TSB Bank
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TSB Bank
Disclosure Statement

for the six months ended
30 September 2011

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Disclosure Statement

For The Six Months Ended 30 September 2011

This Disclosure Statement contains information as required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No 3) 2011 ('the Order').

1. Name and Registered Office of Registered Bank

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

2. Details of Incorporation

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

3. Ownership

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

4. Directorate

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

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

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

5. Auditor

KPMG
10 Customhouse Quay
Wellington 6011

6. 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.

7. Credit Rating

TSB Bank Limited has a credit rating applicable to its long term senior unsecured obligations payable in New Zealand, in New Zealand dollars. The current rating is **BBB+/Stable/A2**. The credit rating was given by Standard & Poor's (Australia) Pty Limited and was reaffirmed on 9 November 2010.

Rating scale for long term senior unsecured obligations.

AAA Extremely strong capacity to pay interest and repay principal in a timely manner.
AA Very strong capacity to pay interest and repay principal in a timely manner.
A Strong capacity to pay interest and repay principal in a timely manner but may be more susceptible to adverse effects of changes in circumstances and economic conditions than higher rated entities.
BBB Adequate capacity to pay interest and repay principal in a timely manner but are more likely to be weakened by adverse changes in circumstances and economic conditions than higher rated entities.
BB A degree of speculation exists with respect to the ability of an entity with this credit rating to pay interest and repay principal in a timely manner. Adverse business, financial or economic conditions could impair the borrower's capacity or willingness to meet debt service commitments in a timely manner.
B Entities rated B are more vulnerable to adverse business, financial or economic conditions than entities in higher rated categories. Adverse business, financial or economic conditions will likely impair the borrower's capacity or willingness to meet debt service commitments in a timely manner.
CCC Entities rated CCC are currently vulnerable to default and are dependent on favourable business, financial or economic conditions to meet debt service commitments in a timely manner. In the event of adverse business, financial or economic conditions the entity is likely to default.
CC Entities rated CC are currently vulnerable to non-payment of interest and principal.
C Entities rated C have filed a bankruptcy petition or taken similar action, but payment of obligations are being continued.
D 'D' rated entities are in default. This is assigned when interest or principal payments are not made on the date due or when an insolvency petition or a request to appoint a receiver is filed.

7. CREDIT RATING - continued

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.

8. GUARANTEE ARRANGEMENTS

No material obligations of the Bank are guaranteed.

9. CONDITIONS OF REGISTRATION

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

- Condition 3 has been updated to incorporate a new definition of insurance business, to align with sections 6 and 7 of the Insurance (Prudential Supervision) Act 2010 (effective 30 September 2011);

- Condition 4 refers to application of an updated version of BS8 "Connected exposure policy" dated June 2011 (effective 1 July 2011); and

- Condition 11 increases the daily one-year core funding ratio to be not less than 70 per cent and refers to updated RBNZ document "Liquidity Policy" (BS13) dated March 2011 (effective 1 July 2011).

10. OTHER MATERIAL MATTERS

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

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HISTORICAL SUMMARY OF FINANCIAL STATEMENTS

	30 Sept 2011 6 months $000 Unaudited	31 Mar 2011 12 months $000 Audited	31 Mar 2010 12 months $000 Audited	31 Mar 2009 12 months $000 Audited	31 Mar 2008 12 months $000 Audited
FINANCIAL PERFORMANCE					
Interest Income	137,598	271,730	263,984	284,442	255,749
Interest Expense	87,959	179,052	153,713	192,826	166,601
Net Interest Income	**49,639**	**92,678**	**110,271**	**91,616**	**89,148**
Other Income	8,274	12,884	13,709	15,409	12,023
Net Operating Income	**57,913**	**105,562**	**123,980**	**107,025**	**101,171**
Operating Expenses	22,544	41,999	45,131	41,587	39,985
Impairment Losses	2,449	3,314	4,492	4,152	2,485
Net Profit before Taxation	**32,920**	**60,249**	**74,357**	**61,286**	**58,701**
Taxation	9,223	20,402	23,179	18,394	19,371
Net Profit after Taxation	**23,697**	**39,847**	**51,178**	**42,892**	**39,330**
Dividend	2,630	9,050	11,150	9,200	8,800
Profit Retained	**21,067**	**30,797**	**40,028**	**33,692**	**30,530**
FINANCIAL POSITION					
Total Assets	4,977,373	4,849,952	4,405,082	3,832,020	3,168,673
Total Impaired Assets	4,013	3,991	3,421	2,429	905
Total Liabilities	4,598,410	4,491,636	4,073,957	3,529,031	2,915,514
Total Shareholder's Equity	378,963	358,316	331,125	302,989	253,159

Interim Financial Statements

For The Six Months Ended 30 September 2011

Income Statement

For The Six Months Ended 30 September 2011

	Note	30 September 2011 Unaudited $000	30 September 2010 Unaudited $000	31 March 2011 Audited $000
Interest Income	2	137,074	128,273	265,203
Derivative Financial Instruments Income	2	524	5,219	6,527
Interest Expense	2	87,959	86,541	179,052
Net Interest Income		**49,639**	**46,951**	**92,678**
Other Operating Income	3	8,274	6,823	12,884
Net Operating Income		**57,913**	**53,774**	**105,562**
Operating Expenses	4	22,544	20,392	41,999
Net Profit before Impairment Loss and Taxation		**35,369**	**33,382**	**63,563**
Impairment Losses	11	2,449	875	3,314
Net Profit before Taxation		**32,920**	**32,507**	**60,249**
Taxation	5	9,223	9,757	18,091
Effect of Change in Tax Legislation		-	3,461	2,311
Net Profit after Taxation		**23,697**	**19,289**	**39,847**

Statement of Comprehensive Income

For The Six Months Ended 30 September 2011

	30 September 2011 Unaudited $000	30 September 2010 Unaudited $000	31 March 2011 Audited $000
Net Profit after Taxation	**23,697**	**19,289**	**39,847**
Other Comprehensive Income:			
Effective portion of changes in fair value of cash flow hedges	(60)	350	1,350
Fair Value movements of cash flow hedges transferred to Income Statement	(524)	(5,219)	(6,527)
Income Tax on Other Comprehensive Income	164	1,461	1,571
Other Comprehensive Income for period	**(420)**	**(3,408)**	**(3,606)**
Total Comprehensive Income for the period	**23,277**	**15,881**	**36,241**

These interim financial statements are to be read in conjunction with the notes on pages 11 to 25.

Statement of Changes in Equity
For The Six Months Ended 30 September 2011

		Share Capital $000	Cash Flow Hedge Reserve $000	Retained Earnings $000	Total Equity $000
Balance at 1 April 2011		**10,000**	**640**	**347,676**	**358,316**
Total comprehensive income for the period					
Net Profit after Tax		-	-	23,697	23,697
Other Comprehensive Income:					
Effective Portion of Changes in Fair Value (net of tax)	14	-	(43)	-	(43)
Fair Value Movements transferred to Income Statement (net of tax)	14	-	(377)	-	(377)
Other Comprehensive Income for the period		**-**	**(420)**	**-**	**(420)**
Total Comprehensive Income for the period		**-**	**(420)**	**23,697**	**23,277**
Transactions with owners, recorded directly in equity					
Dividends to Equity Holders	16	-		(2,630)	(2,630)
Total Transactions with Owners		-		(2,630)	(2,630)
Balance at 30 September 2011		**10,000**	**220**	**368,743**	**378,963**

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)	14	-	245	-	245
Fair Value Movements transferred to Income Statement (net of tax)	14	-	(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	16	-	-	(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 YEAR ENDED 31 MARCH 2011

		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 Year					
Net Profit after Tax		-	-	39,847	39,847
Other Comprehensive Income:					
Effective Portion of Changes in Fair Value (net of tax)	14	-	945	-	945
Fair Value Movements transferred to Income Statement (net of tax)	14	-	(4,551)	-	(4,551)
Other Comprehensive Income for the period		**-**	**(3,606)**	**-**	**(3,606)**
Total Comprehensive Income for the period			**(3,606)**	**39,847**	**36,241**
Transactions with owners, recorded directly in equity					
Dividends to Equity Holders	16	-	-	(9,050)	(9,050)
Total Transactions with Owners		**-**	**-**	**(9,050)**	**(9,050)**
Balance at 31 March 2011		**10,000**	**640**	**347,676**	**358,316**

These interim financial statements are to be read in conjunction with the notes on pages 11 to 25.

Interim Financial Statements

For The Six Months Ended 30 September 2011

Statement of Financial Position

As At 30 September 2011

	Note	30 September 2011 Unaudited $000	30 September 2010 Unaudited $000	31 March 2011 Audited $000
Assets				
Cash and Cash Equivalents	6	64,121	77,741	86,170
Derivative Financial Instruments	7	520	2,022	1,065
Investment Securities	8	2,181,510	1,848,316	2,110,334
Loans and Advances to Customers	9	2,702,957	2,533,768	2,625,884
Other Assets	10	5,647	814	2,964
Deferred Tax Asset		4,920	3,063	4,738
Property, Plant and Equipment		17,372	18,707	18,366
Intangible Assets		326	389	431
Total Assets		**4,977,373**	**4,484,820**	**4,849,952**
Liabilities				
Deposits from Customers	12	4,561,492	4,102,460	4,441,969
Derivative Financial Instruments	7	902	1,288	1,157
Current Tax Liability		3,620	3,657	5,907
Other Liabilities	13	32,396	33,009	42,603
Total Liabilities		**4,598,410**	**4,140,414**	**4,491,636**
Shareholder's Equity				
Share Capital	15	10,000	10,000	10,000
Cash Flow Hedge Reserve	14	220	838	640
Retained Earnings	15	368,743	333,568	347,676
Total Shareholder's Equity		**378,963**	**344,406**	**358,316**
Total Liabilities and Shareholder's Equity		**4,977,373**	**4,484,820**	**4,849,952**
Total Interest Earning and Discount Bearing Assets		**4,940,928**	**4,453,720**	**4,814,495**
Total Interest and Discount Bearing Liabilities		**4,348,976**	**3,901,678**	**4,246,102**

These interim financial statements are to be read in conjunction with the notes on pages 11 to 25.

Statement of Cash Flows

For The Six Months Ended 30 September 2011

	30 September 2011 Unaudited $000	30 September 2010 Unaudited $000	31 March 2011 Audited $000
Cash Flows from Operating Activities			
Cash provided from (applied to):			
Interest Income Received	138,585	131,844	268,353
Other Income Received	5,590	6,777	10,689
Interest Paid	(69,994)	(59,062)	(173,677)
Operating Expenditure	(27,655)	(22,192)	(38,022)
Taxation Paid	(11,692)	(13,173)	(19,423)
Cash Flows from Operating Profits before Changes in Operating Assets and Liabilities	**34,834**	**44,194**	**47,920**
Changes in Operating Assets and Liabilities			
Increase in Loans and Advances to Customers	(80,417)	(127,790)	(220,848)
Derivative Financial Instruments	(130)	2,276	2,545
Increase in Deposits from Customers	101,558	51,097	412,710
Cash Flow from Operating Assets and Liabilities	**21,011**	**(74,417)**	**194,407**
Net Cash Flow from Operating Activities	**55,845**	**(30,223)**	**242,327**
Cash Flows from Investing Activities			
Cash was provided from (applied to):			
Investment Securities Purchased	(71,267)	23,294	(237,283)
Property, Plant and Equipment Purchased	(153)	(1,043)	(1,800)
Intangible Assets Purchased	(24)	-	(187)
Net Cash Flow from Investing Activities	**(71,444)**	**22,251**	**(239,270)**
Cash Flows from Financing Activities			
Cash provided from (applied to):			
Dividends Paid	(6,450)	(8,350)	(10,950)
Net Cash Flow from Financing Activities	**(6,450)**	**(8,350)**	**(10,950)**
Net Increase/(Decrease) in Cash and Cash Equivalents	**(22,049)**	**(16,322)**	**(7,893)**
Add Cash and Cash Equivalents at Beginning of the Year	86,170	94,063	94,063
Cash and Cash Equivalents at End of Period	**64,121**	**77,741**	**86,170**

These interim financial statements are to be read in conjunction with the notes on pages 11 to 25.

Statement of Cash Flows (continued)

For The Six Months Ended 30 September 2011

	30 September 2011 Unaudited $000	30 September 2010 Unaudited $000	31 March 2011 Audited $000
Reconciliation of Net Profit after Taxation To Net Cash Flows from Operating Activities			
Net Profit after Taxation	**23,697**	**19,289**	**39,847**
Add Movements in Statement of Financial Position Items			
Accounts Payable	11,579	24,485	8,125
Provision for Tax	(2,287)	(3,416)	(3,476)
Deposits from Customers	101,558	51,097	412,710
Deferred Tax Asset	(181)	-	2,144
Accounts Receivable	(1,698)	(1,693)	(5,572)
Derivative Financial Instruments	(130)	2,276	2,545
Loans and Advances to Customers	(80,417)	(127,790)	(220,848)
	28,424	**(55,041)**	**195,628**
Add Non- Cash Items			
Depreciation	1,146	1,079	2,177
Effect of Change In Tax Legislation	-	3,461	2,311
Impairment Losses on Advances to Customers	2,449	875	2,105
Amortisation of Intangible Assets	129	114	259
	3,724	**5,529**	**6,852**
Net Cash Flow from Operating Activities	**55,845**	**(30,223)**	**242,327**
Reconciliation of Cash and Cash Equivalents to the Statement of Financial Position			
Cash and Balances with Reserve Bank	58,956	74,132	82,442
Cash and Cash at Bank	5,165	3,609	3,728
Total Cash and Cash Equivalents at End of Period	**64,121**	**77,741**	**86,170**

These interim financial statements are to be read in conjunction with the notes on pages 11 to 25.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

1. STATEMENT OF ACCOUNTING POLICIES

The financial statements of the Bank incorporated in this Disclosure Statement have been prepared in accordance with the requirements of NZ IAS 34 Interim Financial Reporting and should be read in conjunction with the 31 March 2011 Annual Report.

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

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

2. NET INTEREST INCOME

	30 September 2011 Unaudited $000	30 September 2010 Unaudited $000	31 March 2011 Audited $000
Interest Income			
Cash and Cash Equivalents	716	814	1,816
Investment Securities	51,056	43,727	93,582
Loans and Advances to Customers*	85,302	83,732	169,805
Total Interest Income	**137,074**	**128,273**	**265,203**
Derivative Financial Instrument Income			
Derivative Financial Instrument Income	**524**	**5,219**	**6,527**
Interest Expense			
Deposits from Customers	**87,959**	**86,541**	**179,052**
Net Interest Income	**49,639**	**46,951**	**92,678**

* Interest income on Loans and Advances to Customers includes interest earned on Impaired Assets of $0.134m ($0.129m; 30 Sept 2010, $0.243m; 31 March 2011)

3. OTHER OPERATING INCOME

	30 September 2011 Unaudited $000	30 September 2010 Unaudited $000	31 March 2011 Audited $000
Lending and Credit Facility Related Income	2,078	1,602	3,291
Commission and Other Trading Income *	5,051	4,545	9,014
Gain/(Loss) in Fair Value on Derivatives	202	(202)	(378)
Other Income	943	878	957
	8,274	**6,823**	**12,884**

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

4. OPERATING EXPENSES

	30 September 2011 Unaudited $000	30 September 2010 Unaudited $000	31 March 2011 Audited $000
Auditors Remuneration:			
Statutory Audit	77	64	125
Other Assurance Services	41	-	-
Depreciation:			
Buildings	568	500	1,018
Computer Equipment	177	181	374
Other	401	398	785
Amortisation of Intangible Assets	129	114	259
Directors' Fees	196	185	363
Personnel Expenses	8,390	7,627	16,583
Defined Contribution Plan	265	198	456
Information Technology Expenses	3,045	2,597	5,426
Premises Occupancy	1,067	951	2,062
Marketing	3,405	3,416	6,368
Other Expenses	4,783	4,161	8,180
	22,544	**20,392**	**41,999**

NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

	30 September 2011 Unaudited $000	30 September 2010 Unaudited $000	31 March 2011 Audited $000

5. TAXATION

	30 September 2011 Unaudited $000	30 September 2010 Unaudited $000	31 March 2011 Audited $000
Net Profit before Taxation	32,920	32,507	60,249
Tax at 28%	9,218	-	-
Tax at 30%	-	9,752	18,075
Tax Effect of Expenses not Deductible	5	5	16
Tax Effect of Change in Tax Legislation	-	3,461	2,311
Taxation Expense	**9,223**	**13,218**	**20,402**
Reconciliation of Income Tax Expense			
Current Taxation	9,223	9,757	18,091
Deferred Taxation	-	3,461	2,311
Taxation Expense	**9,223**	**13,218**	**20,402**

With effect from the 2011/2012 income year, a 0% depreciation rate applies 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 has dropped from 30% to 28%.

6. LIQUIDITY RISK

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

	30 September 2011 Unaudited $000	30 September 2010 Unaudited $000	31 March 2011 Audited $000
Cash and Cash Equivalents			
Cash Holdings	5,165	3,609	3,728
Balances with Reserve Bank	58,956	74,132	82,442
	64,121	**77,741**	**86,170**
Registered Bank Investments	**495,000**	**490,000**	**545,000**
Total Core Liquid Assets	**559,121**	**567,741**	**631,170**

7. DERIVATIVE FINANCIAL INSTRUMENTS

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

	As at 30 Sept 2011		
	Notional	Fair Value	
	Amount Unaudited $000	Assets Unaudited $000	Liabilities Unaudited $000
Interest Rate Contracts – Swaps	**29,811**		**902**

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

	As at 31 March 2011		
	Notional	Fair Value	
	Amount Audited $000	Assets Audited $000	Liabilities Audited $000
Interest Rate Contracts – Swaps	**24,500**	**-**	**1,157**

7. DERIVATIVE FINANCIAL INSTRUMENTS - continued

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 Sept 2011		
	Notional	Fair Value	
	Amount	Assets	Liabilities
	Unaudited	Unaudited	Unaudited
	$000	$000	$000
Interest Rate Contracts – Options	**1,200,000**	**520**	

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

	As at 31 March 2011		
	Notional	Fair Value	
	Amount	Assets	Liabilities
	Audited	Audited	Audited
	$000	$000	$000
Interest Rate Contracts – Options	**1,200,000**	**1,065**	**-**

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 2011			
Cash inflows	268	87	-
	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**
31 March 2011			
Cash inflows	928	29	-

8. INVESTMENT SECURITIES

	30 September 2011 Unaudited $000	30 September 2010 Unaudited $000	31 March 2011 Audited $000
Local Authority Securities	616,380	651,416	640,751
Registered Bank Securities	459,210	288,347	399,671
Registered Bank Term Investments	495,000	490,000	545,000
Other Investments *	610,920	418,553	524,912
	2,181,510	**1,848,316**	**2,110,334**

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

9. LOANS AND ADVANCES TO CUSTOMERS

	Note	30 September 2011 Unaudited $000	30 September 2010 Unaudited $000	31 March 2011 Audited $000
Residential Mortgages		2,428,997	2,293,569	2,364,311
Community		5,999	3,573	4,873
Commercial		143,202	124,733	143,260
Farming		93,282	79,673	80,251
Other *		49,367	49,365	50,394
Total Gross Loans and Advances to Customers		**2,720,847**	**2,550,913**	**2,643,089**
Less Provision for Doubtful Debts (see note 11)	11	(17,890)	(17,145)	(17,205)
Total Loans and Advances to Customers		**2,702,957**	**2,533,768**	**2,625,884**

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

10. OTHER ASSETS

	30 September 2011	30 September 2010	31 March 2011
Trade and Other Receivables	5,647	814	2,964
	5,647	**814**	**2,964**

11. CREDIT RISK MANAGEMENT AND ASSET QUALITY

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

The credit quality of Loans and Advances to Customers that were neither past due or impaired can be assessed by reference to the bank's internal rating system. At the origination of Loans and Advances to Customers, loans are risk graded based on debt servicing ability and Loan-to-Valuation (LVR) ratios. These risk grades are reviewed periodically for adverse changes during the loans life. Interest continues to be accrued on all loans. No interest has been foregone in any period.

Note that all amounts in the tables below represent "On Balance Sheet" amounts.

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

Gross Loans and Advances to Customers by Credit Quality	30 September 2011 Unaudited $000	30 September 2010 Unaudited $000	31 March 2011 Audited $000
Neither Past Due or Impaired	2,665,185	2,488,320	2,581,134
Past Due Assets Not Impaired	51,649	60,486	57,964
Impaired Assets	4,013	2,107	3,991
Total Gross Loans and Advances to Customers	**2,720,847**	**2,550,913**	**2,643,089**

Lending commitments to customers were $76.0m as at 30 September 2011 ($71.0m; 30 September 2010 and $80.9m; 31 March 2011).

Note: In all previous Disclosure Statements, Past Due Assets have not included Loans Less than 30 days overdue. For this Disclosure, comparative amounts have been restated, with a compensating change to the amount of Loans classified Neither Past Due or Impaired.

Past Due Assets Not Impaired

As at 30 September 2011 Unaudited $000	Residential Mortgage Loans	Corporate Exposures	Other Exposures	Total Credit Exposures
Less than 30 days	32,749	1,970	5,063	39,782
Over 30 days	2,504	69	109	2,682
60 to 89 days	1,435	486	5	1,926
Over 90 days	5,795	1,446	18	7,259
Balance at End of Period	**42,483**	**3,971**	**5,195**	**51,649**

11. CREDIT RISK MANAGEMENT AND ASSET QUALITY - continued

Movements in Individually Impaired Assets

As at 30 September 2011 Unaudited $000	Residential Mortgage Loans	Corporate Exposures	Other Exposures	Total Credit Exposures
Balance at Beginning of Period	3,991	-	-	3,991
Additions	694	1,854	-	2,548
Amounts Written Off	(1,495)	-	-	(1,495)
Deletions	(1,031)	-	-	(1,031)
Balance at End of Period	**2,159**	**1,854**	**-**	**4,013**

The estimated fair value of collateral and other charges related to financial assets that are individually impaired is $3.123 million.

Impairment Losses charged to Income Statement

	30 September 2011 Unaudited $000	30 September 2010 Unaudited $000	31 March 2011 Audited $000
Collective Provisions	250	500	1,000
Specific Provisions	435	(215)	(655)
Bad Debts	1,764	590	2,969
Total Impairment Losses charged to Income Statement	**2,449**	**875**	**3,314**

(b) Movements in balances of Total Credit Impairment Allowances

Specific Provision for Doubtful Debts

As at 30 September 2011 Unaudited $000	Residential Mortgage Loans	Corporate Exposures	Other Exposures	Total Credit Exposures
Balance at Beginning of Period	1,105	-	-	1,105
Add New Provisions	1,480	905	-	2,385
Less Amounts Charged to Income Statement	(1,950)	-	-	(1,950)
Less Amounts Received	-	-	-	-
Balance at End of Period	**635**	**905**	**-**	**1,540**

Collective Provision for Doubtful Debts

As at 30 September 2011 Unaudited $000	Residential Mortgage Loans	Corporate Exposures	Other Exposures	Total Credit Exposures
Balance at Beginning of Period	15,056	641	403	**16,100**
Charged (Credit) to Income Statement	233	10	7	**250**
Balance at End of Period	**15,289**	**651**	**410**	**16,350**

Total Provision for Impairment Loss

	30 September 2011 Unaudited $000	30 September 2010 Unaudited $000	31 March 2011 Audited $000
Specific Provision for Doubtful Debts	1,540	1,545	1,105
Collective Provision for Doubtful Debts	16,350	15,600	16,100
Total Provision for Impairment Loss	**17,890**	**17,145**	**17,205**

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11. CREDIT RISK MANAGEMENT AND ASSET QUALITY - continued

(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 2011 Unaudited $000	30 September 2010 Unaudited $000	31 March 2011 Audited $000
Taranaki	1,528,822	1,447,954	1,509,416
Rest of New Zealand	3,437,656	3,029,016	3,330,177
Provision for Impairment Loss	(17,890)	(17,145)	(17,205)
Total Exposures by Geographic Region	**4,948,588**	**4,459,825**	**4,822,388**
Agriculture	93,282	79,673	80,251
Utilities	438,388	230,000	347,393
Communications	40,500	40,500	40,500
Government and Public Authorities	616,124	651,000	748,804
Finance	1,043,511	881,753	948,302
Housing	2,452,315	2,300,006	2,393,120
Personal	45,907	45,282	45,839
Community	5,999	3,573	4,874
Commercial	230,452	245,183	230,510
Provision for Impairment Loss	(17,890)	(17,145)	(17,205)
Total Exposures by Industry	**4,948,588**	**4,459,825**	**4,822,388**
Derivative Financial Instruments	520	2,022	1,065
Other Assets	5,647	814	2,963
Deferred Tax Asset	4,920	3,063	4,739
Property, Plant and Equipment	17,372	18,707	18,366
Intangible Assets	326	389	431
Total Assets	**4,977,373**	**4,484,820**	**4,849,952**

(d) Concentrations Of Funding

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

Retail Deposits			
Taranaki	2,248,973	2,118,222	2,207,851
Rest of New Zealand	2,312,519	1,984,238	2,234,118
Total Funding by Geographic Region	**4,561,492**	**4,102,460**	**4,441,969**
Government and Public Authorities	16,394	18,276	18,705
Finance	49,818	-	44,802
Households	4,416,875	4,006,904	4,296,283
Community	30,318	29,854	31,998
Commercial	48,087	47,426	50,181
Total Funding by Industry	**4,561,492**	**4,102,460**	**4,441,969**
Derivative Financial Instruments	902	1,288	1,157
Current Tax Liability	3,620	3,657	5,907
Other Liabilities	32,396	33,008	42,602
Deferred Tax Liability	-	-	-
Total Liabilities	**4,598,410**	**4,140,413**	**4,491,635**

11. CREDIT RISK MANAGEMENT AND ASSET QUALITY - continued

(e) Concentrations of Credit Exposures to Individual Counterparties

The following disclosures show the number of individual counterparties (not being members of groups of closely related counterparties) or groups of closely related counterparties (excluding central government of any country with a long-term credit rating of A- or A3 or above, or its equivalent, or any bank with a long-term credit rating of A- or A3 or above, and connected persons), where the period end and peak end-of-day credit exposures equalled or exceeded 10% of the Banks equity as at balance date. The peak aggregate end of day credit exposures is the greater of actual credit exposures for the most recent quarter. The amount is then divided by Shareholder's Equity as at the end of the quarter. Credit exposures disclosed are based on actual exposures.

Note there is only one bank counterparty with a long-term credit rating below A- or A3, and at 30 September 2011 both Balance Date and Peak Exposure bandings were below 10% of Equity. The credit rating is applicable to an entity's long term senior unsecured obligations payable in New Zealand, in New Zealand dollars.

	30 September 2011			
Percentage of Shareholder's Equity	Number of Non Bank Counterparties			
	"A" Rated	"B" Rated	Unrated	Total
As at Balance Date				
11% - 15%	2	1	1	4
16% - 20%	-	2	1	3
21% - 25%	1	-	-	1
41% - 45%	1	-	-	1
Total	**4**	**3**	**2**	**9**
Peak Exposure				
11% - 15%	2	1	1	4
16% - 20%	-	2	1	3
21% - 25%	1	-	-	1
41% - 45%	1	-	-	1
Total	**4**	**3**	**2**	**9**

Note:
"A" Rated - those counterparties that have a long-term credit rating of A- or A3 or above, or its equivalent.
"B" Rated – those counterparties that have a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most
BBB+ or Baa1, or its equivalent.
Unrated – those counterparties that do not have a long-term credit rating. For 30 September 2011 these relate to Local Authorities and Utilities.

12. DEPOSITS FROM CUSTOMERS

	30 September 2011 Unaudited $000	30 September 2010 Unaudited $000	31 March 2011 Audited $000
Retail Term Deposits	2,243,910	1,986,177	2,141,652
On Call Deposits Bearing Interest	2,055,248	1,915,501	2,083,248
On Call Deposits Not Bearing Interest	212,516	200,782	172,267
Wholesale Deposits	49,818	-	44,802
	4,561,492	**4,102,460**	**4,441,969**

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

13. OTHER LIABILITIES

Employee Entitlements	4,536	3,927	5,287
Dividend Payable	2,630	2,600	6,450
Trade and Other Payables	25,230	26,482	30,866
	32,396	**33,009**	**42,603**

Notes to the Interim Financial Statements
For The Six Months Ended 30 September 2011

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

14. Cash Flow Hedge Reserve

	Note	30 September 2011 Unaudited $000	30 September 2010 Unaudited $000	31 March 2011 Audited $000
Opening Balance		640	4,246	4,246
Effective Portion of Changes in Fair Value		(60)	350	1,350
Fair Value Movements Transferred to Income Statement		(524)	(5,219)	(6,527)
Deferred Income Tax		164	1,461	1,571
Balance at End of Period		**220**	**838**	**640**

15 Share Capital & Retained Earnings

Share Capital

	Note	30 September 2011 Unaudited $000	30 September 2010 Unaudited $000	31 March 2011 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

	Note	30 September 2011 Unaudited $000	30 September 2010 Unaudited $000	31 March 2011 Audited $000
Opening Balance		**347,676**	**316,879**	**316,879**
Net Profit after Taxation		23,697	19,289	39,847
		371,373	**336,168**	**356,726**
Dividends	16	(2,630)	(2,600)	(9,050)
Balance at End of Period		**368,743**	**333,568**	**347,676**

16. Dividend

	30 September 2011		30 September 2010		31 March 2011	
	$000	$ Per Share	$000	$ Per Share	$000	$ Per Share
Interim	2,630	0.132	2,600	0.130	2,600	0.130
Final	-	-	-	-	6,450	0.323
	2,630	**0.132**	**2,600**	**0.130**	**9,050**	**0.453**

17. Fair Value Of Financial Instruments

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

As at 30 September 2011 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*	-	-	-	-	64,121	64,121	64,121
Derivative Financial Instruments	*7*	520	-	-	-	-	520	520
Investment Securities	*8*	-	-	2,181,510	-	-	2,181,510	2,264,268
Loans and Advances to Customers	*9*	-	-	-	2,702,957	-	2,702,957	2,724,758
Other Assets	*10*	-	-	-	5,647	-	5,647	5,647
Total Financial Assets		**520**	**-**	**2,181,510**	**2,708,604**	**64,121**	**4,954,755**	**5,059,314**
Financial Liabilities								
Deposits from Customers	*12*	-	-	-	-	4,561,492	4,561,492	4,582,530
Derivative Financial Instruments	*7*	-	902	-	-	-	902	902
Other Liabilities	*13*	-	-	-	-	27,860	27,860	27,860
Total Financial Liabilities		**-**	**902**	**-**	**-**	**4,589,352**	**4,590,254**	**4,611,292**

18. MARKET RISK MANAGEMENT

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

(a) Interest Rate Repricing Schedule

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

As at 30 September 2011 Unaudited	On Demand $000	0 - 3 Months $000	3 - 6 Months $000	6 - 12 Months $000	1 - 2 Years $000	Over 2 Years $000	Interest Rate Insensitive $000	Total $000
Assets								
Cash and Cash Equivalents	58,956	-	-	-	-	-	5,165	**64,121**
Derivative Financial Instruments	-	-	-	-	-	-	520	**520**
Investment Securities	-	1,589,310	54,288	76,825	74,610	386,477	-	**2,181,510**
Loans and Advances to Customers	1,358,225	167,121	105,245	536,350	421,633	132,273	(17,890)	**2,702,957**
Other Financial Assets	-	-	-	-	-	-	5,647	**5,647**
Total Financial Assets	**1,417,181**	**1,756,431**	**159,533**	**613,175**	**496,243**	**518,750**	**(6,558)**	**4,954,755**
Non-Financial Assets	-	-	-	-	-	-	22,618	**22,618**
Total Assets	**1,417,181**	**1,756,431**	**159,533**	**613,175**	**496,243**	**518,750**	**16,060**	**4,977,373**
Liabilities								
Deposits	1,529,587	616,193	745,700	775,955	192,051	489,490	212,516	**4,561,492**
Derivative Financial Instruments	-	-	-	-	-	-	902	**902**
Other Financial Liabilities	-	-	-	-	-	-	27,860	**27,860**
Total Financial Liabilities	**1,529,587**	**616,193**	**745,700**	**775,955**	**192,051**	**489,490**	**241,278**	**4,590,254**
Non-Financial Liabilities	-	-	-	-	-	-	8,156	**8,156**
Total Liabilities	**1,529,587**	**616,193**	**745,700**	**775,955**	**192,051**	**489,490-**	**249,434**	**4,598,410**
Lending Commitments	**-**	**75,970**	**-**	**-**	**-**	**-**	**-**	**75,970**
Derivative Notional Principals	**-**	**25,311**	**(10,000)**	**-**	**(10,000)**	**(5,311)**	**-**	**-**

18. MARKET RISK MANAGEMENT – continued

(b) Sensitivity Analysis

In accordance with NZ IFRS 7, an assessment has been undertaken of the market risk sensitivity of net interest earnings and equity over the next 12 months based on a fluctuation in interest rates.

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

Next 12 Months Interest Earnings

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

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

	% Change in Net Interest		
Scenarios	30 September 2011 Unaudited	30 September 2010 Unaudited	31 March 2011 Audited
-2.0%	-19.9%	-2.7%	-18.3%
-1.0%	-11.6%	-2.7%	-10.7%
+1.0%	+13.0%	+4.2%	+12.4%
+2.0%	+26.6%	+8.6%	+25.7%

Market Value of Shareholder's Equity

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

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

	% Change in MVSE		
Scenarios	30 September 2011 Unaudited	30 September 2010 Unaudited	31 March 2011 Audited
-2.0%	-6.1%	-0.7%	-2.1%
-1.0%	-3.7%	-0.1%	-1.2%
+1.0%	+3.9%	+0.5%	+1.3%
+2.0%	+7.8%	+1.1%	+2.5%

19. Liquidity Risk Management

The following table analyses 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 2011 Unaudited	On Demand $000	0 – 1 Month $000	1 - 3 Months $000	3 - 12 Months $000	1 - 5 Years $000	Over 5 Years $000	Total $000
Assets							
Cash and Cash Equivalents	64,121	-	-	-	-	-	**64,121**
Derivative Financial Instruments	-	520	-	-	-	-	**520**
Investment Securities	-	431,733	197,056	309,909	1,188,062	401,109	**2,527,869**
Loans and Advances to Customers		111,511	131,441	736,667	893,516	2,075,581	**3,948,716**
Other Financial Assets	-	5,647	-	-	-	-	**5,647**
Total Financial Assets	**64,121**	**549,411**	**328,497**	**1,046,576**	**2,081,578**	**2,476,690**	**6,546,873**
Liabilities							
Deposits	2,261,676	286,572	417,270	1,402,254	236,960	2,627	**4,607,359**
Derivative Financial Instruments	-	-	124	221	557	-	**902**
Other Financial Liabilities	-	27,860	-	-	-	-	**27,860**
Total Financial Liabilities	**2,261,676**	**314,432**	**417,394**	**1,402,475**	**237,517**	**2,627**	**4,636,121**
Lending Commitments (Off Balance Sheet)	**-**	**75,970**	**-**	**-**	**-**	**-**	**75,970**

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 2011 Unaudited	On Demand $000	0 – 1 Month $000	1 - 3 Months $000	3 - 12 Months $000	1 - 5 Years $000	Over 5 Years $000	Total $000
Assets							
Loans and Advances to Customers	-	16,727	19,716	110,500	134,027	3,667,746	**3,948,716**
All Other Financial Assets	64,121	437,900	197,056	309,909	1,188,062	401,109	**2,598,157**
Total Financial Assets	**64,121**	**454,627**	**216,772**	**420,409**	**1,322,089**	**4,068,855**	**6,546,873**
Liabilities							
Deposits from Customers	113,084	28,657	41,727	140,225	23,696	4,259,970	**4,607,359**
All Other Liabilities	-	27,860	124	221	557	-	**28,762**
Total Financial Liabilities	**113,084**	**56,517**	**41,851**	**140,446**	**24,253**	**4,259,970**	**4,636,121**
Lending Commitments (Off Balance Sheet)	**-**	**75,970**	**-**	**-**	**-**	**-**	**75,970**

20. CAPITAL ADEQUACY

(i) Capital Management Policies

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

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

The Capital Adequacy tables set out on the following pages summarise the composition of regulatory capital and the capital adequacy ratios for the Bank for the period ended 30 September 2011. During the period the Bank complied with all RBNZ capital requirements to which it is subject. No changes have been made to the Board approved levels of regulatory capital to be held during the period.

Basel II

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

Pillar 2 of Basel II is intended to ensure that banks have adequate capital to support all risks in their business, and includes the requirement on banks to have an "Internal Capital Adequacy Assessment Process (ICAAP)" for assessing their overall capital adequacy in relation to risk profile and a strategy for maintaining adequate capital to support risk. The Bank's ICAAP has identified other areas of risk not covered by Pillar I (credit risk, market risk, and operational risk) and assigned a level of capital to them. These risks include but are not limited to strategic risk, reputational risk, environmental risk, liquidity risk, and ownership structure. The Bank has made an internal capital allocation of $141m to cover these identified risks (30 September 2010, $126m).

Total Capital Adequacy Ratios for the Bank as at 30 September 2011 are:

	30 Sept 2011 Unaudited	30 Sept 2010 Unaudited	31 Mar 2011 Audited
Tier One	16.09%	16.37%	15.78%
Total Capital	16.09%	16.37%	15.78%

(ii) Qualifying Capital

Tier One Capital	**$000**	**$000**	**$000**
Issued and fully paid up Share Capital	10,000	10,000	10,000
Retained Earnings	347,676	316,879	316,879
Current period's Reviewed/ Audited Retained Earnings	21,067	16,689	30,797
Less Deductions from Tier One Capital			
Intangible Assets	(326)	(389)	(431)
Total Tier One Capital	**378,417**	**343,179**	**357,245**
Upper Tier Two Capital	-	-	-
Lower Tier Two Capital	-	-	-
Total Tier Two Capital	-	-	-
Total Capital	**378,417**	**343,179**	**357,245**

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

20. CAPITAL ADEQUACY – continued

(iii) Total Risk Weighted Exposures – September 2011

	Total Exposure after credit risk mitigation Sept-11 Unaudited $000	Risk Weight	Risk Weight Exposure Sept-11 Unaudited $000	Minimum Pillar One Capital Requirement Sept-11 Unaudited $000
On Balance Sheet Exposures				
Cash	5,165	0%	-	-
Reserve Bank of New Zealand	58,956	0%	-	-
Public Sector Entities	655,419	20%	131,084	10,487
Banks	935,789	20%	187,158	14,973
Banks	28,486	50%	14,243	1,139
Corporate	75,500	20%	15,100	1,208
Corporate	146,811	50%	73,405	5,872
Corporate	295,093	100%	295,093	23,607
Residential Bonds	27,416	35%	9,596	768
Residential Mortgages <80% LVR	1,945,262	35%	680,842	54,467
Residential Mortgages 80%<90% LVR	180,138	50%	90,069	7,205
Residential Mortgages Welcome Home Loans	262,572	50%	131,286	10,503
Residential Mortgages 90%<100% LVR	29,860	75%	22,394	1,792
Past Due and Impaired Residential Mortgages	11,165	100%	11,165	893
Other Assets	318,895	100%	318,895	25,512
Non-Risk Weighted Assets	846	0%	-	-
Total On Balance Sheet Exposures	**4,977,373**		**1,980,330**	**158,426**

* Total Residential Mortgages $2,428,997m (refer Note 9).

	Total Exposure Sept-11 Unaudited $000	Credit Conversion Factor	Credit Equivalent Amount Sept-11 Unaudited $000	Average Risk Weight	Risk Weighted Exposure Sept-11 Unaudited $000	Minimum Pillar One Capital Requirement Sept-11 Unaudited $000
Off Balance Sheet Exposure						
Revolving Credit Facility	22,000	50%	11,000	20%	2,200	176
Commitments where original maturity:						
- is more than one year	237,854	50%	118,927	35%	41,624	3,330
- is less than one year	104,305	20%	20,861	100%	20,861	1,669
Market Related Contracts						
Interest Rate Contracts*	1,229,811	N/A	2,019	20%	404	32
Sub Totals	**1,593,970**		**152,807**		**65,089**	**5,207**

* 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	283,318	22,666
Market Risk	22,829	1,826
Sub Total	**306,147**	**24,492**

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

20. 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	5,130,180	2,045,420	163,634
Operational Risk	N/A	283,318	22,665
Market Risk	N/A	22,829	1,826
Total		**2,351,567**	**188,125**

Residential Mortgages by Loan-to-Valuation Ratio

LVR Range	0%-80%	80% -90%	Over 90%	Total
On Balance Sheet Exposures	1,952,910	182,631	293,456	**2,428,997**
Off Balance Sheet Exposures	223,780	9,230	4,844	237,854
Total Value of Exposures	**2,176,690**	**191,861**	**298,300**	**2,666,851**

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	22,829	1,826	0.48%	378,417
Peak end of day capital charges	Interest Risk	36,288	2,903	0.77%	378,417

In accordance with clause 9 of Schedule 9 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No 3) 2011, peak end-of-day aggregate capital charge and peak end-of-day aggregate capital charge as a percentage of the Bank's Equity at the end of the period, is derived by following the risk methodology for measuring capital requirements within Part 10 of – Capital Adequacy Framework (Standardised Approach) (BS2A).

21. FOREIGN CURRENCY BALANCES

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

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

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

TSB Bank Limited is the manager and promoter of the TSB Bank PIE Unit Trust, and the New Zealand Guardian Trust Company Limited is the trustee. Units in the Fund do not directly represent deposits or other liabilities of TSB Bank. However, the Trust Deed stipulates that the TSB Bank PIE Cash Fund is invested exclusively in TSB Bank debt securities. As at 30 September 2011, the TSB Bank PIE Unit Trust had $67.1m (30 September 2010, $77.9m; 31 March 2011, $76.3m) invested with the Bank.

23. REPORTING BY SEGMENT

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

Notes to the Interim Financial Statements

For The Six Months Ended 30 September 2011

24. Commitments and Contingent Liabilities

	30 September 2011 Unaudited $000	30 September 2010 Unaudited $000	31 March 2011 Audited $000
Commitments approved to advance less than one year	104,305	104,638	103,101
Commitments approved to advance greater than one year	259,854	235,223	252,538
Capital Commitments	-	-	-
	364,159	**339,861**	**355,639**

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

There are no material contingent liabilities and outstanding claims known by the Directors as at 30 September 2011 that would impact on the financial statements.

25. 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 2011 the Trust had $13.945m invested with the Bank at market rates, with interest accrued of $0.204m (30 September 2010, $9.306m invested with interest accrued of $0.178m; 31 March 2011, $9.006m invested with interest accrued of $0.218m). Interest paid to the Trust for the six months to 30 September 2011 was $0.279m (30 September 2010, $0.206m; and 12 months to 31 March 2011, $0.471m). The Trust also received dividends as detailed in note 16.

Transactions with Directors and Key Management Personnel

	30 September 2011 Unaudited $000	30 September 2010 Unaudited $000	31 March 2011 Audited $000
Key Management Compensation			
Short-term Employee Benefits	1,746	1,547	3,425
Other long-term Benefits	55	143	247
	1,801	**1,690**	**3,672**
Loans to Directors and Key Management Personnel			
Balance at Beginning of Period	3,003	1,899	1,899
Net Loans received/(repaid) during the Period	354	445	1,104
Balance at End of Period	**3,357**	**2,344**	**3,003**
Deposits from Directors and Key Management Personnel			
Balance at Beginning of Period	3,622	1,922	1,922
Net Deposits received/(repaid) during the Period	(43)	977	1,700
Balance at End of Period	**3,579**	**2,899**	**3,622**

26. Subsequent Events

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

27. Risk Management Policies

The Bank is committed to the management of risk and has management structures and information systems to manage individual risks. The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. There have been no material changes to the above policies since publication of the previous Disclosure Statement.

TSB Bank
expect more

DIRECTORS' STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

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

a) The Disclosure Statement contains all the information required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No 3) 2011; and

b) The Disclosure Statement is not false or misleading.

The Directors believe, after due enquiry, that for the six months ended 30 September 2011:

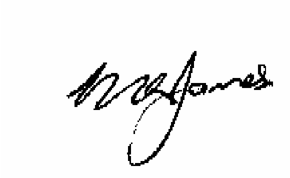
a) The Bank complies with the Conditions of Registration;

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

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

E. Gill
(Chair – Board of Directors)

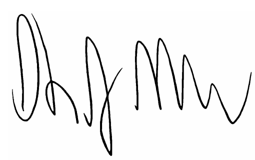
B. C. Richards
(Deputy Chair)



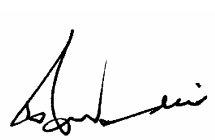
M. L. James

J. J. Kelly

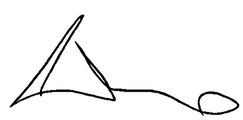
D. L. Lean



K. J. Murphy
Managing Director



D. E. Walter



H. P. W. Wano

17 November 2011

Independent Auditors' Review Report

To the Shareholder of TSB Bank Limited

We have reviewed pages 5 to 25 of the half year financial statements of TSB Bank Limited (the 'Bank') prepared and disclosed in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No 3) 2011 (the 'Order') and the supplementary information prescribed in Schedules 5, 7, 9, 13, 16 and 18 of the Order. The half year financial statements, and supplementary information, provide information about the past financial performance and cash flows of the Bank for the six months ended 30 September 2011, and its financial position as at 30 September 2011.

Directors' responsibilities

The Directors of TSB Bank Limited are responsible for the preparation and presentation of the half year Disclosure Statement, which includes interim financial statements prepared in accordance with Clause 25 of the Order which give a true and fair view of the financial position of the Bank as at 30 September 2011 and its financial performance and cash flows for the six months ended on that date. The directors are also responsible for such internal controls as they determine are necessary to enable the preparation of the Disclosure Statement that is free from material misstatement whether due to fraud or error.

They are also responsible for the preparation of supplementary information in the half year Disclosure Statement which fairly states the matters to which it relates in accordance with Schedules 3, 5, 7, 9, 13, 16 and 18 of the Order.

Reviewers' responsibilities

We are responsible for reviewing the interim financial statements and the supplementary information, disclosed in accordance with Clause 25, Schedules 5, 7, 13, 16 and 18 of the Order and presented to us by the Directors.

We are responsible for reviewing the interim financial statements (excluding the supplementary information) in order to report to you whether, in our opinion on the basis of the procedures described below, anything has come to our attention that would cause us to believe that the interim financial statements have not been prepared, in all material respects, in accordance with New Zealand Equivalent to International Accounting Standard 34 ("NZ IAS 34"): Interim Financial Reporting and do not present a true and fair view of the financial position of the Bank as at 30 September 2011 and its financial performance and cash flows for the six months ended on that date.

We are responsible for reviewing the supplementary information (excluding the supplementary information relating to capital adequacy) in order to report to you whether, in our opinion on the basis of the procedures described below, anything has come to our attention that would cause us to believe that the supplementary information does not fairly state the matters to which it relates in accordance with Schedules 5, 7, 13, 16 and 18 of the Order.

We are responsible for reviewing the supplementary information relating to capital adequacy 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 9 is not in all material respects prepared in accordance with the Bank's Conditions of Registration and disclosed in accordance with Schedule 9.

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 other services to the Bank in relation to other audit related services. Partners and employees of our firm may also deal with the Bank on normal terms within the ordinary course of trading activities of the business of the Bank. There are, however, certain restrictions on borrowings which the partners and employees of our firm can have with the Bank. 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

We have examined the interim financial statements including the supplementary information and 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) have not been prepared, in all material respects, in accordance with NZ IAS 34: Interim Financial Reporting and do not present a true and fair view of the financial position of the Bank as at 30 September 2011 and its financial performance and cash flows for the six months ended on that date;

(b) the supplementary information prescribed by Schedules 5, 7, 13, 16, and 18 of the Order does not fairly state the matters to which it relates in accordance with those Schedules; and

(c) the supplementary information relating to Capital Adequacy as required by Schedule 9 of the Order, is not in all material respects prepared in accordance with the Bank's Conditions of Registration and disclosed in accordance with Schedule 9 of the Order.

Our review was completed on 17 November 2011 and our review opinion is expressed as at that date.

KPMG

Wellington

DIRECTORY

Directors

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

Executive Management

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

Registered Office

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

Principal Solicitors to the Company

Auld Brewer Mazengarb & McEwen
9 Vivian Street, New Plymouth

Auditor

KPMG
10 Customhouse Quay, Wellington

Contact Us

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