which they are authorised and approved by the Board of Directors.

Retained Earnings	2011	2010
Opening Balance	316,879	276,851
Net Profit after Taxation	39,847	51,178
	356,726	328,029
Dividends	(9,050)	(11,150)
Balance at End of Period	347,676	316,879

Notes to the Financial Statements for the year ended 31 March 2011

All in $000's

20. Dividend

	31 March 2011		31 March 2010	
	$000	$ Per Share	$000	$ Per Share
Interim	2,600	0.130	2,800	0.140
Final	6,450	0.323	8,350	0.418
	9,050	0.453	11,150	0.558

21. Fair Value of Financial Instruments

The following table summarises the carrying amounts and fair values of those financial assets and financial liabilities. Refer to Note 1 paragraph O) for a description on how fair values are estimated.

	Note	Hedging	Held-for-Trading	Held-to-Maturity	Loans and Receivables	Other Amortised Cost	Total Carrying Amount	Fair Value
As at 31 March 2011								
Financial Assets								
Cash and Cash Equivalents	6	-	-	-	-	86,170	86,170	86,170
Derivative Financial Instruments	7	1,065	-	-	-	-	1,065	1,065
Investment Securities	8	-	-	2,110,334	-	-	2,110,334	2,122,610
Loans and Advances to Customers	9	-	-	-	2,625,884	-	2,625,884	2,631,422
Other Assets	10	-	-	-	2,963	-	2,963	2,963
Total Financial Assets		1,065	-	2,110,334	2,628,847	86,170	4,826,416	4,844,230
Financial Liabilities								
Deposits	16	-	-	44,802	-	4,397,167	4,441,969	4,470,438
Derivative Financial Instruments	7	-	1,157	-	-	-	1,157	1,157
Other Liabilities	17	-	-	-	-	37,316	37,316	37,316
Total Financial Liabilities		-	1,157	44,802	-	4,434,483	4,480,442	4,508,911
As at 31 March 2010								
Financial Assets								
Cash and Cash Equivalents	6	-	-	-	-	94,063	94,063	94,063
Derivative Financial Instruments	7	9,127	-	-	-	-	9,127	9,127
Investment Securities	8	-	-	1,869,657	-	-	1,869,657	1,885,058
Loans and Advances to Customers	9	-	-	-	2,407,158	-	2,407,158	2,400,808
Other Assets	10	-	-	-	768	-	768	768
Total Financial Assets		9,127	-	1,869,657	2,407,926	94,063	4,380,773	4,389,824
Financial Liabilities								
Deposits from Customers	16	-	-	-	-	4,023,884	4,023,884	4,038,367
Derivative Financial Instruments	7	-	1,248	-	-	-	1,248	1,248
Other Liabilities	17	-	-	-	-	36,075	36,075	36,075
Total Financial Liabilities		-	1,248	-	-	4,059,959	4,061,207	4,075,690

All in $000's

22. 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 2011	On Demand	0-3 Months	3-6 Months	6-12 Months	1-2 Years	Over 2 Years	Non Interest Sensitive	Total
Assets								
Cash and Cash Equivalents	82,442	-	-	-	-	-	3,728	86,170
Derivative Financial Instruments	-	-	-	-	-	-	1,065	1,065
Investment Securities	-	1,525,046	94,125	28,651	61,956	400,556	-	2,110,334
Loans and Advances to Customers	1,177,309	282,606	297,619	304,351	453,714	127,490	(17,205)	2,625,884
Other Financial Assets	-	-	-	-	-	-	2,963	2,963
Total Financial Assets	1,259,751	1,807,652	391,744	333,002	515,670	528,046	(9,449)	4,826,416
Non-Financial Assets	-	-	-	-	-	-	23,536	23,536
Total Assets	1,259,751	1,807,652	391,744	333,002	515,670	528,046	14,087	4,849,952
Liabilities								
Deposits	1,582,166	855,576	761,379	453,429	180,619	412,933	195,867	4,441,969
Derivative Financial Instruments	-	-	-	-	-	-	1,157	1,157
Other Financial Liabilities	-	-	-	-	-	-	37,317	37,317
Total Financial Liabilities	1,582,166	855,576	761,379	453,429	180,619	412,933	234,341	4,480,443
Non-Financial Liabilities	-	-	-	-	-	-	11,193	11,193
Total Liabilities	1,582,166	855,576	761,379	453,429	180,619	412,933	245,534	4,491,636
Lending Commitments	-	80,946	-	-	-	-	-	80,946
Derivative Notional Principals	-	24,500	-	-	(14,500)	(10,000)	-	-

As at 31 March 2010	On Demand	0-3 Months	3-6 Months	6-12 Months	1-2 Years	Over 2 Years	Non Interest Sensitive	Total
Assets								
Cash and Cash Equivalents	88,312	-	-	-	-	-	5,751	94,063
Derivative Financial Instruments	-	-	-	-	-	-	9,127	9,127
Investment Securities	-	1,448,493	30,600	31,570	49,475	309,519	-	1,869,657
Loans and Advances to Customers	665,922	247,835	260,519	378,513	663,559	207,671	(16,860)	2,407,159
Other Financial Assets	-	-	-	-	-	-	768	768
Total Financial Assets	754,234	1,696,328	291,119	410,083	713,034	517,190	(1,214)	4,380,774
Non-Financial Assets	-	-	-	-	-	-	24,309	24,309
Total Assets	754,234	1,696,328	291,119	410,083	713,034	517,190	23,095	4,405,083
Liabilities								
Deposits from Customers	1,474,602	831,819	554,232	417,168	206,989	349,049	190,025	4,023,884
Derivative Financial Instruments	-	-	-	-	-	-	1,248	1,248
Other Financial Liabilities	-	-	-	-	-	-	36,075	36,075
Total Financial Liabilities	1,474,602	831,819	554,232	417,168	206,989	349,049	227,348	4,061,207
Non-Financial Liabilities	-	-	-	-	-	-	12,750	12,750
Total Liabilities	1,474,602	831,819	554,232	417,168	206,989	349,049	240,098	4,073,957
Lending Commitments	-	78,020	-	-	-	-	-	78,020
Derivative Notional Principals	-	24,500	-	-	(14,500)	(10,000)	-	-

Notes to the Financial Statements for the year ended 31 March 2011

22. 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 earnings and equity over the next 12 months based on a fluctuation in interest rates.

Gap analysis and limits provide the operational management tool, while analysis of expected changes in market value of equity provides additional information. The use of net interest earnings at risk is another method used to manage the Balance Sheet interest rate risk.

Next 12 Months Net Interest Earnings

The risk, or sensitivity, of the net interest earnings over the next twelve months for a change in interest rates is measured on a monthly basis. Risk is measured assuming an immediate one percent parallel movement in interest rates across the whole yield curve. Potential variations in net interest earnings are measured using a model that takes into account the known current and projected future changes in Balance Sheet assets and liability levels and mix.

The figures in the table below indicate the outcome of this risk measure for the current and comparative periods, expressed as a percentage of reported interest income. A positive number indicates that a rate increase is positive for net interest income over the next 12 months. Conversely a negative number signifies that a rate increase is negative for the next 12 months net interest income. Ranges of negative 2% to positive 2% overnight parallel shifts in the yield curve are modelled.

Scenarios	% Change in Net Interest	
	31 March 2011	31 March 2010
-2.0%	-18.3%	-2.3%
-1.0%	-10.7%	-1.8%
+1.0%	+12.4%	+2.6%
+2.0%	+25.7%	+5.7%

Market Value of Shareholder's Equity

The Market Value of Shareholder's Equity (MVSE) is market value of assets and derivatives less the market value of liabilities. The table below represents the Market Value of Shareholder's Equity given by parallel rate movements in the yield curve.

The outcomes of this risk measure for the current and comparative periods, is expressed as a percentage of reported Shareholder's Equity. A positive number indicates that a rate increase is positive for MVSE over the next 12 months. Conversely a negative number signifies that a rate increase is negative for the next 12 months MVSE. Ranges of negative 2% to positive 2% overnight parallel shifts in the yield curve are modelled.

Scenarios	% Change in MVSE	
	31 March 2011	31 March 2010
-2.0%	-2.1%	+1.4%
-1.0%	-1.2%	+0.4%
+1.0%	+1.3%	-0.2%
+2.0%	+2.5%	-0.3%

All in $000's

23. 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 2011							
Assets							
Cash and Cash Equivalents	86,170	-	-	-	-	-	**86,170**
Derivative Financial Instruments	-	1,065	-	-	-	-	**1,065**
Investment Securities	-	192,281	383,723	399,055	1,061,524	357,167	**2,393,750**
Loans and Advances to Customers	-	120,964	286,081	699,191	987,000	1,763,607	**3,856,843**
Other Financial Assets	-	2,963	-	-	-	-	**2,963**
Total Financial Assets	86,170	317,273	669,804	1,098,246	2,048,524	2,120,774	6,340,791
Liabilities							
Deposits	2,311,234	407,944	587,491	1,181,710	185,585	20,103	**4,694,067**
Derivative Financial Instruments	-	-	-	670	487	-	**1,157**
Other Financial Liabilities		37,316					**37,316**
Total Financial Liabilities	2,311,234	445,260	587,491	1,182,380	186,072	20,103	4,732,540
Lending Commitments (Off Balance Sheet)	-	80,946	-	-	-	-	80,946
As at 31 March 2010							
Assets							
Cash and Cash Equivalents	94,063	-	-	-	-	-	**94,063**
Derivative Financial Instruments	-	7,553	1,434	-	-	-	**8,987**
Investment Securities	-	170,226	342,021	272,272	993,873	378,305	**2,156,697**
Loans and Advances to Customers	-	99,575	277,049	714,266	1,127,083	1,227,905	**3,445,878**
Other Financial Assets	-	768	-	-	-	-	**768**
Total Financial Assets	94,063	278,122	620,504	986,538	2,120,956	1,606,210	5,706,393
Liabilities							
Deposits from Customers	2,145,696	1,467,751	383,070	119,045	79,168	-	**4,194,730**
Derivative Financial Instruments	-	-	554	256	254	-	**1,064**
Other Financial Liabilities	-	36,075	-	-	-	-	**36,075**
Total Financial Liabilities	2,145,696	1,503,826	383,624	119,301	79,422	-	4,231,869
Lending Commitments (Off Balance Sheet)	-	78,020	-	-	-	-	78,020

The expected maturity profile provides a better indication of future cash flows of assets and liabilities by incorporating retention rates for retail deposits, particularly term investments, and allowing for prepayment and amortisation of loans and advances based on historical data.

Expected Cash Flows	On Demand	0-1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
As at 31 March 2011							
Assets							
Loans and Advances to Customers	-	18,145	42,912	104,879	148,050	3,542,857	**3,856,843**
All Other Financial Assets	86,170	196,309	383,723	399,055	1,061,524	357,167	**2,483,948**
Total Financial Assets	86,170	214,454	426,635	503,934	1,209,574	3,900,024	6,340,791
Liabilities							
Deposits	115,562	40,794	58,749	118,171	18,559	4,342,232	**4,694,067**
All Other Financial Liabilities	-	37,316	-	670	487	-	**38,473**
Total Financial Liabilities	115,562	78,110	58,749	118,841	19,046	4,342,232	4,732,540
Lending Commitments (Off Balance Sheet)	-	80,946	-	-	-	-	80,946

Notes to the Financial Statements for the year ended 31 March 2011

All in $000's

23. Liquidity Risk Management - continued

	On Demand	0-1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
As at 31 March 2010							
Assets							
Loans and Advances to Customers	-	14,937	41,557	107,140	169,062	3,113,182	**3,445,878**
All Other Financial Assets	94,063	178,547	343,455	272,272	993,873	378,305	**2,260,515**
Total Financial Assets	94,063	193,484	385,012	379,412	1,162,935	3,491,487	5,706,393
Liabilities							
Deposits from Customers	107,285	146,774	38,307	11,905	7,917	3,882,542	**4,194,730**
All Other Financial Liabilities	-	36,075	554	256	254	-	**37,139**
Total Financial Liabilities	107,285	182,849	38,861	12,161	8,171	3,882,542	4,231,869
Lending Commitments (Off Balance Sheet)	-	78,020	-	-	-	-	78,020

24. Capital Adequacy

(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.

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

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

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

- Total Regulatory Capital must not be less than 8% of Risk Weighted Exposure.
- Tier One Capital must not be less than 4% of Risk Weighted Exposures, and
- Capital must not be less than NZ$30m.

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

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

Basel II

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

Pillar 2 of Basel II is intended to ensure that banks have adequate capital to support all risks in their business, and includes the requirement on banks to have an "Internal Capital Adequacy Assessment Process (ICAAP)" for assessing their overall capital adequacy in relation to risk profile and a strategy for maintaining adequate capital to support risk. The Bank's ICAAP has identified other areas of risk not covered by Pillar I (credit risk, market risk, and operational risk) and assigned a level of capital to them. These risks include but are not limited to strategic risk, reputational risk, environmental risk, and liquidity risk, and ownership structure. The Bank has made an internal capital allocation of $136m to cover these identified risks.

All in $000's	2011	2010

24.Capital Adequacy - continued

Total Capital Adequacy Ratios for the Bank at balance date are:

	2011	2010
Tier One	15.78%	15.90%
Total Capital	15.78%	15.90%

(ii) Qualifying Capital

	2011	2010
Tier One Capital		
Issued and fully paid-up Share Capital	10,000	10,000
Retained Earnings	316,879	276,851
Current period's Audited Retained Earnings	30,797	40,028
Less: Deductions from Tier One Capital		
Intangible Assets	(431)	(503)
Total Tier One Capital	357,245	326,376
Upper Tier Two Capital	-	-
Lower Tier Two Capital	-	-
Total Tier Two Capital	-	-
Total Capital	357,245	326,376

(iii) Total Risk Weighted Exposures March 2011

	Total Exposure after credit risk mitigation March 2011	Risk Weight	Risk Weight Exposure March 2011	Minimum Pillar One Capital Requirement March 2011
On Balance Sheet Exposures				
Cash	3,728	0%	-	-
Reserve Bank of New Zealand	82,442	0%	-	-
Public Sector Entities	679,793	20%	135,959	10,877
Banks	884,014	20%	176,803	14,144
Banks	60,657	50%	30,328	2,426
Corporate	75,500	20%	15,100	1,208
Corporate	122,307	50%	61,153	4,893
Corporate	243,325	100%	243,325	19,466
Residential Bonds	27,652	35%	9,678	774
Residential Mortgages <80% LVR	1,918,753	35%	671,564	53,725
Residential Mortgages 80%<90% LVR	167,525	50%	83,763	6,701
Residential Mortgages Welcome Home Loans	239,897	50%	119,948	9,596
Residential Mortgages 90%<100% LVR	26,158	75%	19,618	1,570
Past Due and Impaired Residential Mortgages	11,978	100%	11,978	958
Other Assets	304,727	100%	304,727	24,378
Non-Risk Weighted Assets	1,496	0%	-	-
Total On Balance Sheet Exposures	4,849,952		1,883,944	150,716

* Total residential mortgages $2,364,311k

Notes to the Financial Statements for the year ended 31 March 2011

All in $000's

24.Capital Adequacy - continued

	Total Exposure March 2011	Credit Conversion Factor	Credit Equivalent Amount March 2011	Average Risk Weight	Risk Weighted Exposure March 2011	Minimum Pillar One Capital Requirement March 2011
Off Balance Sheet Exposures						
Revolving Credit Facility	22,115	50%	11,058	20%	2,212	177
Commitments where original maturity:						
is more than one year	230,423	50%	115,212	35%	40,324	3,226
is less than one year	103,101	20%	20,620	100%	20,620	1,650
Market Related Contracts						
Interest Rate Contracts*	1,224,500	N/A	4,568	20%	914	73
Sub Totals	**1,580,139**		**151,458**		**64,070**	**5,126**

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

	Implied Risk Weighted Exposure	Capital Requirement
Operational Risk and Market Risk Analysis		
Operational Risk	265,313	21,225
Market Risk	50,424	4,034
Sub Total	**315,737**	**25,259**

	Total Exposure after credit risk mitigation	Risk Weighted Exposure or Implied RWE	Capital Requirement
Total Capital Requirements			
Total credit risk plus equity	5,001,409	1,948,013	155,841
Operational Risk	N/A	265,313	21,225
Market Risk	N/A	50,424	4,034
Total		**2,263,750**	**181,100**

Residential Mortgages by Loan-to-Valuation Ratio

LVR Range	0% - 80%	80% - 90%	Over 90%	Total
Value of Exposure	1,927,989	169,520	266,802	2,364,311

		Implied Risk Weighted Exposure	Aggregate Capital Charge	Aggregate Capital Charge as % of Banks Equity	Banks Equity
Market Risk					
End of Period capital charges	Interest Risk	50,424	4,034	1.13%	357,245
Peak end of day capital charges	Interest Risk	87,338	6,987	1.96%	357,245

In accordance with clause 9 of Schedule 9 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2011, 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).

All in $000's

24. Capital Adequacy - continued

(iv) Total Risk Weighted Exposures - March 2010	Total Exposure after credit risk mitigation March 2010	Risk Weight	Risk Weight Exposure March 2010	Minimum Pillar One Capital Requirements March 2010
On Balance Sheet Exposures				
Cash	5,751	0%	-	-
Reserve Bank of New Zealand	88,312	0%	-	-
Public Sector Entities	714,050	20%	142,810	11,425
Banks	762,342	20%	152,468	12,197
Banks	43,505	50%	21,752	1,740
Corporate	45,500	20%	9,100	728
Corporate	111,214	50%	55,607	4,449
Corporate	176,024	100%	176,024	14,082
Residential Bonds	3,356	35%	1,175	94
Residential Mortgages <80% LVR	1,819,140	35%	636,699	50,936
Residential Mortgages 80%<90% LVR	159,714	50%	79,857	6,389
Residential Mortgages Welcome Home Loans	177,481	50%	88,740	7,099
Residential Mortgages 90%<100% LVR	17,512	75%	13,134	1,051
Past Due and Impaired Residential Mortgages	10,275	100%	10,275	822
Other Assets	261,276	100%	261,276	20,902
Non-Risk Weighted Assets	9,630	0%	-	-
Total On Balance Sheet Exposures	4,405,082		1,648,917	131,914

* Total residential mortgages $2,184,122k

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

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

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

Notes to the Financial Statements for the year ended 31 March 2011

All in $000's

24. Capital Adequacy - continued

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

Residential Mortgages by Loan-to-Valuation Ratio

LVR Range	0% - 80%	80% - 90%	Over 90%	Total
Value of Exposure	1,826,421	162,538	195,163	2,184,122

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	109,589	8,767	2.68%	326,376
Peak end of day capital charges	Interest Risk	127,975	10,238	3.13%	326,376

In accordance with clause 9 of Schedule 9 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2011, 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).

25. Foreign Currency Balances

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

26. 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 March 2011, the TSB Bank PIE Unit Trust had $76.3m (31 March 2010, $69.2m) invested with the Bank.

27. Reporting By Segment

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

In assessing that the Bank only operates in one segment, consideration has been given to the internal reporting structure of the Bank, the way in which information is reported to the Chief Operating Decision Maker (being the Chief Executive Officer) and the products and services supplied by TSB Bank. On due consideration of these factors the Bank concluded that it operates as one segment, being Retail Banking, 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 on the primary financial statements.

All in $000's	2011	2010

28. Commitments and Contingent Liabilities

	2011	2010
Commitments approved to advance less than one year	103,101	103,500
Commitments approved to advance greater than one year	252,538	237,151
Capital Commitments	-	-
	355,639	340,651

Lending Commitments are also split by maturity in Notes 23 and 24.

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

29. Related Party Transactions and Balances

Parent and Ultimate Controlling Party

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 March 2011 the Trust had $9.006m invested with the Bank at market rates, with interest accrued of $0.218m (31 March 2010, $3.90m invested with interest accrued of $0.082m). The Trust also received dividends as detailed in note 20.

Transactions with Directors and Key Management Personnel	2011	2010
Key Management Compensation		
Short-term Employee Benefits	3,425	4,280
Other long-term Benefits	247	629
	3,672	4,909
Loans to Directors and Key Management Personnel		
Balance at Beginning of Period	1,899	2,030
Net Loans received/(repaid) during the Period	1,104	(131)
Balance at End of Period	3,003	1,899
Deposits from Directors and Key Management Personnel		
Balance at Beginning of Period	1,922	3,785
Net Deposits received/(repaid) during the Period	1,700	(1,863)
Balance at End of Period	3,622	1,922

30. Subsequent Events

In accordance with NZ IAS 10 – "Events after the Reporting Period", there have been no material events requiring adjustment to these financial statements.

Notes to the Financial Statements for the year ended 31 March 2011

31. Risk Management Policies

The Bank is committed to the management of risk and has management structures and information systems to manage individual risks. The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board of Directors has approved the Bank's Treasury Management Policy. The Asset and Liability Management Committee (ALMC) meet on a regular basis to review the overall risk management framework for funding and investments. The following sections describe the risk management framework components.

(i) Credit Risk

Credit risk is the potential risk for loss arising from failure of a debtor or counterparty to meet their contractual obligations. Credit risk principally arises within the Bank from its core business of providing lending facilities. The Bank is predominantly a residential lender. Residential and non-residential loans are generally secured by way of 1st mortgage over Land and Buildings. Borrowers must satisfy a number of conditions when applying for credit including an ability to service the debt whilst satisfying loan to asset ratios. Discretionary lending limits exist at different levels within the Bank.

Regular reviews of loans by both Management and Internal Audit ensure that the Bank is well positioned to assess the financial position of borrowers. Investment in non-lending assets is controlled by limiting the concentration and type of investment, and through the establishment of formal limits permitted with each counterparty. The current policy permits investing with the New Zealand Government, Registered Banks, Local Authorities, State Owned Enterprises and other issuers of paper with a short term debt rating of A1 or better and excludes trading in Derivatives, Futures and Foreign Exchange options. The Bank has a comprehensive, clearly defined policy for the approval and management of all credit risk, including risk to other banks and related counterparties. Both intra-day and term credit risk exposures are monitored on a daily basis and form an integral part of the management reporting system.

Details of credit risk management amd asset quality are shown in note 15 (Credit Risk Management).

(ii) Foreign Currency Risk

Foreign Exchange risk is the risk to earning and value caused by a change in foreign exchange rates. The Bank operates Retail Foreign Currency outlets. Bank policy is to maintain minimal levels of holdings and therefore foreign currency exposure is immaterial.

(iii) Interest Rate Risk

Interest rate risk arises where the Bank is exposed to an adverse movement in interest rates, which would significantly affect the banks net interest income. Interest Rate related contracts hedge interest rate risk associated with the Bank's Statement of Financial Position.

The Bank controls its interest rate risk by paying close attention to ensuring a deemed appropriate margin between interest income and interest expense is maintained. Interest Rate Swaps and Interest Rate Options are tools that may be used to assist with the management of interest rate risk.

Interest rate risk is monitored on a day to day basis and forms an integral part of the management reporting system. Details of market risk management are shown in note 22 (Repricing Schedule).

(iv) Equity Risk

Equity risk results from the repricing of equity investments. The Bank's current policy does not permit the investment in or trading of equities.

(v) Liquidity Risk

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

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

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

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

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

Key points of the policy are:

- TSB Bank will not place reliance on committed bank funding facilities for the purpose of maintaining its minimum desired liquidity risk profile. Any such stand-by facilities will be treated as a secondary or buffer source of liquidity only.
- Investment Limits for assets held for liquidity management purposes are set out in the Asset Management Policy, subject to the Credit Risk Policy.
- Modelling of the Bank's liquidity requirements will be undertaken regularly. Modelling should explicitly break down the source of liquidity requirement, based on an assessment of likely movements in the event of a crisis. For example, it may be considered that all bank and capital markets funding may be withdrawn on the first day of the crisis, or that a given percentage of cheque account balance will remain after the first week of the crisis. A key output of the model will be a "crisis time-line", detailing the speed and extent of deposit and funding source withdrawal compared with the Bank's ability to source funds from its Liquidity Portfolio (or other source).

31. Risk Management Policies - continued

- The Bank has set internal limits that will ensure it exceeds Liquidity Policy Quantitative requirements are met at all times.

- A liquidity contingency plan is in place which is to include the following scenarios:
    - Regular breaches of internal limits;
    - Difficulty or being unable to borrow in the wholesale markets;
    - Lenders demanding a higher than standard funding premium or seeking collateral for funding provided;
    - Deteriorating cash flow positions as evidenced by increasing liquid asset requirements in the short term time bands in order to meet normal cash flow requirements;
    - Unusual volatility in the deposit base;
    - Frequent utilisation of overdraft or standby facilities;
    - Deterioration in asset quality or profitability; or
    - An adverse rating change.

Liquidity Management:
Daily cash flow requirements will be managed through:

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

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

Liquidity risk may be minimised through the use of:

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

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

All breaches are to be reported immediately to the Deputy CEO (and Reserve Bank if applicable) and remedial action undertaken. All breaches are reported via the ALMC to the Board. Liquidity risk is managing risk to ensure the Bank is able in the short term to meet its financial obligations as they fall due. Quantitative figures are shown in note 23 (Liquidity Risk Management).

(vi) Operational Risk

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

(vii) Internal Audit

The Bank's Audit and Compliance Manager reports ultimately to the Chair of the Audit and Compliance Committee and meets at least annually with the committee. The scope of internal audit ensures that aspects of the Bank's operational, compliance, financial and systems operations are reviewed based on an assessment of risk on an ongoing basis. A comprehensive audit program gives a good coverage of audit procedures to be applied in order to achieve the audit objectives.

The Audit and Compliance Committee's primary function is to liaise with the External Auditors and the Bank's Audit and Compliance Manager. The Audit and Compliance Committee comprises four directors who are B C Richards (independent director), E Gill (independent director), D L Lean (independent director), and C B Tuuta. A meeting with the External Auditor takes place at least annually.

There have been no material changes to the above policies in the year prior to this balance date.

Disclosure Statement for the year ended 31 March 2011

This Disclosure Statement contains information as required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 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. Details of Incorporation

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

3. Ownership

TSB Community Trust, an independent body, owns all the shares in 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

All Directors of the Bank reside in New Zealand.

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

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

J.J. (John) Kelly
Company Director

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

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

C.B. (Colleen) Tuuta
Company Director

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

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

There have been no changes to the composition of the Board of Directors since the publication date of the previous Disclosure Statement. There have been no transactions between the Bank and any Director or immediate relative or close business associate of any Director which either, has been entered into on terms other than those which would in the ordinary course of business of the Bank be given to any other person of the like circumstances or means or, which could be reasonably likely to influence materially the exercise of the Director's duties. Independent Directors are E Gill, B C Richards, J J Kelly, D L Lean, D E Walter, and H P W Wano.

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

5. Auditor

KPMG
10 Customhouse Quay
Wellington 6011

6. Policy on Directors' Conflicts of Interest

As per Clause 22 of the Constitution of the TSB Bank Ltd a Director who is in any way, whether directly or indirectly interested in a contract or proposed contract with the company shall declare the nature of his or her interest at a meeting of the Directors in accordance with section 140 of the Companies Act 1993 as amended, but failure to do so shall not disqualify the Director or invalidate the contract or proposed contract or render him or her liable to account. A general notice by a Director that he or she is a member of a specific firm or company and is to be regarded as interested in all transactions with that firm or company shall be sufficient disclosure under this Clause as regards such Director and any such transaction and after such general notice it shall not be necessary for such Director to give a special notice relating to any particular transaction with that firm or company. All declarations and notices given by Directors pursuant to this Clause shall be recorded in the minutes.

7. Conditions of Registration

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

Condition of Registration 5A, is a new condition, effective before and on 31 March 2012. This new condition requires the Bank to comply with certain corporate governance requirements.

Condition of Registration 13, is a new condition, effective on and after 1 April 2011. This new condition requires the Bank to comply with certain conditions around the use of SPV's.

A copy of the 'Conditions of Registration' is included in this Disclosure Statement, as from 31 March 2011.

8. Pending Proceedings or Arbitration

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

9. Credit Rating

TSB Bank Limited has a credit rating applicable to its long term senior unsecured obligations payable in New Zealand, in New Zealand dollars. The current rating is BBB+/Stable/A2. This was reaffirmed on 9 November 2010. The credit rating was given by Standard & Poor's (Australia) Pty Limited. The current rating of BBB+ was raised from BBB on 19 March 2008. The rating is not subject to any qualifications. The rating has remained the same during the two years ended 31 March 2009 and 31 March 2010.

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.

E Gill - Sounds Aotearoa Limited, Taranaki Investment Management Limited, Tasman Farms Limited

B C Richards - Hotel School NZ Limited, Staples Rodway Taranaki Limited, SR Taranaki Trustees Limited, Staples Rodway Taranaki Nominees Limited, SRTN Trustees Limited, Sounds Aotearoa Limited, Taranaki Community Air Ambulance & Rescue Services Limited, Carlaw Holdings Limited, BDR Electrical Limited

J J Kelly - John Kelly Livestock Limited, Te Tapu Lands Limited

D L Lean - David Lean & Associates Limited, Rahotu Dairy Limited

K J Murphy - Interchange and Settlement Limited, Payments NZ Limited

C B Tuuta - Albatross Enterprises Limited

H P W Wano - Tui Ora Limited, Retro Investments Limited, Te Rau Matatini Limited, MW & Associates Limited

Disclosure Statement for the year ended 31 March 2011

11. Directors Fees

Directors Fees received by the Directors for the year ended 31 March 2011.

E Gill (Chair)	86,770
B C Richards (Deputy Chair)	49,113
P K Broughton (Retired 31 May 2010)	7,317
J J Kelly	43,912
D L Lean	43,912
M M McCarthy (Retired 31 May 2010)	7,318
K J Murphy	-
C B Tuuta	43,912
D E Walter	43,912
H P W Wano (Appointed 1 June 2010)	36,593
	362,759

12. Guarantee Arrangements

No material obligations of the Bank are guaranteed.

On 12 October 2008 the Minister of Finance announced a Deposit Guarantee Scheme, under which the Crown guarantees retail deposits of participating financial institutions under section 65ZD of the Public Finance Act 1989.

The Crown Deed of Guarantee is effective against defaults occurring between the period 12 October 2008 and 12 October 2010.

On 13 September 2009 the Crown Retail Deposit Guarantee Scheme Act 2009 came into force, providing legislative authority for the extension of the Crown Guarantee. The extended Crown Retail Deposit Guarantee Scheme (the "Extended Scheme") operates in respect of defaults of institutions that are members of the Extended Scheme which occur during the period 12 October 2010 until 31 December 2011. The Bank has not applied to be covered under the Extended Scheme.

13. Financial and Supplementary Disclosures

This Disclosure Statement is inclusive of the Bank's audited financial statements for the year ended 31 March 2011. All necessary additional financial and supplementary disclosures are included in the notes attached to the financial statements. Therefore the Bank has not published any supplementary disclosures.

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 2011;

b) The Disclosure Statement is not false or misleading.

The Directors believe, after due enquiry, that over the financial year to 31 March 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)
26 May 2011

B. C. Richards
(Deputy Chair)
26 May 2011

J. J. Kelly
26 May 2011

D. L. Lean
26 May 2011

K. J. Murphy
(Managing Director/CEO)
26 May 2011

C. B. Tuuta
26 May 2011

D. E. Walter
26 May 2011

H. P. W. Wano
26 May 2011

TSB Bank
expect more

Conditions of Registration

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

1. That the banking group complies with the following requirements:
   (a) the total capital ratio of the banking group is not less than 8 percent;
   (b) the tier one capital ratio of the banking group is not less than 4 percent; and
   (c) the capital of the banking group is not less than NZ $30 million.

   For the purposes of this condition of registration, capital, the total capital ratio and the tier one capital ratio must be calculated in accordance with the Reserve Bank of New Zealand document entitled "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated October 2010.

1A. That—
   (a) the bank has an internal capital adequacy assessment process ("ICAAP") that accords with the requirements set out in the document "Guidelines on a bank's internal capital adequacy assessment process ("ICAAP")" (BS12) dated December 2007;
   (b) under its ICAAP, the bank identifies and measures its "other material risks" defined as all material risks of the banking group that are not explicitly captured in the calculation of tier one and total capital ratios under the requirements set out in the document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated October 2010; and
   (c) the bank determines an internal capital allocation for each identified and measured "other material risk".

2. That the banking group does not conduct any non-financial activities that in aggregate are material relative to its total activities, where the term material is based on generally accepted accounting practice, as defined in the Financial Reporting Act 1993.

3. That the banking group's insurance business is not greater that 1% of its total consolidated assets. For the purposes of this condition:
   (a) insurance business means any business of the nature referred to in section 4 of the Insurance Companies (Ratings and Inspections) Act 1994 (including those to which the Act is disapplied by sections 4(1)(a) and (b) and 9 of that Act), or any business of the nature referred to in section 3(1) of the Life Insurance Act 1908;
   (b) In measuring the size of the banking group's insurance business:
      (i) where insurance business is conducted by any entity whose business predominantly consists of insurance business, the size of that insurance business shall be:
         (A) the total consolidated assets of the group headed by that entity; or
         (B) if the entity is a subsidiary of another entity whose business predominantly consists of insurance business, the total consolidated assets of the group headed by the latter entity;
      (ii) otherwise, the size of each insurance business conducted by any entity within the banking group shall equal the total liabilities relating to that insurance business, plus the equity retained by the entity to meet the solvency or financial soundness needs of the insurance business;
      (iii) the amounts measured in relation to subparagraphs (i) and (ii) shall be summed and compared to the total consolidated assets of the banking group. All amounts in subparagraphs (i) and (ii) shall relate to on balance sheet items only, and shall be determined in accordance with generally accepted accounting practice, as defined in the Financial Reporting Act 1993;
      (iv) where products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets shall be considered part of the insurance business.

4. That aggregate credit exposures (of a non-capital nature and net of any allowances for impairment) of the banking group to all connected persons do not exceed the rating-contingent limit outlined in the following matrix:

Credit rating of the registered 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 percent 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 exposures policy" (BS8) dated October 2010.

[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.)

Conditions of Registration

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.

5A. Before and on 31 March 2012, that the bank complies with the following corporate governance requirements:
   (a) the board of the bank must contain at least two independent directors. In this context an independent director is a director who is not an employee of the bank, and who is not a director, trustee or employee of any holding company of the bank, or any other entity capable of controlling or significantly influencing the bank;
   (b) the chairperson of the bank's board must not be an employee of the bank; and
   (c) 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).

6. On and after 1 April 2012, 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;
   (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 March 2011.

7. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the 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. On and after 1 April 2012, 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. On and after 1 April 2012, 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.

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 65 per cent at the end of each business day.

   For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) dated March 2011 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated March 2010.

Conditions of Registration

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.

    This condition applies on and after 1 April 2011.

    For the purposes of these conditions of registration, the term "banking group" means TSB Bank Limited's financial reporting group (as defined in section 2(1) of the Financial Reporting Act 1993).

Auditor's Report

To the Shareholder of TSB Bank Limited

Report on the Bank Disclosure Statement

We have audited the accompanying Disclosure Statement and supplementary information (excluding the information relating to Capital Adequacy disclosed in note 24) of TSB Bank Limited (the "Bank'') on pages 8 to 42. The Disclosure Statement comprises the balance sheets as at 31 March 2011, the income statements and statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information of the Bank. The supplementary information comprises the information that is required to be disclosed under the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2011 (the "Order") and is presented in notes 15 and 26 of the Disclosure Statement.

Directors' Responsibility for the Disclosure Statement

The directors are responsible for the preparation of the Disclosure Statement in accordance with Clause 24 of the Order, generally accepted accounting practice in New Zealand, and International Financial Reporting Standards and that gives a true and fair view of the matters to which they relate. The directors are also responsible for such internal controls as they determine are necessary to enable the preparation of the Disclosure Statement that is free from material misstatement whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Disclosure Statement, including the supplementary information presented in notes 15 and 26, based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Disclosure Statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Disclosure Statement. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Disclosure Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Bank's preparation of the Disclosure Statement that gives a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the Disclosure Statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our firm has provided other services to the Bank in relation to audit related services. 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 subject to certain restrictions on borrowings. These matters have not impaired our independence as auditors of the Bank. The firm has no other relationship with, or interest in, the Bank.

Opinion

In our opinion the Disclosure Statement of TSB Bank Limited (''the Bank'') on pages 8 to 42 (excluding the information included in notes 15, 24 and 26):

- complies with generally accepted accounting practice in New Zealand;
- complies with International Financial Reporting Standards; and
- gives a true and fair view of the financial position as at 31 March 2011 and of its financial performance and cash flows for the year ended on that date.

In our opinion, the information that is required to be disclosed under Schedules 4, 7, 9, 13 to 15 and 17 of the Order, and is included within notes 15 and 26 of the Disclosure Statement:

- 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;
- is in accordance with the books and records of the Bank; and
- presents fairly, in all material respects, the matters to which it relates, in accordance with those Schedules.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, and 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.

Auditor's Report

Report on the Information Relating to Capital Adequacy

We have reviewed the information relating to Capital Adequacy, as disclosed in note 24 of the Disclosure Statement.

Directors' Responsibility for the Information Relating to Capital Adequacy

The directors are responsible for the preparation of information relating to Capital Adequacy that is required to be disclosed under Schedule 9 of the Order and prepared in accordance with the Bank's Conditions of Registration and described in note 24 of the Disclosure Statement.

Auditor's Responsibility

Our responsibility is to express an opinion on the information relating to Capital Adequacy based on our review. We conducted our review in accordance with the Review Engagement Standards issued by the New Zealand Institute of Chartered Accountants. Those standards require that we comply with ethical requirements and plan and perform the review to obtain limited assurance about whether the information relating to Capital Adequacy is free from material misstatement.

A review is limited primarily to enquiries of Bank personnel and analytical review procedures applied to the financial data, and thus provides less assurance than an audit. We have not performed an audit in respect of the Capital Adequacy disclosures, and accordingly, we do not express an audit opinion on these disclosures.

Opinion

We have examined the information and based on our review, nothing has come to our attention that causes us to believe that the information relating to Capital Adequacy, disclosed in note 24 of the Disclosure Statement, is not prepared and disclosed, in all material respects, in accordance with:

- the Bank's Conditions of Registration; and
- Schedule 9 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2011.

KPMG

26 May 2011
KPMG Wellington

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 on acquisition at cost and thereafter 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.

Fair Value Hedge
A hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss.

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.

Held to Maturity Investments (HTM)
Non-derivative financial assets with fixed or determinable payments and a fixed maturity that the Bank has a positive intention and ability to hold to maturity. They are measured at amortised cost using the effective interest method.

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 2011

Directors

E. (Elaine) Gill, ONZM, LLB, J.P, Chair

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

J.J. (John) Kelly

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

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

C.B. (Colleen) Tuuta

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

H.P.W. (Hayden) Wano

Executive Management

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

C.L. (Charles) Duke, Deputy Chief Executive

R.G. (Roddy) Bennett, B. Sci, ACA, Chief Financial Officer

R. (Rod) Grant, National Business Manager - Marketing

R. (Rod) Main, National Business Manager - Operations

M.D. (Marie) Collins, Manager Technology Services

L.D. (Linda) Burczynski, Dipl. Mgmt, Manager Human Resources

P.D. (Phil) Gerrard, AAIBS, Manager Lending Services

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

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Web Address: http://www.tsbbank.co.nz/ContactUs.aspx

TSB Bank
expect more

GADGET 6966