TSB Bank
expect more

TSB Bank General Disclosure Statement

for the six months ended 30 September 2010

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This General Disclosure Statement contains information as required by the Registered Bank Disclosure Statement (Full and Half Year - New Zealand Incorporated Registered Banks) Order 2008 ('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

The following changes have occurred to the composition of the Board of Directors since the publication date of the previous General Disclosure Statement. Maeve McCarthy and Kemp Broughton retired from the Board, and Hayden Paul Waretini Wano was appointed as a Director of TSB Bank Limited on 27 May 2010. 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.

The 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 pursuant to section 74(2) of the Reserve Bank of New Zealand Act 1989.

Condition of Registration 11, is a new condition, effective 1 April 2010. This new condition requires the Bank to comply to certain ratios as part of its liquidity-risk management. 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 20 October 2009 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated October 2009.

Condition of Registration 12, is a new condition, effective 1 April 2010. This new condition requires the Bank to have an internal framework for liquidity risk management.

A copy of the 'Conditions of Registration' is included in this General Disclosure Statement, as from 22 October 2009.

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 rating is not subject to any qualifications.

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

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

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

C B Tuuta - Albatross Enterprises Limited

D E Walter – Port Taranaki Limited

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

11. GUARANTEE ARRANGEMENTS

As at the date of the signing of this General Disclosure Statement, the following material obligations of the Bank are guaranteed.

On the 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 was 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.

12. FINANCIAL AND SUPPLEMENTARY DISCLOSURES

This General Disclosure Statement is inclusive of the Bank's unaudited interim financial statements for the six months ended 30 September 2010. All necessary additional financial and supplementary disclosures are included in the notes attached to the interim financial statements. Therefore the Bank has not published any supplementary disclosures.

HISTORICAL SUMMARY OF FINANCIAL STATEMENTS

	NZ IFRS 30 Sept 2010 6 months $000 Unaudited	NZ IFRS 31 Mar 2010 12 months $000 Audited	NZ IFRS 31 Mar 2009 12 months $000 Audited	NZ IFRS 31 Mar 2008 12 months $000 Audited	NZ IFRS 31 Mar 2007 12 months $000 Audited	Previous NZ GAAP 31 Mar 2006 12 months $000 Audited
FINANCIAL PERFORMANCE						
Interest Income	133,492	263,984	284,442	255,749	218,014	188,594
Interest Expense	86,541	153,713	192,826	166,601	139,047	116,278
Net Interest Income	**46,951**	**110,271**	**91,616**	**89,148**	**78,967**	**72,316**
Other Income	6,823	13,709	15,409	12,023	11,470	10,770
Total Operating Income	**53,774**	**123,980**	**107,025**	**101,171**	**90,437**	**83,086**
Impairment Losses	875	4,492	4,152	2,485	1,596	-
Operating Expenses	20,392	45,131	41,587	39,985	36,586	36,338
Net Profit before Taxation	**32,507**	**74,357**	**61,286**	**58,701**	**52,255**	**46,748**
Taxation	13,218	23,179	18,394	19,371	17,253	15,437
Net Profit After Taxation	**19,289**	**51,178**	**42,892**	**39,330**	**35,002**	**31,311**
Dividend	2,600	11,150	9,200	8,800	7,800	7,000
Profit Retained	**16,689**	**40,028**	**33,692**	**30,530**	**27,202**	**24,311**
FINANCIAL POSITION						
Total Assets	4,484,820	4,405,082	3,832,020	3,168,673	2,868,076	2,596,311
Total Impaired Assets	2,107	3,421	2,429	905	119	-
Total Liabilities	4,140,414	4,073,957	3,529,031	2,915,514	2,645,447	2,403,106
Total Shareholder's Equity	344,406	331,125	302,989	253,159	222,629	193,205

INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

	Note	30 September 2010 Unaudited $000	30 September 2009 Unaudited $000	31 March 2010 Audited $000
Interest Income	2	128,273	119,626	242,528
Derivative Financial Instruments	2	5,219	11,604	21,456
Interest Expense	2	86,541	74,922	153,713
Net Interest Income		**46,951**	**56,308**	**110,271**
Other Operating Income	3	6,823	7,832	13,709
Net Operating Income		**53,774**	**64,140**	**123,980**
Operating Expenses	4	20,392	20,915	45,131
Net Profit before Impairment Loss and Taxation		**33,382**	**43,225**	**78,849**
Provision for Impairment Loss	15	875	1,401	4,492
Net Profit before Taxation		**32,507**	**41,824**	**74,357**
Taxation	5	9,757	12,549	23,179
Effect of Change in Tax Legislation		3,461	-	-
Net Profit after Taxation		**19,289**	**29,275**	**51,178**

STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

	30 September 2010 Unaudited $000	30 September 2009 Unaudited $000	31 March 2010 Audited $000
Net Profit after Taxation	**19,289**	**29,275**	**51,178**
Other Comprehensive Income:			
Effective portion of changes in fair value of cash flow hedges	350	2,646	4,467
Fair Value movements of cash flow hedges transferred to income statement	(5,219)	(11,604)	(21,456)
Income Tax on Other Comprehensive Income	1,461	2,688	5,097
Other Comprehensive Income for period	**(3,408)**	**(6,270)**	**(11,892)**
Total Comprehensive Income for the period	**15,881**	**23,005**	**39,286**

These interim financial statements are to be read in conjunction with the notes on pages 13 to 49.

STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

		Share Capital $000	Cash Flow Hedge Reserve $000	Retained Earnings $000	Total Equity $000
Balance at 1 April 2010		**10,000**	**4,246**	**316,879**	**331,125**
Total comprehensive income for the period					
Net Profit after Tax		-	-	19,289	19,289
Other Comprehensive Income:					
Effective Portion of Changes in Fair Value (net of tax)	18	-	245	-	245
Fair Value Movements transferred to Income Statement (net of tax)	18	-	(3,653)	-	(3,653)
Other Comprehensive Income for the period		**-**	**(3,408)**	**-**	**(3,408)**
Total Comprehensive Income for the period		**-**	**(3,408)**	**19,289**	**15,881**
Transactions with owners, recorded directly in equity					
Dividends to Equity Holders	20	-	-	(2,600)	(2,600)
Total Transactions with Owners		-	-	(2,600)	(2,600)
Balance at 30 September 2010		**10,000**	**838**	**333,568**	**344,406**

STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

		Share Capital $000	Cash Flow Hedge Reserve $000	Retained Earnings $000	Total Equity $000
Balance at 1 April 2009		**10,000**	**16,138**	**276,851**	**302,989**
Total comprehensive income for the period					
Net Profit after Tax		-	-	29,275	29,275
Other Comprehensive Income:					
Effective Portion of Changes in Fair Value (net of tax)	18	-	1,852	-	1,852
Fair Value Movements transferred to Income Statement (net of tax)	18	-	(8,122)	-	(8,122)
Other Comprehensive Income for the period		**-**	**(6,270)**	**-**	**(6,270)**
Total Comprehensive Income for the period		**-**	**(6,270)**	**29,275**	**23,005**
Transactions with owners, recorded directly in equity					
Dividends to Equity Holders	20	-	-	(2,800)	(2,800)
Total Transactions with Owners		-	-	(2,800)	(2,800)
Balance at 30 September 2009		**10,000**	**9,868**	**303,326**	**323,194**

STATEMENT OF CHANGES IN EQUITY
FOR YEAR ENDED 31 MARCH 2010

		Share Capital $000	Cash Flow Hedge Reserve $000	Retained Earnings $000	Total Equity $000
Balance at 1 April 2009		**10,000**	**16,138**	**276,851**	**302,989**
Total comprehensive income for the period					
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)
Other Comprehensive Income for the period		**-**	**(11,892)**	**-**	**(11,892)**
Total Comprehensive Income for the period		**-**	**(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 interim financial statements are to be read in conjunction with the notes on pages 13 to 49.

STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2010

	Note	30 September 2010 Unaudited $000	30 September 2009 Unaudited $000	31 March 2010 Audited $000
Assets				
Cash and Cash Equivalents	6	77,741	65,976	94,063
Derivative Financial Instruments	7	2,022	18,405	9,127
Investment Securities	8	1,848,316	1,682,593	1,869,657
Loans and Advances to Customers	9	2,533,768	2,267,261	2,407,158
Other Assets	10	814	661	768
Deferred Tax Asset	11	3,063	2,387	5,063
Property, Plant and Equipment	13	18,707	18,234	18,743
Intangible Assets	14	389	589	503
Total Assets		**4,484,820**	**4,056,106**	**4,405,082**
Liabilities				
Deposits from Customers	16	4,102,460	3,695,732	4,023,884
Derivative Financial Instruments	7	1,288	1,260	1,248
Current Tax Liability		3,657	4,588	7,073
Other Liabilities	17	33,009	31,332	41,752
Total Liabilities		**4,140,414**	**3,732,912**	**4,073,957**
Shareholder's Equity				
Share Capital	19	10,000	10,000	10,000
Cash Flow Hedge Reserve	18	838	9,868	4,246
Retained Earnings	19	333,568	303,326	316,879
Total Shareholder's Equity		**344,406**	**323,194**	**331,125**
Total Liabilities and Shareholder's Equity		**4,484,820**	**4,056,106**	**4,405,082**
Total Interest Earning and Discount Bearing Assets		**4,453,720**	**4,011,347**	**4,363,994**
Total Interest and Discount Bearing Liabilities		**3,901,678**	**3,515,331**	**3,833,859**

These interim financial statements are to be read in conjunction with the notes on pages 13 to 49.

STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

	30 September 2010 Unaudited $000	30 September 2009 Unaudited $000	31 March 2010 Audited $000
Cash Flows from Operating Activities			
Cash provided from (applied to):			
Interest Income Received	131,844	128,423	258,875
Other Income Received	6,777	8,323	14,093
Interest Paid	(59,062)	(61,901)	(157,260)
Operating Expenditure	(22,192)	(31,111)	(50,855)
Taxation Paid	(13,173)	(14,217)	(22,629)
Cash Flows from Operating Profits before Changes in Operating Assets and Liabilities	**44,194**	**29,517**	**42,224**
Changes in Operating Assets and Liabilities			
Increase in Loans and Advances to Customers	(127,790)	(138,298)	(279,259)
Derivative Financial Instruments	2,276	(298)	937
Increase in Deposits from Customers	51,097	208,360	553,080
Cash Flow from Operating Assets and Liabilities	**(74,417)**	**69,764**	**274,758**
Net Cash Flow from Operating Activities	**(30,223)**	**99,281**	**316,982**
Cash Flows from Investing Activities			
Cash was provided from (applied to):			
Property, Plant and Equipment Sold	-	11	154
Net Maturity/ (Purchase) of Investment Securities *	23,294	(88,259)	(273,100)
Property, Plant and Equipment Purchased	(1,043)	(783)	(2,871)
Intangible Assets Purchased	-		(28)
Net Cash Flow from Investing Activities	**22,251**	**(89,031)**	**(275,845)**
Cash Flows from Financing Activities			
Cash provided from (applied to):			
Dividends Paid	(8,350)	(6,600)	(9,400)
Net Cash Flow from Financing Activities	**(8,350)**	**(6,600)**	**(9,400)**
Net Increase/(Decrease) in Cash and Cash Equivalents	**(16,322)**	**3,650**	**31,737**
Add Cash and Cash Equivalents at beginning of the Year	94,063	62,326	62,326
Cash and Cash Equivalents at End of Period	**77,741**	**65,976**	**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 interim financial statements are to be read in conjunction with the notes on pages 13 to 49.

STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

	30 September 2010 Unaudited $000	30 September 2009 Unaudited $000	31 March 2010 Audited $000
Reconciliation of Net Profit after Taxation To Net Cash Flows from Operating Activities			
Net Profit after Taxation	**19,289**	**29,275**	**51,178**
Add Movements in Statement of Financial Position Items			
Accounts Payable	24,485	1,583	(10,117)
Provision for Tax	(3,416)	(1,183)	1,302
Deposits from Customers	51,097	208,360	553,080
Deferred Tax Asset	3,461	(485)	(752)
Accounts Receivable	(1,693)	(2,316)	(4,725)
Derivative Financial Instruments	2,276	(298)	937
Loans and Advances to Customers	(127,790)	(138,298)	(279,259)
	(51,580)	**67,363**	**260,466**
Add Non- Cash Items			
Depreciation	1,079	1,215	2,651
Impairment Losses on Advances to Customers	875	1,285	2,430
Amortisation of Intangible Assets	114	143	257
	2,068	**2,643**	**5,338**
Net Cash Flow from Operating Activities	**(30,223)**	**99,281**	**316,982**
Reconciliation of Cash and Cash Equivalents to the Statement of Financial Position			
Cash and Balances with Central Bank	74,132	61,471	88,312
Cash and Cash at Bank	3,609	4,505	5,751
Total Cash and Cash Equivalents at End of Period	**77,741**	**65,976**	**94,063**

These interim financial statements are to be read in conjunction with the notes on pages 13 to 49.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

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 Statement (Full and Half Year – New Zealand Incorporated Registered Banks) Order 2008.

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 interim financial statements were approved by the Board of Directors on 17 December 2010.

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, and other 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.

Change in Accounting Policies:

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

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 period beginning on or after 1 January 2013.

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

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.

Interest Income and Expense

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

1. STATEMENT OF ACCOUNTING POLICIES - continued

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.

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.

1. STATEMENT OF ACCOUNTING POLICIES - continued

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 rate 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, goods and services directly to a debtor, with no intention of selling the receivable.

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

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

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

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

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.

1. STATEMENT OF ACCOUNTING POLICIES - continued

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.

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.

1. STATEMENT OF ACCOUNTING POLICIES - continued

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 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.

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.

1. STATEMENT OF ACCOUNTING POLICIES - continued

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	40 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.

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.

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 Statement of Comprehensive Income.

1. STATEMENT OF ACCOUNTING POLICIES - continued

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.

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, and Loan and Advances to Customers. 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.

1. STATEMENT OF ACCOUNTING POLICIES - continued

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 Sheet at their fair value, fair value is estimated as follows:

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

Investment Securities
Investment Securities 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 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 values that approximate fair value. 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.

Interim Tax

Income tax expense is recognised in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year. Amounts accrued for income tax expense in one interim period may have to be adjusted in a subsequent interim period of that financial year if the estimate of the annual income tax rate changes.

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).

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

	30 September 2010 Unaudited $000	30 September 2009 Unaudited $000	31 March 2010 Audited $000
2. NET INTEREST INCOME			
Interest Income			
Cash and Cash Equivalents	814	2,082	1,479
Investment Securities	43,727	35,144	76,508
Loans and Advances to Customers*	83,732	82,400	164,541
Total Interest Income	**128,273**	**119,626**	**242,528**
Derivative Financial Instrument Income			
Derivative Financial Instrument Income	**5,219**	**11,604**	**21,456**
Interest Expense			
Deposits from Customers	**86,541**	**74,922**	**153,713**
Net Interest Income	**46,951**	**56,308**	**110,271**

* Interest income on Loans and Advances to Customers includes interest earned on Impaired Assets of $0.129m ($0.263m; 30 Sept 2009, $0.343m; 31 March 2010)

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 components 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

	30 September 2010 Unaudited $000	30 September 2009 Unaudited $000	31 March 2010 Audited $000
Lending and Credit Facility Related Income	1,602	3,152	5,208
Commission and Other Trading Income *	4,545	4,324	8,709
Gain/(Loss) in Fair Value on Derivatives	(202)	(376)	(925)
Other Income	878	732	717
	6,823	**7,832**	**13,709**

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

4. OPERATING EXPENSES

	30 September 2010 Unaudited $000	30 September 2009 Unaudited $000	31 March 2010 Audited $000
Auditors Remuneration:			
Statutory Audit	64	60	120
Depreciation:			
Buildings	500	427	1,129
Computer Equipment	181	335	591
Other	398	453	931
Amortisation of Intangible Assets	114	143	257
Directors' Fees	185	153	311
Personnel Expenses	7,627	8,552	17,633
Defined Contribution Plan	198	315	1,018
Information Technology Expenses	2,597	2,509	5,307
Premises Occupancy	951	821	1,637
Marketing	3,416	2,429	8,273
Other Expenses	4,161	4,718	7,924
	20,392	**20,915**	**45,131**

NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

	30 September 2010 Unaudited $000	30 September 2009 Unaudited $000	31 March 2010 Audited $000
5. TAXATION			
Net Profit before Taxation	32,507	41,824	74,357
Tax at 30%	9,752	12,547	22,307
Tax Effect of Expenses not Deductible	5	2	14
Tax Effect of Change in Tax Legislation	3,461	-	-
Prior Period Adjustments	-	-	858
Taxation Expense	**13,218**	**12,549**	**23,179**
Reconciliation of Income Tax Expense			
Current Taxation	9,757	13,034	23,931
Deferred Taxation (refer to note 11)	3,461	(485)	(752)
Taxation Expense	**13,218**	**12,549**	**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. Also 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 $3.461m.

6. CASH AND CASH EQUIVALENTS

	30 September 2010 Unaudited $000	30 September 2009 Unaudited $000	31 March 2010 Audited $000
Cash and Cash at Bank	3,609	4,505	5,751
Cash and Balances with Reserve Bank	74,132	61,471	88,312
	77,741	**65,976**	**94,063**

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 a margin for fixed rate interest rate arrangements.

	As at 30 September 2010 Unaudited		
	Notional	Fair Value	
	Amount	Assets	Liabilities
Interest Rate Contracts	$000	$000	$000
Swaps	24,500	-	1,288
	24,500	**-**	**1,288**

	As at 30 September 2009 Unaudited		
	Notional	Fair Value	
	Amount	Assets	Liabilities
Interest Rate Contracts	$000	$000	$000
Swaps	22,700	-	1,260
	22,700	**-**	**1,260**

NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

	As at 31 March 2010 Audited		
	Notional	Fair Value	
	Amount	Assets	Liabilities
Interest Rate Contracts	**$000**	**$000**	**$000**
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 30 September 2010 Unaudited		
	Notional	Fair Value	
	Amount	Assets	Liabilities
Interest Rate Contracts	**$000**	**$000**	**$000**
Options	1,450,000	2,022	-
	1,450,000	**2,022**	**-**

	As at 30 September 2009 Unaudited		
	Notional	Fair Value	
	Amount	Assets	Liabilities
Interest Rate Contracts	**$000**	**$000**	**$000**
Options	1,750,000	18,405	-
	1,750,000	**18,405**	**-**

	As at 31 March 2010 Audited		
	Notional	Fair Value	
	Amount	Assets	Liabilities
Interest Rate Contracts	**$000**	**$000**	**$000**
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:

	Within 1 year	1-5 years	Over 5 years
30 September 2010			
Cash inflows	1,659	-	-

	Within 1 year	1-5 years	Over 5 years
30 September 2009			
Cash inflows	16,750	1,051	-

	Within 1 year	1-5 years	Over 5 years
31 March 2010			
Cash inflows	8,917	-	-

8. INVESTMENT SECURITIES

	30 September 2010 Unaudited $000	30 September 2009 Unaudited $000	31 March 2010 Audited $000
Local Authority Securities	651,416	700,968	664,999
Registered Bank Certificates of Deposit	288,347	404,175	315,848
Registered Bank Term Investments	490,000	170,000	480,000
Other Investments *	418,553	407,450	408,810
	1,848,316	**1,682,593**	**1,869,657**

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

	Note	30 September 2010 Unaudited $000	30 September 2009 Unaudited $000	31 March 2010 Audited $000
9. LOANS AND ADVANCES TO CUSTOMERS				
Residential Mortgages		2,293,569	2,047,486	2,184,121
Community		3,573	6,074	5,418
Commercial		124,733	112,471	114,018
Farming		79,673	71,305	71,239
Other *		49,365	45,640	49,222
Total Gross Loans and Advances to Customers		**2,550,913**	**2,282,976**	**2,424,018**
Less Provision for Impairment Loss	15	(17,145)	(15,715)	(16,860)
Total Loans and Advances to Customers		**2,533,768**	**2,267,261**	**2,407,158**

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

	30 September 2010 Unaudited $000	30 September 2009 Unaudited $000	31 March 2010 Audited $000
10. OTHER ASSETS			
Trade and Other Receivables	814	661	768
	814	**661**	**768**

	30 September 2010 Unaudited $000	30 September 2009 Unaudited $000	31 March 2010 Audited $000
11. DEFERRED TAX ASSET/(LIABILITY)			
Balance at Beginning of Period	5,063	(786)	(786)
Deferred Tax Recognised in the Income Statement	(3,461)	485	752
Deferred Taxation Recognised in Equity	1,461	2,688	5,097
Balance at End of Period	**3,063**	**2,387**	**5,063**
Deferred Tax relates to:			
Property, Plant, and Equipment	(2,886)	687	817
Amortisation of Intangibles	180	218	201
Provision for Impairment Losses	4,801	4,714	5,058
Fair value adjustments for Derivative Financial Instruments	(82)	(4,968)	(2,208)
Other Temporary Differences*	1,050	1,736	1,195
Total Deferred Tax Asset/(Liability)	**3,063**	**2,387**	**5,063**

* Other temporary differences reflects adjustments for employee benefits.

	30 September 2010 Unaudited $000	30 September 2009 Unaudited $000	31 March 2010 Audited $000
Deferred Taxation Recognised in the Income Statement:			
Depreciation	(3,703)	2	115
Amortisation of Intangibles	(21)	2	1
Provision for Impairment Losses	(257)	386	729
Derivative Financial Instruments	665		228
Other Temporary Differences	(145)	95	(321)
Total Deferred Taxation Recognised in the Income Statement:	**(3,461)**	**485**	**752**
Deferred Taxation Recognised in Equity:			
Cash Flow Hedge Reserve	1,461	2,688	5,097
Total Deferred Taxation Recognised in Equity	**1,461**	**2,688**	**5,097**

	30 September 2010 Unaudited $000	30 September 2009 Unaudited $000	31 March 2010 Audited $000
12. IMPUTATION CREDIT ACCOUNT			
Balance at Beginning of Period	152,067	133,878	133,878
Income Tax Paid	13,075	14,650	22,650
Income Tax Refund	(9)	(433)	(433)
Imputation Credits attached to Dividends Paid	(3,579)	(2,829)	(4,028)
	161,554	**145,266**	**152,067**

NOTES TO THE INTERIM FINANCIAL STATEMENTS

13. PROPERTY, PLANT AND EQUIPMENT

As at 30 September 2010 Unaudited $000	Land	Buildings	Computer Equipment	Other *	Work in Progress	Total
Cost						
Opening Balance	4,318	15,351	8,268	12,020	-	39,957
Additions	-	-	139	40	1,043	1,222
Disposals	-	-	-	(3)	-	(3)
Transfers	-	-	-	-	(178)	(178)
Closing Balance	**4,318**	**15,351**	**8,407**	**12,057**	**865**	**40,998**
Depreciation and Impairment Losses						
Opening Balance	-	4,541	7,754	8,919	-	21,214
Depreciation for the period	-	500	181	399	-	1,080
Impairment Loss	-	-	-	-	-	-
Disposals	-	-	-	(3)	-	(3)
Closing Balance	**-**	**5,041**	**7,935**	**9,315**	**-**	**22,291**
Closing Net Book Value						
Balance as at 1 April 2010	4,318	10,810	514	3,101	-	18,743
Balance as at 30 September 2010	**4,318**	**10,310**	**472**	**2,742**	**865**	**18,707**

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

As at 30 September 2009 Unaudited $000	Land	Buildings	Computer Equipment	Other *	Work in Progress	Total
Cost						
Opening Balance	4,318	13,779	8,046	11,297	23	37,463
Additions	-	57	102	239	1,362	1,760
Disposals	-	-	-	(33)	-	(33)
Transfers	-	-	-	-	(982)	(982)
Closing Balance	**4,318**	**13,836**	**8,148**	**11,503**	**403**	**38,208**
Depreciation and Impairment Losses						
Opening Balance	-	3,412	7,163	8,211	-	18,786
Depreciation for the period	-	427	335	453	-	1,215
Impairment Loss	-	-	-	-	-	-
Disposals	-	-	-	(27)	-	(27)
Closing Balance	**-**	**3,839**	**7,498**	**8,637**	**-**	**19,974**
Closing Net Book Value						
Balance as at 1 April 2009	4,318	10,367	883	3,086	23	18,677
Balance as at 30 September 2009	**4,318**	**9,997**	**650**	**2,866**	**403**	**18,234**

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

13. PROPERTY, PLANT AND EQUIPMENT - continued

As at 31 March 2010 Audited $000	Land	Buildings	Computer Equipment	Other *	Work in Progress	Total
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

	30 September 2010 Unaudited $000	30 September 2009 Unaudited $000	31 March 2010 Audited $000
Cost			
Opening Balance	4,063	4,035	4,035
Additions	-	-	28
Disposals	-	-	-
Closing Balance	**4,063**	**4,035**	**4,063**
Amortisation and Impairment			
Opening Balance	3,560	3,303	3,303
Amortisation for the period	114	143	257
Accumulated Amortisation (Disposals)	-	-	-
Closing Balance	**3,674**	**3,446**	**3,560**
Closing Net Book Value			
Balance as at 1 April 2010	503	732	732
Closing Balance as at 30 September 2010	**389**	**589**	**503**

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

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, other than those disclosed in this note.

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

Gross Loans and Advances to Customers by Credit Quality	30 September 2010 Unaudited $000	30 September 2009 Unaudited $000	31 March 2010 Audited $000
Neither Past Due or Impaired	2,523,745	2,258,407	2,401,761
Past Due Assets	25,061	19,317	18,836
Impaired Assets	2,107	5,252	3,421
Total Gross Loans and Advances to Customers	**2,550,913**	**2,282,976**	**2,424,018**

Lending commitments to customers were $71m as at 30 September 2010 ($93.7m; 30 September 2009 and $78m; 31 March 2010)

Aging Analysis of Past Due Assets			
Over 30 days	11,066	7,305	9,486
60 to 89 days	3,714	6,745	2,496
Over 90 days	10,281	5,267	6,854
Balance at End of Period	**25,061**	**19,317**	**18,836**

90-day Past Due Assets			
Balance at Beginning of Period	6,854	8,055	8,055
Additions	9,348	3,469	13,648
Deletions	(5,921)	(6,257)	(14,849)
Balance at End of Period	**10,281**	**5,267**	**6,854**

Impaired Assets			
Balance at Beginning of Period	3,421	2,429	2,429
Additions	129	4,786	6,345
Amounts Written Off	(326)	(1,963)	(1,343)
Transfers back to Loans and advances to Customers	(1,117)	-	(4,010)
Balance at End of Period	**2,107**	**5,252**	**3,421**

Real Estate Assets Acquired through Enforcement of Security			
Balance at Beginning of Period	-	-	-
Transfers to Real Estate Assets Acquired through Enforcement of Security	630	-	-
Balance at End of Period	**630**	**-**	**-**

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

15. CREDIT RISK MANAGEMENT AND ASSET QUALITY - continued

	30 September 2010 Unaudited $000	30 September 2009 Unaudited $000	31 March 2010 Audited $000
(b) Provision for Impairment Loss			
Collective Provision for Doubtful Debts			
Balance at Beginning of Period	15,100	13,600	13,600
Charged to Income Statement	500	1,000	1,500
Balance at End of Period	**15,600**	**14,600**	**15,100**
Specific Provision for Doubtful Debts			
Balance at Beginning of Period	1,760	830	830
Add New Provisions	748	1,090	2,589
Less Amounts Written off	(326)	(720)	(1,343)
Less Amounts Received	(637)	(85)	(316)
Balance at End of Period	**1,545**	**1,115**	**1,760**
Total Provision for Impairment Loss	**17,145**	**15,715**	**16,860**
Impairment Losses charged to Income Statement			
Collective Provisions	500	1,000	1,500
Specific Provisions	398	285	930
Bad Debts Written Off	(23)	116	2,062
Total Impairment Losses charged to Income Statement	**875**	**1,401**	**4,492**

The estimated fair value of collateral and other charges related to financial assets that are individually impaired is $0.790 million.

(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:

	30 September 2010 Unaudited $000	30 September 2009 Unaudited $000	31 March 2010 Audited $000
Within Taranaki	1,447,954	1,286,651	1,296,261
Rest of New Zealand	3,029,016	2,744,894	3,091,477
Provision for Impairment Loss	(17,145)	(15,715)	(16,860)
Total Exposures by Geographic Region	**4,459,825**	**4,015,830**	**4,370,878**
Agriculture	79,673	71,305	71,239
Utilities	230,000	146,685	225,074
Communications	40,500	86,346	40,500
Government and Public Authorities	651,000	700,968	664,999
Finance	881,753	651,594	903,577
Housing	2,300,006	2,064,583	2,202,044
Personal	45,282	42,651	44,829
Community	3,573	6,074	5,418
Commercial	245,183	261,339	230,058
Provision for Impairment Loss	(17,145)	(15,715)	(16,860)
Total Exposures by Industry	**4,459,825**	**4,015,830**	**4,370,878**
Derivative Financial Instruments	2,022	18,405	9,127
Other Assets	814	661	768
Deferred Tax Asset	3,063	2,387	5,063
Property, Plant and Equipment	18,707	18,234	18,743
Intangible Assets	389	589	503
Total Assets	**4,484,820**	**4,056,106**	**4,405,082**

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

15. CREDIT RISK MANAGEMENT AND ASSET QUALITY - continued

(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:

	30 September 2010 Unaudited $000	30 September 2009 Unaudited $000	31 March 2010 Audited $000
Retail Deposits			
Within Taranaki	2,118,222	1,992,397	2,108,109
Rest of New Zealand	1,984,238	1,703,335	1,915,775
Total Funding by Geographic Region	**4,102,460**	**3,695,732**	**4,023,884**
Government and Public Authorities	18,276	24,109	38,493
Households	4,006,904	3,599,031	3,908,179
Community	29,854	29,825	32,120
Commercial	47,426	42,767	45,092
Total Funding by Industry	**4,102,460**	**3,695,732**	**4,023,884**
Derivative Financial Instruments	1,288	1,260	1,248
Current Tax Liability	3,657	4,588	7,073
Other Liabilities	33,008	31,332	41,752
Deferred Tax Liability	-	-	-
Total Liabilities	**4,140,413**	**3,732,912**	**4,073,957**

(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, 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.

	30 September 2010			30 September 2009			31 March 2010		
	Unaudited			Unaudited			Audited		
Percentage of Shareholder's Equity	Number of Counterparties			Number of Counterparties			Number of Counterparties		
	Non Bank	Bank	Total	Non Bank	Bank	Total	Non Bank	Bank	Total
As at Balance Date									
10% - 20%	11	2	13	9	2	11	11	3	14
21% - 30%	1	1	2	4	2	6	2	-	2
31% - 40%	-	-	-	-	-	-	-	-	-
41% - 50%	-	-	-	-	1	1	-	-	-
51% - 60%	-	-	-	-	1	1	-	-	-
61% - 70%	-	-	-	-	-	-	-	-	-
71% - 80%	-	1	1	-	-	-	-	-	-
81% - 90%	-	1	1	-	-	-	-	1	1
91% - 100%	-	-	-	-	-	-	-	1	1
Peak Exposure									
10% - 20%	11	2	13	10	2	12	10	2	12
21% - 30%	1	1	2	4	2	6	4	1	5
31% - 40%	-	-	-	-	-	-	-	-	-
41% - 50%	-	-	-	-	1	1	-	-	-
51% - 60%	-	-	-	-	1	1	-	-	-
61% - 70%	-	-	-	-	-	-	-	-	-
71% - 80%	-	-	-	-	-	-	-	-	-
81% - 90%	-	1	1	-	-	-	-	-	-
91% - 100%	-	1	1	-	-	-	-	2	2

15. CREDIT RISK MANAGEMENT AND ASSET QUALITY - continued

(f) Credit Exposure by Credit Rating

The following table presents the Bank's credit exposure based on the credit rating of the issuer. Credit exposure concentrations are disclosed on the basis of actual credit exposures and calculated on a gross basis, (net of individual provisions and excluding advances of a capital nature). An investment credit rating means a credit rating of BBB- or Baa3 or above, or its equivalent. The amount and percentage of the Bank's credit exposure, excluding connected persons and central government of any country with a long-term credit rating of A- or A3 or above, or its equivalent, where the period end aggregate exposure equalled or exceeded 10% of the Bank's Shareholder's Equity, as at balance date are:

	30 Sept 2010 Unaudited		30 Sept 2009 Unaudited		31 March 2010 Audited	
	Principal Amount $000	% of Total Credit Exposure	Principal Amount $000	% of Total Credit Exposure	Principal Amount $000	% of Total Credit Exposure
Bank Counterparties						
Investment grade credit rating	778,406	100%	571,310	100%	762,511	100%
Below investment grade credit rating	-	-	-	-	-	-
Not rated *	-	-	-	-	-	-
Total Credit Exposure	**778,406**	**100%**	**571,310**	**100%**	**762,511**	**100%**
Non-Bank Counterparties						
Investment grade credit rating	638,500	61%	543,390	75%	497,750	74%
Below investment grade credit rating	-	-	-	-	-	-
Not rated *	416,500	39%	180,000	25%	176,000	26%
Total Credit Exposure	**1,055,000**	**100%**	**723,390**	**100%**	**673,750**	**100%**

* Not rated exposures are investment securities in unrated Local Authorities.

The credit rating is applicable to an entity's long term senior unsecured obligations payable in New Zealand, in New Zealand dollars.

(g) Credit exposures to connected persons

Credit exposure concentrations are disclosed on the basis of actual credit exposures and calculated on a gross basis (net of specific provisions and excluding advances of a capital nature). The Bank only has 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 March 2008. There are no specific provisions against credit exposures to connected persons as at 30 September 2010 (30 September 2009: nil).

	2010 30 Sept Unaudited $000	2009 30 Sept Unaudited $000	2010 31 March Audited $000
Credit exposures to non-bank connected persons at period end	312	483	271
Credit exposures to non-bank connected persons at period end expressed as a percentage of total tier one capital	0.1%	0.1%	0.1%
Peak credit exposures to non-bank connected persons during the period	312	483	495
Peak credit exposures to non-bank connected persons during the period expressed as a percentage of total tier one capital	0.1%	0.1%	0.2%

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

16. DEPOSITS FROM CUSTOMERS

	30 September 2010 Unaudited $000	30 September 2009 Unaudited $000	31 Marc 2010 Audited $000
Retail Term Deposits	1,986,177	1,766,347	1,878,189
On Call Deposits Bearing Interest	1,915,501	1,748,984	1,955,670
On Call Deposits Not Bearing Interest	200,782	180,401	190,025
	4,102,460	**3,695,732**	**4,023,884**

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

17. OTHER LIABILITIES

Employee Entitlements	3,927	6,195	5,677
Dividend Payable	2,600	2,800	8,350
Trade and Other Payables	26,482	22,337	27,725
	33,009	**31,332**	**41,752**

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

18. CASH FLOW HEDGE RESERVE

Opening Balance	4,246	16,138	**16,138**
Effective Portion of Changes in Fair Value	350	2,646	4,467
Fair Value Movements Transferred to Income Statement	(5,219)	(11,604)	(21,456)
Deferred Income Tax	1,461	2,688	5,097
Balance at End of Period	**838**	**9,868**	**4,246**

19. SHARE CAPITAL & RETAINED EARNINGS

Share Capital	Note	30 September 2010 Unaudited $000	30 September 2009 Unaudited $000	31 March 2010 Audited $000
Issued and Fully Paid Up Capital:				
20,000,000 Ordinary Shares		**10,000**	**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				
Opening Balance		**316,880**	**276,851**	**276,851**
Net Profit after Taxation		19,289	29,275	51,178
		336,169	**306,126**	**328,029**
Dividends	20	(2,600)	(2,800)	(11,150)
Balance at End of Period		**333,568**	**303,326**	**316,879**

20. DIVIDEND

	30 September 2010		30 September 2009		31 March 2010	
	$000	$ Per Share	$000	$ Per Share	$000	$ Per Share
Interim	2,600	0.130	2,800	0.140	2,800	0.140
Final	-	-	-	-	8,350	0.418
	2,600	**0.130**	**2,800**	**0.140**	**11,150**	**0.558**

NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

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.

As at 30 September 2010 Unaudited	Note	Hedging	Held-for-Trading	Held-to-Maturity	Loans and Receivables	Other Amortised Cost	Total Carrying Amount	Fair Value
Financial Assets								
Cash and Cash Equivalents	6	-	-	-	-	77,741	77,741	77,741
Derivative Financial Instruments	7	2,022	-	-	-	-	2,022	2,022
Investment Securities	8	-	-	1,848,316	-	-	1,848,316	1,864,393
Loans and Advances to Customers	9	-	-	-	2,533,768	-	2,533,768	2,535,456
Other Assets	10	-	-	-	814	-	814	814
Total Financial Assets		**2,022**	**-**	**1,848,316**	**2,534,582**	**77,741**	**4,462,661**	**4,480,426**
Financial Liabilities								
Deposits from Customers	16	-	-	-	-	4,102,460	4,102,460	4,117,333
Derivative Financial Instruments	7	-	1,288	-	-	-	1,288	1,288
Other Liabilities	17	-	-	-	-	29,082	29,082	29,082
Total Financial Liabilities		**-**	**1,288**	**-**	**-**	**4,131,542**	**4,132,830**	**4,147,703**

As at 30 September 2009 Unaudited	Note	Hedging	Held-for-Trading	Held-to-Maturity	Loans and Receivables	Other Amortised Cost	Total Carrying Amount	Fair Value
Financial Assets								
Cash and Cash Equivalents	6	-	-	-	-	65,976	65,976	65,976
Derivative Financial Instruments	7	18,405	-	-	-	-	18,405	18,405
Investment Securities	8	-	-	1,682,593	-	-	1,682,593	1,701,423
Loans and Advances to Customers	9	-	-	-	2,267,261	-	2,267,261	2,272,846
Other Assets	10	-	-	-	661	-	661	661
Total Financial Assets		**18,405**	**-**	**1,682,593**	**2,267,922**	**65,976**	**4,034,896**	**4,059,311**
Financial Liabilities								
Deposits from Customers	16	-	-	-	-	3,695,732	3,695,732	3,712,174
Derivative Financial Instruments		-	1,260	-	-	-	1,260	1,260
Other Liabilities	17	-	-	-	-	25,137	25,137	25,137
Total Financial Liabilities		**-**	**1,260**	**-**	**-**	**3,720,869**	**3,722,129**	**3,738,571**

As at 31 March 2010 Audited	Note	Hedging	Held-for-Trading	Held-to-Maturity	Loans and Receivables	Other Amortised Cost	Total Carrying Amount	Fair Value
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		-	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**

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

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 30 September 2010 Unaudited	**On Demand $000**	**0-6 Months $000**	**6-12 Months $000**	**1-2 Years $000**	**2-5 Years $000**	**Over 5 Years $000**	**Non Interest Sensitive $000**	**Total $000**
Assets								
Cash and Cash Equivalents	74,132	-	-	-	-	-	3,609	**77,741**
Derivative Financial Instruments	-	-	-	-	-	-	2,022	**2,022**
Investment Securities	-	1,467,594	23,496	33,966	227,926	95,334	-	**1,848,316**
Loans and Advances to Customers	874,102	423,810	599,351	504,894	148,720	36	(17,145)	**2,533,768**
Other Financial Assets	-	-	-	-	-	-	814	**814**
Total Financial Assets	**948,234**	**1,891,404**	**622,847**	**538,860**	**376,646**	**95,370**	**(10,700)**	**4,462,661**
Non-Financial Assets	-	-	-	-	-	-	22,159	**22,159**
Total Assets	**948,234**	**1,891,404**	**622,847**	**538,860**	**376,646**	**95,370**	**11,459**	**4,484,820**
Liabilities								
Deposits from Customers	1,441,856	1,418,888	532,713	150,059	358,162	-	200,782	**4,102,460**
Derivative Financial Instruments	-	-	-	-	-	-	1,288	**1,288**
Other Financial Liabilities	-	-	-	-	-	-	29,082	**29,082**
Total Financial Liabilities	**1,441,856**	**1,418,888**	**532,713**	**150,059**	**358,162**	**-**	**231,152**	**4,132,830**
Non-Financial Liabilities	-	-	-	-	-	-	7,584	**7,584**
Total Liabilities	**1,441,856**	**1,418,888**	**532,713**	**150,059**	**358,162**	**-**	**238,736**	**4,140,414**
Lending Commitments	**-**	**71,042**	**-**	**-**	**-**	**-**	**-**	**71,042**
Derivative Notional Principals	**-**	**24,500**	**-**	**(14,500)**	**(10,000)**	**-**	**-**	**-**

As at 30 September 2009 Unaudited	**On Demand $000**	**0-6 Months $000**	**6-12 Months $000**	**1-2 Years $000**	**2-5 Years $000**	**Over 5 Years $000**	**Non Interest Sensitive $000**	**Total $000**
Assets								
Cash and Cash Equivalents	61,471	-	-	-	-	-	4,505	**65,976**
Derivative Financial Instruments	-	-	-	-	-	-	18,405	**18,405**
Investment Securities	-	1,358,754	600	31,764	150,367	141,108	-	**1,682,593**
Loans and Advances to Customers	593,727	328,534	465,016	644,278	251,421	-	(15,715)	**2,267,261**
Other Financial Assets	-	-	-	-	-	-	661	**661**
Total Financial Assets	**655,198**	**1,687,288**	**465,616**	**676,042**	**401,788**	**141,108**	**7,856**	**4,034,896**
Non-Financial Assets	-	-	-	-	-	-	21,210	**21,210**
Total Assets	**655,198**	**1,687,288**	**465,616**	**676,042**	**401,788**	**141,108**	**29,066**	**4,056,106**
Liabilities								
Deposits from Customers	1,657,703	1,049,890	353,735	308,636	145,367	-	180,401	**3,695,732**
Derivative Financial Instruments	-	-	-	-	-	-	1,260	**1,260**
Other Financial Liabilities	-	-	-	-	-	-	25,137	**25,137**
Total Financial Liabilities	**1,657,703**	**1,049,890**	**353,735**	**308,636**	**145,367**	**-**	**206,798**	**3,722,129**
Non-Financial Liabilities	-	-	-	-	-	-	10,783	**10,783**
Total Liabilities	**1,657,703**	**1,049,890**	**353,735**	**308,636**	**145,367**	**-**	**217,581**	**3,732,912**
Lending Commitments	**-**	**93,691**	**-**	**-**	**-**	**-**	**-**	**93,691**
Derivative Notional Principals	**-**	**15,700**	**-**	**(1,200)**	**(14,500)**	**-**	**-**	**-**

22. MARKET RISK MANAGEMENT - continued

As at 31 March 2010 Audited	On Demand $000	0-6 Months $000	6-12 Months $000	1-2 Years $000	2-5 Years $000	Over 5 Years $000	Non Interest Sensitive $000	Total $000
Assets								
Cash and Cash Equivalents	88,312	-	-	-	-	-	5,751	**94,063**
Derivative Financial Instruments	-	-	-	-	-	-	9,127	9,127
Investment Securities	-	1,479,093	31,570	49,475	235,444	74,075	-	**1,869,657**
Loans and Advances to Customers	665,922	508,354	378,513	663,559	207,670	-	(16,860)	**2,407,158**
Other Financial Assets	-	-	-	-	-	-	768	**768**
Total Financial Assets	**754,234**	**1,987,447**	**410,083**	**713,034**	**443,114**	**74,075**	**(1,214)**	**4,380,773**
Non-Financial Assets	-	-	-	-	-	-	24,309	**24,309**
Total Assets	**754,234**	**1,987,447**	**410,083**	**713,034**	**443,114**	**74,075**	**23,095**	**4,405,082**
Liabilities								
Deposits from Customers	1,474,602	1,386,051	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**	**1,386,051**	**417,168**	**206,989**	**349,049**	**-**	**227,348**	**4,061,207**
Non-Financial Liabilities	-	-	-	-	-	-	12,750	12,750
Total Liabilities	**1,474,602**	**1,386,051**	**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)**	**-**	**-**	**-**

(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.

Net 12 Months 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 3% to positive 3% overnight parallel shifts in the yield curve are modelled.

	% Change in Net Interest		
Scenarios	30 September 2010 Unaudited	30 September 2009 Unaudited	31 March 2010 Audited
-3.0%	-1.0%	+3.3%	-8.2%
-2.0%	-2.7%	+5.1%	-2.3%
-1.0%	-2.7%	+1.2%	-1.8%
+1.0%	+4.2%	-0.9%	+2.6%
+2.0%	+8.6%	-1.2%	+5.7%
+3.0%	+13.2%	-0.1%	+9.5%

22. MARKET RISK MANAGEMENT - continued

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 3% to positive 3% overnight parallel shifts in the yield curve are modelled.

	% Change in MVSE		
Scenarios	**30 September 2010 Unaudited**	**30 September 2009 Unaudited**	**31 March 2010 Audited**
-3.0%	+2.5%	+7.2%	+2.5%
-2.0%	+0.7%	+4.8%	+1.4%
-1.0%	-0.1%	+2.1%	+0.4%
+1.0%	+0.5%	-1.8%	-0.2%
+2.0%	+1.1%	-3.2%	-0.3%
+3.0%	+1.8%	-3.8%	+0.1%

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 As at 30 September 2010 Unaudited	On Demand $000	0-6 Months $000	6-12 Months $000	1-2 Years $000	2-5 Years $000	Over 5 Years $000	Total $000
Assets							
Cash and Cash Equivalents	77,741	-	-	-	-	-	**77,741**
Derivative Financial Instruments	-	1,672	-	-	-	-	**1,672**
Investment Securities	-	664,244	234,039	290,813	672,853	230,729	**2,092,678**
Loans and Advances to Customers	-	606,164	670,221	599,661	399,583	1,547,530	**3,823,159**
Other Financial Assets	-	814	-	-	-	-	**814**
Total Financial Assets	**77,741**	**1,272,894**	**904,260**	**890,474**	**1,072,436**	**1,778,259**	**5,996,064**
Liabilities							
Deposits from Customers	2,116,282	1,515,134	505,794	59,968	93,080	-	**4,290,258**
Derivative Financial Instruments	-	384	350	290	7	-	**1,031**
Other Liabilities	-	29,503	-	-	-	-	**29,503**
Total Financial Liabilities	**2,116,282**	**1,545,021**	**506,144**	**60,258**	**93,087**	**-**	**4,320,792**
Lending Commitments (Off Balance Sheet)	**-**	**71,042**	**-**	**-**	**-**	**-**	**71,042**

As at 30 September 2009 Unaudited	On Demand $000	0-6 Months $000	6-12 Months $000	1-2 Years $000	2-5 Years $000	Over 5 Years $000	Total $000
Assets							
Cash and Cash Equivalents	65,976	-	-	-	-	-	**65,976**
Derivative Financial Instruments	-	10,580	6,170	1,051	-	-	**17,801**
Investment Securities	-	554,697	89,106	369,752	669,322	270,044	**1,952,921**
Loans and Advances to Customers	-	500,529	532,046	730,527	443,626	1,062,567	**3,269,295**
Other Financial Assets	-	661	-	-	-	-	**661**
Total Financial Assets	**65,976**	**1,066,467**	**627,322**	**1,101,330**	**1,112,948**	**1,332,611**	**5,306,654**
Liabilities							
Deposits from Customers	1,929,386	1,441,645	272,385	137,373	68,563	-	**3,849,352**
Derivative Financial Instruments		331	313	325	1	-	**970**
Other Liabilities	-	25,137	-	-	-	-	**25,137**
Total Financial Liabilities	**1,929,386**	**1,467,113**	**272,698**	**137,698**	**68,564**	**-**	**3,875,459**
Lending Commitments (Off Balance Sheet)	**-**	**93,691**	**-**	**-**	**-**	**-**	**93,691**

As at 31 March 2010 Audited	On Demand $000	0-6 Months $000	6-12 Months $000	1-2 Years $000	2-5 Years $000	Over 5 Years $000	Total $000
Assets							
Cash and Cash Equivalents	94,063	-	-	-	-	-	**94,063**
Derivative Financial Instruments	-	7,553	1,434	-	-	-	**8,987**
Investment Securities	-	616,179	168,340	389,521	604,352	378,305	**2,156,697**
Loans and Advances to Customers	-	679,904	410,985	749,846	377,237	1,227,906	**3,445,878**
Other Financial Assets	-	768	-	-	-	-	**768**
Total Financial Assets	**94,063**	**1,304,404**	**580,759**	**1,139,367**	**981,589**	**1,606,211**	**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	306	(52)	-	**1,064**
Other Liabilities	-	36,075	-	-	-	-	**36,075**
Total Financial Liabilities	**2,145,696**	**1,504,380**	**383,326**	**119,351**	**79,116**	**-**	**4,231,869**
Lending Commitments (Off Balance Sheet)	**-**	**78,020**	**-**	**-**	**-**	**-**	**78,020**

23 LIQUIDITY RISK MANAGEMENT - continued

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 As at 30 September 2010 Unaudited	**On Demand $000**	**0-6 Months $000**	**6-12 Months $000**	**1-2 Years $000**	**2-5 Years $000**	**Over 5 Years $000**	**Total $000**
Assets							
Loans and Advances to Customers	-	90,925	100,533	89,949	59,938	3,481,814	**3,823,159**
All Other Financial Assets	77,741	666,730	234,039	290,813	672,853	230,729	**2,172,905**
Total Financial Assets	**77,741**	**757,655**	**334,572**	**380,762**	**732,791**	**3,712,543**	**5,996,064**
Liabilities							
Deposits from Customers	105,814	151,513	50,579	5,997	9,308	3,967,047	**4,290,258**
All Other Liabilities	-	29,887	350	290	7	-	**30,534**
Total Financial Liabilities	**105,814**	**181,400**	**50,929**	**6,287**	**9,315**	**3,967,047**	**4,320,792**
Lending Commitments (Off Balance Sheet)	**-**	**71,042**	**-**	**-**	**-**	**-**	**71,042**

As at 30 September 2009 Unaudited	**On Demand $000**	**0-6 Months $000**	**6-12 Months $000**	**1-2 Years $000**	**2-5 Years $000**	**Over 5 Years $000**	**Total $000**
Assets							
Loans and Advances to Customers		75,079	79,807	109,579	66,544	2,938,286	**3,269,295**
All Other Financial Assets	65,976	565,938	95,276	370,803	669,322	270,044	**2,037,359**
Total Financial Assets	**65,976**	**641,017**	**175,083**	**480,382**	**735,866**	**3,208,330**	**5,306,654**
Liabilities							
Deposits from Customers	96,469	144,165	27,239	13,737	6,856	3,560,886	**3,849,352**
All Other Liabilities	-	25,468	313	325	1	-	**26,107**
Total Financial Liabilities	**96,469**	**169,633**	**27,552**	**14,062**	**6,857**	**3,560,886**	**3,875,459**
Lending Commitments (Off Balance Sheet)	**-**	**93,691**	**-**	**-**	**-**	**-**	**93,691**

As at 31 March 2010 Audited	**On Demand $000**	**0-6 Months $000**	**6-12 Months $000**	**1-2 Years $000**	**2-5 Years $000**	**Over 5 Years $000**	**Total $000**
Assets							
Loans and Advances to Customers	-	101,986	61,648	112,477	56,586	3,113,182	**3,445,878**
All Other Financial Assets	94,063	624,500	169,774	389,521	604,352	378,305	**2,260,515**
Total Financial Assets	**94,063**	**726,486**	**231,422**	**501,998**	**660,938**	**3,491,487**	**5,706,393**
Liabilities							
Deposits from Customers	107,285	146,775	38,307	11,905	7,917	3,882,541	**4,194,730**
All Other Liabilities	-	36,629	256	306	(52)	-	**37,139**
Total Financial Liabilities	**107,285**	**183,404**	**38,563**	**12,211**	**7,865**	**3,882,541**	**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 shareholders 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 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 Exposure.
- 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 30 September 2010. During the period and the comparative periods 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 from the first quarter of 2008. 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, liquidity risk, and ownership structure. The Bank has made an internal capital allocation of $126m to cover these identified risks.

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FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

24. CAPITAL ADEQUACY – continued

Total Capital Adequacy Ratios for the Bank as at 30 September 2010 are:

	30 Sept 2010 Unaudited	30 Sept 2009 Unaudited	31 Mar 2010 Audited
Tier One	16.37%	16.23%	15.90%
Total Capital	16.37%	16.23%	15.90%

(ii) Qualifying Capital

Tier One Capital	**$000**	**$000**	**$000**
Issued and fully paid up Share Capital	10,000	10,000	10,000
Retained Earnings	316,879	276,851	276,851
Current period's Reviewed/ Audited Retained Earnings	16,689	26,475	40,028
Less Deductions from Tier One Capital			
Intangible Assets	(389)	(589)	(503)
Total Tier One Capital	**343,179**	**312,737**	**326,376**
Upper Tier Two Capital	-	-	-
Lower Tier Two Capital	-	-	-
Total Tier Two Capital	-	-	-
Total Capital	**343,179**	**312,737**	**326,376**

(iii) Total Risk Weighted Exposures – September 2010

	Total Exposure after credit risk mitigation Sept-10 Unaudited $000	Risk Weight	Risk Weight Exposure Sept-10 Unaudited $000	Minimum Pillar One Capital Requirement Sept-10 Unaudited $000
On Balance Sheet Exposures				
Cash	3,609	0%	-	-
Reserve Bank of New Zealand	74,132	0%	-	-
Public Sector Entities	700,463	20%	140,093	11,207
Banks	744,842	20%	148,968	11,918
Banks	43,505	50%	21,752	1,740
Corporate	47,400	20%	9,480	758
Corporate	116,125	50%	58,063	4,645
Corporate	177,287	100%	177,287	14,183
Residential Bonds	3,050	35%	1,068	85
Residential Mortgages <80% LVR	1,879,418	35%	657,796	52,624
Residential Mortgages 80%<90% LVR	164,039	50%	82,019	6,562
Residential Mortgages Welcome Home Loans	217,583	50%	108,792	8,703
Residential Mortgages 90%<100% LVR	20,142	75%	15,107	1,209
Past Due and Impaired Residential Mortgages	12,388	100%	12,388	991
Other Assets	278,426	100%	278,426	22,274
Non-Risk Weighted Assets	2,411	0%	-	-
Total On Balance Sheet Exposures	**4,484,820**		**1,711,239**	**136,899**

24. CAPITAL ADEQUACY - continued

	Total Exposure	Credit Conversion Factor	Credit Equivalent Amount	Average Risk Weight	Risk Weighted Exposure	Minimum Pillar One Capital Requirement
	Sept-10 Unaudited $000		Sept-10 Unaudited $000		Sept-10 Unaudited $000	Sept-10 Unaudited $000
Off Balance Sheet Exposure						
Revolving Credit Facility	20,000	50%	10,000	20%	2,000	160
Commitments where original maturity:						
is more than one year	215,223	50%	107,612	35%	37,664	3,013
is less than one year	104,638	20%	20,928	100%	20,928	1,674
Market Related Contracts						
Interest Rate Contracts*	1,474,500	N/A	6,634	20%	1,327	106
Sub Totals	**1,814,361**		**145,174**		**61,919**	**4,953**

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

Operational Risk and Market Risk Analysis	Implied Risk Weighted Exposure	Capital Requirement
Operational Risk	247,099	19,768
Market Risk	76,706	6,136
Sub Total	**323,805**	**25,904**

Total Capital Requirements	Total Exposure after credit risk mitigation	Risk Weighted exposure or Implied RWE	Capital Requirement
Total credit risk plus equity	4,629,993	1,773,158	141,853
Operational Risk	N/A	247,099	19,768
Market Risk	N/A	76,706	6,136
Total		**2,096,963**	**167,757**

Residential Mortgages by Loan-to-Valuation Ratio

LVR Range	**0%-80%**	**80% - 90%**	**Over 90%**
Value of Exposure	1,879,418	164,039	237,725

		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	76,706	6,136	1.79%	343,179
Peak end of day capital charges	Interest Risk	87,338	6,987	2.04%	343,179

In accordance with clause 9 of Schedule 5A of the Registered Bank Disclosure Statement (Full and Half Year – New Zealand Incorporated Registered Banks) Order 2008, 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).

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

24. CAPITAL ADEQUACY - continued

(iv) Total Risk Weighted Exposures – September 2009

	Total Exposure after credit risk mitigation Sept-09 Unaudited $000	Risk Weight	Risk Weight Exposure Sept-09 Unaudited $000	Minimum Pillar One Capital Requirement Sept-09 Unaudited $000
On Balance Sheet Exposures				
Cash	4,505	0%	-	-
Reserve Bank of New Zealand	61,471	0%	-	-
Public Sector Entities	700,967	20%	140,193	11,215
Banks	573,275	20%	114,655	9,172
Banks	10,000	50%	5,000	400
Corporate	55,847	20%	11,169	894
Corporate	211,667	50%	105,834	8,467
Corporate	107,050	100%	107,050	8,564
Residential Bonds	12,343	35%	4,320	346
Residential Mortgages <80% LVR	1,764,958	35%	617,735	49,419
Residential Mortgages 80%<90% LVR	138,869	50%	69,435	5,555
Residential Mortgages Welcome Home Loans	127,662	50%	63,831	5,106
Residential Mortgages 90%<100% LVR	5,479	75%	4,109	329
Past Due and Impaired Residential Mortgages	10,519	100%	10,519	841
Other Assets	252,500	100%	252,500	20,200
Non-Risk Weighted Assets	18,994	0%	-	-
Total On Balance Sheet Exposures	**4,056,106**		**1,506,350**	**120,508**

	Total Exposure Sept-09 Unaudited $000	Credit Conversion Factor	Credit Equivalent Amount Sept-09 Unaudited $000	Average Risk Weight	Risk Weighted Exposure Sept-09 Unaudited $000	Minimum Pillar One Capital Requirement Sept-09 Unaudited $000
Off Balance Sheet Exposure						
Revolving Credit Facility	20,000	50%	10,000	20%	2,000	160
Commitments where original maturity:						
is more than one year	229,758	50%	114,879	35%	40,208	3,217
is less than one year	112,152	20%	22,430	100%	22,430	1,794
Market Related Contracts						
Interest Rate Contracts*	1,772,700	N/A	23,764	20%	4,753	380
Sub Totals	**2,134,610**		**171,073**		**69,391**	**5,551**

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

Operational Risk and Market Risk Analysis	Implied Risk Weighted Exposure	Capital Requirement
Operational Risk	215,159	17,213
Market Risk	135,437	10,835
Sub Total	**350,596**	**28,048**

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	4,227,179	1,575,740	126,059
Operational Risk	N/A	215,159	17,213
Market Risk	N/A	135,437	10,835
Total		**1,926,336**	**154,107**

Residential Mortgages by Loan-to-Valuation Ratio

LVR Range	**0%-80%**	**80% - 90%**	**Over 90%**
Value of Exposure	1,764,958	138,869	143,659

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	135,437	10,835	3.46%	312,737
Peak end of day capital charges	Interest Risk	138,550	11,084	3.54%	312,737

In accordance with clause 9 of Schedule 5A of the Registered Bank Disclosure Statement (Full and Half Year – New Zealand Incorporated Registered Banks) Order 2008, 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).

(v) Total Risk Weighted Exposures – March 2010

	Total Exposure after credit risk mitigation Mar-10 $000	Risk Weight	Risk Weight Exposure Mar-10 $000	Minimum Pillar One Capital Requirement Mar-10 $000
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**

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

24. CAPITAL ADEQUACY – continued

	Total Exposure	Credit Conversion Factor	Credit Equivalent Amount	Average Risk Weight	Risk Weighted Exposure	Minimum Pillar One Capital Requirement
	Mar-10 $000		Mar-10 $000		Mar-10 $000	Mar-10 $000
Off Balance Sheet Exposure						
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.

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

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%
Value of Exposure	1,826,420	162,538	195,162

		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	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 5A of the Registered Bank Disclosure Statement (Full and Half Year – New Zealand Incorporated Registered Banks) Order 2008, 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.

On the 1 October 2008, the TSB Bank PIE Cash Fund commenced. 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 Cash Fund is invested exclusively in TSB Bank debt securities. As at 30 September 2010, the TSB Bank PIE Unit Trust had $77.9m (30 September 2009, $35.4m; 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.

28. Commitments and Contingent Liabilities

	30 September 2010 Unaudited $000	30 September 2009 Unaudited $000	31 March 2010 Audited $000
Commitments approved to advance less than one year	104,638	112,152	103,500
Commitments approved to advance greater than one year	235,223	249,758	237,151
Capital Commitments	-	-	-
	339,861	**361,910**	**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 30 September 2010 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 30 September 2010 the Trust had $9.306m invested with the Bank at market rates, with interest accrued of $0.178m (30 September 2009, $10.41m invested with interest accrued of $0.038m; 31 March 2010, $3.90m invested with interest accrued of $0.082m). The Trust also received dividends as detailed in note 20.

29. RELATED PARTY TRANSACTIONS AND BALANCES - continued

Transactions with Directors and Key Management Personnel

	30 September 2010 Unaudited $000	30 September 2009 Unaudited $000	31 March 2010 Audited $000
Key Management Compensation			
Short-term Employee Benefits	1,547	1,874	4,280
Other long-term Benefits	143	337	629
	1,690	**2,211**	**4,909**
Loans to Directors and Key Management Personnel			
Balance at Beginning of Period	1,899	2,030	2,030
Net Loans received/(repaid) during the Period	445	426	(131)
Balance at End of Period	**2,344**	**2,456**	**1,899**
Deposits from Directors and Key Management Personnel			
Balance at Beginning of Period	1,922	3,785	3,785
Net Deposits received/(repaid) during the Period	977	8	(1,863)
Balance at End of Period	**2,899**	**3,793**	**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 interim financial statements.

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 and 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.

31. RISK MANAGEMENT POLICIES - continued

(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 interest rate 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).

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

31. RISK MANAGEMENT POLICIES - continued

- 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 my 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.

31. RISK MANAGEMENT POLICIES - continued

(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.

CONDITIONS OF REGISTRATION

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

1. That the Bank 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:

   (i) Insurance business means any business of the nature referred to in section 4 of the Insurance Companies (Ratings and Inspection) 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;

   (ii) In measuring the size of the Banking Group's insurance business:

      (a) where insurance business is conducted by any entity whose business predominantly consists of insurance business, the size of that insurance business shall be:
         - the total consolidated assets of the group headed by that entity;
         - or 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;
      (b) otherwise, the size of each insurance business conducted by an 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;
      (c) the amounts measured in relation to parts (a) and (b) shall be summed and compared to the total consolidated assets of the Banking Group. All amounts in parts (a) and (b) 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;
      (d) 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 limits outlined in the following matrix:

Credit rating	**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 registration, compliance with the rating-contingent connected exposure limit is determined in accordance with Reserve Bank of New Zealand document entitled "Connected Exposures Policy" (BS8) dated October 2010.

5. That exposures to connected persons are not on more favourable terms (e.g. as relates to such matters as credit assessment, tenor, interest rates, amortisation schedules and requirement for collateral) than corresponding exposures to non-connected persons.

6. That the Board of the Registered Bank contains at least two independent Directors. In this context an independent Director is a Director who is not an employee of the Registered Bank, and who is not a director, trustee or employee of any holding company of the Registered Bank, or any other entity capable of controlling or significantly influencing the Registered Bank.

7. That the chairperson of the Bank's board is not an employee of the Registered Bank.

8. That the Bank's constitution does 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 interest of the company (i.e. the Bank).

9. That no appointment of any Director, Chief Executive Officer, or Executive who reports or is accountable directly to the Chief Executive Officer, shall be made in respect of the Bank unless:

   (i) The Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and

   (ii) The Reserve Bank has advised that it has no objection to that appointment.

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 with effect from 1 April 2010:
   (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 2010 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated March 2010.

12. That, with effect from 1 April 2010, the registered bank has an internal framework for liquidity risk management that is adequate in the Registered 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.

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).

DIRECTORS' STATEMENT

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

a) The Disclosure Statement contains all the information required by the Registered Bank Disclosure Statement (Full and Half Year - New Zealand Incorporated Registered Banks) Order 2008:

b) The Disclosure Statement is not false or misleading.

The Directors believe, after due enquiry, that for the six months ended 30 September 2010:

a) The Bank complies with the Conditions of Registration;

b) Credit Exposures to Connected Persons were not contrary to the interests of the Bank; and

c) The Bank has systems in place to monitor and control adequately the Bank's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risks and other business risks, and that these systems are being properly applied.

E. Gill
(Chair – Board of Directors)

B. C. Richards
(Deputy Chair)

J. J. Kelly

D. L. Lean

K. J. Murphy
(Managing Director/CEO)

C.B. Tuuta

D. E. Walter

H. P. W. Wano

17 December 2010

Independent Auditor's Report

To the Directors of TSB Bank Limited

We have reviewed the interim financial statements on pages 7 to 49 prepared and disclosed in accordance with Clause 23 of the Registered Bank Disclosure Statement (Full and Half-Year – New Zealand Incorporated Registered Banks) Order 2008 (the 'Order') and the supplementary information prescribed in Schedules 3 to 9. The interim financial statements, and supplementary information, provide information about the past financial performance and cash flows of TSB Bank Limited (the 'Bank') and the financial position as at 30 September 2010. This information is stated in accordance with the accounting policies set out on pages 13 to 21.

Directors' responsibilities

The Directors of TSB Bank Limited are responsible for the preparation and presentation of interim financial statements in accordance with Clause 23 of the Order which give a true and fair view of the financial position of the Bank as at 30 September 2010 and its financial performance and cash flows for the six months ended on that date.

They are also responsible for the preparation of supplementary information which gives a fair view, in accordance with the Order, of the matters to which it relates; and complies with Schedules 3 to 9 of the Order.

Reviewer's responsibilities

We are responsible for reviewing the interim financial statements, including the supplementary information disclosed in accordance with Schedules 4, 6 to 9, and Clause 17 of Schedule 3 of the Order, presented to us by the Directors and reporting our findings to you.

It is also our responsibility to express a review opinion on the supplementary information as required by Schedule 5A of the Order in order to state whether, on the basis of the procedures described below, anything has come to our attention that would indicate that the information disclosed in accordance with Schedule 5A is not in all material respects prepared in accordance with the Bank's Conditions of Registration and disclosed in accordance with Schedule 5A and for reporting our findings to you.

Basis of review opinion

We have performed our review in accordance with the review engagement standard RS-1 Statement of Review Engagement Standards issued by the New Zealand Institute of Chartered Accountants. 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 and, accordingly, we do not express an audit opinion.

Our firm has also provided certain audit related services to the Bank. 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.

Review Opinion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that:

(a) the interim financial statements (excluding the supplementary information disclosed in Notes 15, 24 and 26) do not present a true and fair view of the financial position of the Bank as at 30 September 2010 and its financial performance and cash flows for the six months ended on that date;

(b) the supplementary information disclosed in Notes 15 and 26 prescribed by Schedules 4, 6 to 9 and Clauses 17 of Schedule 3 of the Order is not fairly stated in accordance with those Schedules; and

(c) the supplementary information relating to Capital Adequacy disclosed in Note 24 of the interim financial statements, as required by Schedule 5A of the Order, derived from the Bank's interim financial statements and sources other than the Banks' accounting records, is not in all material respects prepared in accordance with the Bank's Conditions of Registration, with the Reserve Bank of New Zealand document *Capital Adequacy Framework (standardised approach) (BS2A)*, and disclosed in accordance with Schedule 5A of the Order.

Our review was completed on 17 December 2010 and our review opinion is expressed as at that date.

KPMG

Wellington

GLOSSARY OF TERMS

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.

GLOSSARY OF TERMS

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.

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C. B. (Colleen) Tuuta
D.E. (David) Walter, QSO, J.P
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C.L. (Charles) Duke, Deputy Chief Executive
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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
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