

TSB Bank Disclosure Statement

**for the Six Months Ended
30 September 2013**

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Disclosure Statement

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013

This Disclosure Statement contains information as required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No 2) 2013 ('the Order').

1. NAME AND REGISTERED OFFICE OF REGISTERED BANK

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

2. CORPORATE INFORMATION

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

3. OWNERSHIP

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

4. DIRECTORATE

David Ernest Walter retired from the Board with effect from 30 May 2013.

Murray Ian Bain was appointed as a Director on 1 November 2013.

There have been no other changes to Directors since the 31 March 2013 full year Disclosure Statement was signed on 30 May 2013.

5. AUDITOR

KPMG
10 Customhouse Quay
Wellington 6140

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+/Negative/A2**. On 16 May 2013, Standard & Poor's Ratings Services (S&P) revised its outlook on the Bank to negative from stable due to an increase in economic risks in New Zealand, reflected in a lowering of the anchor stand-alone credit profile (SACP) for a bank operating within New Zealand to "bbb" from "bbb+". At the same time they affirmed the Bank's **BBB+/A-2** credit rating. The credit rating was reaffirmed by S&P on 13 June 2013.

8. GUARANTEE ARRANGEMENTS

No material obligations of the Bank are guaranteed.

9. CONDITIONS OF REGISTRATION

The following changes have been made to the Bank's Conditions of Registration since 31 March 2013 pursuant to section 74(2) of the Reserve Bank of New Zealand Act 1989:

- Condition 7 relating to approval of appointments by the Reserve Bank has been modified to include any appointment who reports or is accountable directly to the deputy chief executive officer (in addition to the chief executive officer).

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Interim Financial Statements

INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013

	Note	30 September 2013 Unaudited \$000	30 September 2012 Unaudited \$000	31 March 2013 Audited \$000
Interest Income	2	142,046	140,021	280,604
Interest Expense		88,197	86,715	173,583
Net Interest Income		53,849	53,306	107,021
Other Operating Income	3	11,451	8,540	17,531
Net Operating Income		65,300	61,846	124,552
Operating Expenses	4	24,483	22,647	48,901
Impairment Losses	8/12	10,435	933	2,140
Profit before Tax		30,382	38,266	73,511
Tax Expense	5	7,793	10,718	20,400
Net Profit after Tax		22,589	27,548	53,111

STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013

		30 September 2013 Unaudited \$000	30 September 2012 Unaudited \$000	31 March 2013 Audited \$000
Net Profit after Tax		22,589	27,548	53,111
Other Comprehensive Income:				
<u>Items that may be reclassified subsequently to profit or loss</u>				
Effective portion of changes in fair value of cash flow hedges	15	-	(2)	(2)
Fair Value movements of cash flow hedges transferred to Income Statement	15	-	(75)	(75)
Income Tax on items that may be reclassified to profit or loss		-	21	21
Other Comprehensive Income for the period, net of Tax		-	(56)	(56)
Total Comprehensive Income for the period		22,589	27,492	53,055

These interim financial statements are to be read in conjunction with the notes on pages 9 to 25.

Interim Financial Statements

STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013

		Share Capital \$000	Cash Flow Hedge Reserve \$000	Retained Earnings \$000	Total Equity \$000
Balance at 1 April 2013		10,000	-	427,590	437,590
Total Comprehensive Income for the period					
Net Profit after Tax		-	-	22,589	22,589
Total Comprehensive Income for the period		-	-	22,589	22,589
Transactions with Owner, recorded directly in equity					
Dividends to Equity Holders	17	-	-	(3,350)	(3,350)
Total Transactions with Owner		-	-	(3,350)	(3,350)
Balance at 30 September 2013 (Unaudited)		10,000	-	446,829	456,829

STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2012

		Share Capital \$000	Cash Flow Hedge Reserve \$000	Retained Earnings \$000	Total Equity \$000
Balance at 1 April 2012		10,000	56	385,504	395,560
Total Comprehensive Income for the period					
Net Profit after Tax		-	-	27,548	27,548
Other Comprehensive Income:					
Effective Portion of Changes in Fair Value (net of tax)	15	-	(1)	-	(1)
Fair Value Movements transferred to Income Statement (net of tax)	15	-	(55)	-	(55)
Total Other Comprehensive Income		-	(56)	-	(56)
Total Comprehensive Income for the period		-	(56)	27,548	27,492
Transactions with Owner, recorded directly in equity					
Dividends to Equity Holders	17	-	-	(3,350)	(3,350)
Total Transactions with Owner		-	-	(3,350)	(3,350)
Balance at 30 September 2012 (Unaudited)		10,000	-	409,702	419,702

These interim financial statements are to be read in conjunction with the notes on pages 9 to 25.

Interim Financial Statements

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2013

		Share Capital \$000	Cash Flow Hedge Reserve \$000	Retained Earnings \$000	Total Equity \$000
Balance at 1 April 2012		10,000	56	385,504	395,560
Total Comprehensive Income for the Year					
Net Profit after Tax		-	-	53,111	53,111
Other Comprehensive Income:					
Effective Portion of Changes in Fair Value (net of tax)	15	-	(1)	-	(1)
Fair Value Movements transferred to Income Statement (net of tax)	15	-	(55)	-	(55)
Total Other Comprehensive Income		-	(56)	-	(56)
Total Comprehensive Income for the Year		-	(56)	53,111	53,055
Transactions with Owner, recorded directly in equity					
Dividends to Equity Holders	17	-	-	(11,025)	(11,025)
Total Transactions with Owner		-	-	(11,025)	(11,025)
Balance at 31 March 2013 (Audited)		10,000	-	427,590	437,590

These interim financial statements are to be read in conjunction with the notes on pages 9 to 25.

Interim Financial Statements

STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2013

	Note	30 September 2013 Unaudited \$000	30 September 2012 Unaudited \$000	31 March 2013 Audited \$000
Assets				
Cash and Cash Equivalents	6	83,296	63,491	73,295
Derivative Financial Instruments	7	1,785	1,226	749
Investment Securities	8	2,373,770	2,389,198	2,468,030
Loans and Advances to Customers	10	3,040,308	2,760,076	2,863,532
Investment in Associate	9	35,137	-	-
Other Assets	11	1,374	1,459	1,549
Deferred Tax Asset		8,843	5,823	5,952
Property, Plant and Equipment		15,097	15,079	15,715
Total Assets		5,559,610	5,236,352	5,428,822
Liabilities				
Deposits	13	5,067,871	4,778,274	4,939,659
Derivative Financial Instruments	7	1,504	1,676	940
Current Tax Liability		2,684	3,712	6,803
Other Liabilities	14	30,722	32,988	43,830
Total Liabilities		5,102,781	4,816,650	4,991,232
Shareholder's Equity				
Share Capital	16	10,000	10,000	10,000
Cash Flow Hedge Reserve	15	-	-	-
Retained Earnings		446,829	409,702	427,590
Total Shareholder's Equity		456,829	419,702	437,590
Total Liabilities and Shareholder's Equity		5,559,610	5,236,352	5,428,822
Total Interest Earning and Discount Bearing Assets		5,498,878	5,202,455	5,390,546
Total Interest and Discount Bearing Liabilities		4,828,010	4,498,505	4,722,478

These interim financial statements are to be read in conjunction with the notes on pages 9 to 25.

Interim Financial Statements

STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013

	30 September 2013 Unaudited \$000	30 September 2012 Unaudited \$000	31 March 2013 Audited \$000
Cash Flows from Operating Activities			
Cash provided from (applied to):			
Interest Income Received	145,997	139,880	277,662
Other Income Received	9,257	11,115	21,293
Interest Paid	(70,758)	(68,803)	(173,283)
Operating Expenditure	(32,006)	(29,189)	(48,814)
Tax Paid	(14,803)	(13,952)	(20,672)
Cash Flows from Operating Profits before Changes in Operating Assets and Liabilities	37,687	39,051	56,186
Net Changes in Operating Assets and Liabilities:			
Increase in Loans and Advances to Customers	(189,345)	(20,912)	(124,555)
Derivative Financial Instruments	(472)	81	(178)
Increase in Deposits	110,773	45,089	224,087
Cash Flows from Operating Assets and Liabilities	(79,044)	24,258	99,354
Net Cash Flows from Operating Activities	(41,357)	63,309	155,540
Cash Flows from Investing Activities			
Cash was provided from (applied to):			
Net Maturity/(Purchase) of Investment Securities *	92,442	(90,552)	(167,601)
Investment in Associate – Fisher Funds	(32,838)	-	-
Property, Plant and Equipment (Purchased)/ Sold	(442)	561	(1,268)
Intangible Assets (Purchased)/ Sold	(129)	1	(198)
Net Cash Flows from Investing Activities	59,033	(89,990)	(169,067)
Cash Flows from Financing Activities			
Cash provided from (applied to):			
Dividends Paid	(7,675)	(7,370)	(10,720)
Net Cash Flows from Financing Activities	(7,675)	(7,370)	(10,720)
Net (Decrease)/ Increase in Cash and Cash Equivalents	10,001	(34,051)	(24,247)
Add Cash and Cash Equivalents at beginning of the Year	73,295	97,542	97,542
Cash and Cash Equivalents at End of Period	83,296	63,491	73,295

* 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 9 to 25.

Interim Financial Statements

STATEMENT OF CASH FLOWS (CONTINUED) FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013

	30 September 2013 Unaudited \$000	30 September 2012 Unaudited \$000	31 March 2013 Audited \$000
Reconciliation of Net Profit after Tax To Net Cash Flows from Operating Activities			
Net Profit after Tax	22,589	27,548	53,111
Add Movements in Statement of Financial Position Items:			
Accounts Payable	8,656	10,089	(2,232)
Current Tax Liability	(4,119)	(3,212)	(121)
Deposits	110,773	45,089	224,087
Deferred Tax Asset	(2,891)	(22)	(151)
Accounts Receivable	1,756	2,461	820
Derivative Financial Instruments	(472)	81	(178)
Loans and Advances to Customers	(175,587)	(20,912)	(124,555)
	(61,884)	33,574	97,670
Add Non- Cash Items:			
Depreciation	1,059	1,076	2,266
Impairment Losses on Advances to Customers	(3,322)	933	2,140
Amortisation of Intangible Assets	201	178	353
	(2,062)	2,187	4,759
Net Cash Flows from Operating Activities	(41,357)	63,309	155,540
Reconciliation of Cash and Cash Equivalents to the Statement of Financial Position			
Cash and Balances with Reserve Bank	78,600	58,256	67,063
Cash and Cash at Bank	4,696	5,235	6,232
Total Cash and Cash Equivalents at End of Period	83,296	63,491	73,295

These interim financial statements are to be read in conjunction with the notes on pages 9 to 25.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013

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 2013 Annual Report. The Bank's financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP), as appropriate for profit-oriented entities.

There have been no changes in accounting policies since the authorisation date of the 31 March 2013 Annual Report and Disclosure Statement on 30 May 2013.

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. INTEREST INCOME

	30 September 2013 Unaudited \$000	30 September 2012 Unaudited \$000	31 March 2013 Audited \$000
Interest Income			
Cash and Cash Equivalents	725	781	1,485
Investment Securities	56,183	54,779	111,665
Loans and Advances to Customers*	85,138	84,385	167,378
Derivative Financial Instrument Income	-	76	76
Total Interest Income	142,046	140,021	280,604

* Interest income on Loans and Advances to Customers includes interest earned on Impaired Assets of \$0.089m (\$0.022m; 30 Sept 2012, \$0.058m; 31 March 2013).

3. OTHER OPERATING INCOME

Gain/(Loss) on Sale of Fixed Assets	21	-	1,112
Lending and Credit Facility Related Income	1,538	2,109	4,052
Commission and Other Trading Income *	5,736	5,292	10,527
Gain/(Loss) in Fair Value on Derivatives	472	(11)	147
Income from Associate	2,562	-	-
Other Income	1,122	1,150	1,693
	11,451	8,540	17,531

*Includes income from TSB Realty and TSB Foreign Exchange.

4. OPERATING EXPENSES

Auditors Remuneration:			
Statutory Audit	72	72	148
Other Assurance Services ¹	78	-	121
Depreciation	1,059	1,103	2,266
Amortisation of Intangible Assets	201	178	353
Directors' Fees	222	209	448
Personnel Expenses	9,794	8,354	18,159
Defined Contribution Plan	362	302	716
Information Technology Expenses	2,900	2,871	5,935
Premises Occupancy	1,086	1,087	2,169
Marketing	3,532	3,220	7,518
Other Expenses	5,177	5,251	11,068
	24,483	22,647	48,901

¹ Other Assurance Services involves accounting, technical, IFRS and regulatory advice.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013

	30 September 2013 Unaudited \$000	30 September 2012 Unaudited \$000	31 March 2013 Audited \$000
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5. TAX

Reconciliation of Net Profit Before Tax to Tax Expense

Net Profit before Tax	30,382	38,266	73,511
Tax at 28%	8,507	10,715	20,583
Tax Effect of Expenses not Deductible	(714)	3	(183)
Tax Expense	7,793	10,718	20,400

Reconciliation of Income Tax Expense

Current Tax	10,684	10,718	20,529
Deferred Tax	(2,891)	-	(129)
Tax Expense	7,793	10,718	20,400

6. CASH AND CASH EQUIVALENTS

The Bank holds the following financial assets for the purpose of managing liquidity risk:

Cash and Cash Equivalents

Cash Holdings	4,696	5,235	6,232
Balances with Reserve Bank	78,600	58,256	67,063
	83,296	63,491	73,295

Registered Bank Term Investments

	511,000	645,000	605,000
Total Core Liquid Assets	594,296	708,491	678,295

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 2013		
	Notional Amount Unaudited \$000	Fair Value	
		Assets Unaudited \$000	Liabilities Unaudited \$000
Interest Rate Contracts – Swaps	21,368	281	-

FX Forward Exchange Currency Assets/ Liabilities

As at 30 September 2013 there were no material holdings of Foreign Currency.

The Bank enters into Forward Exchange Contracts (FEC) on behalf of customers with other banks. A separate contract is signed between the customer and TSB for any liability/asset that may arise as a result of the FEC. In the Statement of Financial Position both an asset and a liability are recorded to reflect both the payable to the counterparty bank and the receivable from the customer.

	As at 30 Sept 2013		
	Notional Amount \$000	Fair Value	
		Assets \$000	Liabilities \$000
FX Forward Exchange Currency Assets/ Liabilities	1,504	1,504	1,504
Total Derivative Financial Instruments	22,872	1,785	1,504

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013

7. DERIVATIVE FINANCIAL INSTRUMENTS - continued

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 2013			
Cash inflows	1,504	-	-

8. INVESTMENT SECURITIES

	Note	30 September 2013 Unaudited \$000	30 September 2012 Unaudited \$000	31 March 2013 Audited \$000
Local Authority Securities		425,592	461,162	446,120
Registered Bank Securities		574,835	535,933	556,666
Registered Bank Term Investments		511,000	645,000	605,000
Other Investments *		862,343	747,103	860,244
		2,373,770	2,389,198	2,468,030

* Other Investments relate to investments in Utility Companies, SOE's and Commercial Paper and Bonds of New Zealand corporates. Inclusive in the SOE portfolio is a holding of \$67.5m of Solid Energy bonds (SENZ). On 22 October 2013, by way of a Creditors Compromise, \$13.757m of the bonds were converted to Registered Preference Shares (RPS) in SENZ. As at 30 September 2013, the \$13.757m has been treated as fully impaired. The remaining SENZ bonds are treated as performing as they continue to meet their contractual payments.

9. INVESTMENT IN ASSOCIATE

TSB Bank acquired a 26.39% investment in an Associate (Fisher Funds) at a cost of \$32.8m, effective 2 April 2013. The investment in Fisher Funds is accounted for using the equity method and recognised initially at cost, plus TSB's share of associate current earnings less dividends received.

10. LOANS AND ADVANCES TO CUSTOMERS

Residential Mortgages		2,559,520	2,443,770	2,494,399
Community		5,476	6,032	5,298
Commercial		231,971	163,613	189,399
Farming		206,697	113,897	137,853
Other *		51,699	51,452	55,068
Total Gross Loans and Advances to Customers		3,055,363	2,778,764	2,882,017
Less Provision for Doubtful Debts (see Note 12)	12	(15,055)	(18,688)	(18,485)
Total Loans and Advances to Customers		3,040,308	2,760,076	2,863,532

* Other is inclusive of other Retail Lending and credit card balances.

11. OTHER ASSETS

Trade and Other Receivables		1,182	1,219	1,285
Intangible Assets		192	240	264
Total Other Assets		1,374	1,459	1,549

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013

12. CREDIT RISK MANAGEMENT AND ASSET QUALITY

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 (84%) residential mortgages which are secured by a first registered mortgage over freehold dwellings. For overdrafts and credit card balances, some are unsecured as well as secured by obligation mortgages, which cover all undertakings with the Bank.

The Bank does not have any assets under administration, undrawn balances on lending commitments to counterparties for whom drawn balances are classified as individually impaired, or material assets acquired through the enforcement of security.

At 30 September 2013 the Bank has restructured assets totalling \$2.209m (2012; \$2.986m), with interest foregone of \$39.k (2012; \$58.6k).

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 loan's life. Interest continues to be accrued on all loans. With the exception of the restructured assets above, 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

	30 September 2013 Unaudited \$000	30 September 2012 Unaudited \$000	31 March 2013 Audited \$000
Gross Loans and Advances to Customers by Credit Quality			
Neither Past Due or Impaired	2,989,706	2,726,003	2,830,323
Past Due Assets Not Impaired	61,180	49,681	49,620
Impaired Assets	4,477	3,080	2,074
Total Gross Loans and Advances to Customers	3,055,363	2,778,764	2,882,017

Lending commitments to customers were \$122.3m as at 30 September 2013 (\$105.5m; 30 September 2012 and \$101.6m; 31 March 2013).

Past Due Assets Not Impaired

As at 30 September 2013

Unaudited
\$000

Less than 30 days

Over 30 days

60 to 89 days

Over 90 days

Balance at End of Period

	Residential Mortgage Loans	Corporate Exposures	Other Exposures	Total Credit Exposures
Less than 30 days	40,671	3,624	380	44,675
Over 30 days	5,097	-	235	5,332
60 to 89 days	1,653	490	12	2,155
Over 90 days	6,735	2,272	11	9,018
Balance at End of Period	54,156	6,386	638	61,180

Movements in Individually Impaired Assets

As at 30 September 2013

Unaudited
\$000

Balance at Beginning of Period

Additions

Amounts Written Off

Deletions

Balance at End of Period

Specific Provisions

	Residential Mortgage Loans	Corporate Exposures	Other Exposures	Total Credit Exposures
Balance at Beginning of Period	1,000	1,074	-	2,074
Additions	1,661	1,191	-	2,852
Amounts Written Off	(55)	-	-	(55)
Deletions	(394)	-	-	(394)
Balance at End of Period	2,212	2,265	-	4,477
Specific Provisions	490	1,565	-	2,055

The estimated fair value of collateral and other charges related to financial assets that are individually impaired is \$3.006 million.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013

12. CREDIT RISK MANAGEMENT AND ASSET QUALITY - continued

Impairment Losses charged to Income Statement

	Note	30 September 2013 Unaudited \$000	30 September 2012 Unaudited \$000	31 March 2013 Audited \$000
Movement in Collective Provisions		(4,100)	250	500
Movement in Specific Provisions		670	49	(404)
Provision for Solid Energy NZ	8	13,757	-	-
Bad Debts/ Mortgage Write-Offs		108	634	2,044
Total Impairment Losses charged to Income Statement		10,435	933	2,140

(b) Movements in balances of Total Credit Impairment Allowances

Specific Provision for Doubtful Debts

As at 30 September 2013

Unaudited \$000

Balance at Beginning of Period	520	865	-	1,385
Add New Provisions	545	700	-	1,245
Current Year Amounts Written Off	(124)	-	-	(124)
Prior Period Recoveries	(1)	-	-	(1)
Reversal of Previously Recognised Impaired	(450)	-	-	(450)
Balance at End of Period	490	1,565	-	2,055

	Residential Mortgage Loans	Corporate Exposures	Other Exposures	Total Credit Exposures
Balance at Beginning of Period	520	865	-	1,385
Add New Provisions	545	700	-	1,245
Current Year Amounts Written Off	(124)	-	-	(124)
Prior Period Recoveries	(1)	-	-	(1)
Reversal of Previously Recognised Impaired	(450)	-	-	(450)
Balance at End of Period	490	1,565	-	2,055

Collective Provision for Doubtful Debts

As at 30 September 2013

Unaudited \$000

Balance at Beginning of Period	15,602	932	566	17,100
Charged to Income Statement	(5,006)	232	674	(4,100)
Balance at End of Period	10,596	1,164	1,240	13,000

	Residential Mortgage Loans	Corporate Exposures	Other Exposures	Total Credit Exposures
Balance at Beginning of Period	15,602	932	566	17,100
Charged to Income Statement	(5,006)	232	674	(4,100)
Balance at End of Period	10,596	1,164	1,240	13,000

Total Provision for Impairment Loss

	30 September 2013 Unaudited \$000	30 September 2012 Unaudited \$000	31 March 2013 Audited \$000
Specific Provision for Doubtful Debts	2,055	1,838	1,385
Collective Provision for Doubtful Debts	13,000	16,850	17,100
Total Provision for Impairment Loss	15,055	18,688	18,485

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013

12. 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 2013 Unaudited \$000	30 September 2012 Unaudited \$000	31 March 2013 Audited \$000
Taranaki	1,927,972	1,588,536	1,676,322
Rest of New Zealand	3,619,594	3,642,917	3,747,020
Provision for Impairment Loss	(15,055)	(18,688)	(18,485)
Total Exposures by Geographic Region	5,532,511	5,212,765	5,404,857
Agriculture	206,697	113,897	137,853
Utilities	545,443	470,614	561,214
Communications	73,344	56,265	71,000
Government and Public Authorities *	420,718	461,408	441,408
Finance	1,235,287	1,265,533	1,282,911
Housing *	2,581,016	2,466,784	2,500,202
Personal *	47,193	46,164	48,580
Community	5,476	6,032	5,298
Commercial *	432,392	344,756	374,876
Provision for Impairment Loss	(15,055)	(18,688)	(18,485)
Total Exposures by Industry	5,532,511	5,212,765	5,404,857
Derivative Financial Instruments	1,785	1,226	749
Other Assets	1,182	1,219	1,285
Deferred Tax Asset	5,952	5,823	5,952
Property, Plant and Equipment	15,097	15,079	15,715
Intangible Assets	192	240	264
Total Assets	5,556,719	5,236,352	5,428,822

* Credit commitments of \$458.1m are split between Agriculture \$3.3m; Government and Public Authorities \$33.7m; Housing \$273.6m; Personal \$105.0m; and Commercial \$42.5m. Refer Note 24.

(d) Concentrations of Credit Exposures to Individual Counterparties

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

Note there is only one bank counterparty with a long-term credit rating below A- or A3, and at 30 September 2013 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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013

12. CREDIT RISK MANAGEMENT AND ASSET QUALITY - continued

Percentage of Shareholder's Equity	30 September 2013			
	Number of Non Bank Counterparties			
	"A" Rated	"B" Rated	Unrated	Total
As at Balance Date				
11% - 15%	3	4	-	7
16% - 20%	1	-	1	2
21% - 25%	1	2	-	3
31% - 35%	-	1	-	1
Total	5	7	1	13
Peak Exposure				
11% - 15%	3	4	-	7
16% - 20%	1	-	1	2
21% - 25%	1	1	-	2
31% - 35%	-	1	-	1
36% - 40%	-	1	-	1
Total	5	7	1	13

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 2013 these relate to Local Authorities and Utilities.

(e) Maximum Exposure to Credit Risk

The Bank does not have any material exposures on which balances have been netted. As such, the carrying amount of loans and advances (gross of provisions), investment securities, plus commitments as set out in Note 24 represent the Bank's maximum exposure to credit risk for on and off Balance Sheet financial instruments.

13. DEPOSITS

	30 September 2013 Unaudited \$000	30 September 2012 Unaudited \$000	31 March 2013 Audited \$000
Retail Term Deposits	2,453,910	2,412,491	2,435,118
On Call Deposits Bearing Interest	2,334,275	2,086,014	2,286,607
On Call Deposits Not Bearing Interest	239,861	220,001	192,966
Wholesale Deposits Bearing Interest	39,825	59,768	24,968
	5,067,871	4,778,274	4,939,659

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013

13. DEPOSITS - continued

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 2013 Unaudited \$000	30 September 2012 Unaudited \$000	31 March 2013 Audited \$000
Retail Deposits			
Taranaki	2,516,556	2,362,062	2,453,071
Rest of New Zealand	2,551,315	2,416,212	2,486,588
Total Funding by Geographic Region	5,067,871	4,778,274	4,939,659
Government and Public Authorities	17,000	16,626	18,086
Finance	39,825	59,769	24,968
Households	4,918,185	4,610,385	4,802,304
Community	35,281	31,769	35,524
Commercial	57,580	59,725	58,777
Total Funding by Industry	5,067,871	4,778,274	4,939,659
Derivative Financial Instruments	1,504	450	940
Current Tax Liability	2,684	3,712	6,803
Other Liabilities	30,722	34,214	43,830
Total Liabilities	5,102,781	4,816,650	4,991,232

14. OTHER LIABILITIES

Employee Entitlements	5,805	4,651	5,832
Dividend Payable	3,350	3,350	7,675
Trade and Other Payables	21,567	24,987	30,323
	30,722	32,988	43,830

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

15. CASH FLOW HEDGE RESERVE

Opening Balance	-	56	56
Effective Portion of Changes in Fair Value	-	(2)	(2)
Fair Value Movements Transferred to Interest Income	-	(75)	(75)
Deferred Income Tax	-	21	21
Balance at End of Period	-	-	-

16. SHARE CAPITAL

Share Capital

Issued and Fully Paid Up Capital: 20,000,000 Ordinary Shares	10,000	10,000	10,000
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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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013

17. DIVIDEND

	30 September 2013		30 September 2012		31 March 2013	
	\$000	\$ Per Share	\$000	\$ Per Share	\$000	\$ Per Share
Interim	3,350	0.167	3,350	0.167	3,350	0.167
Final	-	-	-	-	7,675	0.384
	3,350	0.167	3,350	0.167	11,025	0.551

18. 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 2013

Unaudited	Note	Hedging \$000	Held-for- Trading \$000	Held-to- Maturity \$000	Loans and Receivables \$000	Other Amortised Cost \$000	Total Carrying Amount \$000	Fair Value
								\$000
Financial Assets								
Cash and Cash Equivalents	6	-	-	-	-	83,296	83,296	83,296
Derivative Financial Instruments	7	281	1,504	-	-	-	1,785	1,785
Investment Securities	8	-	-	2,373,770	-	-	2,373,770	2,442,841
Investment in Associate – Fisher Funds	9	-	-	35,137	-	-	35,137	35,137
Loans and Advances to Customers	10	-	-	-	3,040,308	-	3,040,308	3,028,404
Other Assets	11	-	-	-	1,182	-	1,182	1,182
Total Financial Assets		281	1,504	2,408,907	3,041,490	83,296	5,535,478	5,592,645
Financial Liabilities								
Deposits	13	-	-	39,825	-	5,028,046	5,067,871	5,090,643
Derivative Financial Instruments	7	-	1,504	-	-	-	1,504	1,504
Other Liabilities	14	-	-	-	-	24,917	24,917	24,917
Total Financial Liabilities		-	1,504	39,825	-	5,052,963	5,094,292	5,117,064

Valuation Hierarchy

In determining the carrying amount of financial instruments held at fair value, the Bank uses a valuation method within the following hierarchy:

- Level 1 – quoted prices for similar instruments;
- Level 2 – directly observable market inputs other than Level 1 inputs; and
- Level 3 – inputs not based on observable market data.

The Bank uses the Level 2 valuation method outlined above for derivatives which are valued using valuation models based on observable market inputs.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013

19. 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 2013
Unaudited

	0 - 3 Months \$000	3 - 6 Months \$000	6 - 12 Months \$000	1 - 2 Years \$000	Over 2 Years \$000	Not Interest- Bearing \$000	Total \$000
Assets							
Cash and Cash Equivalents	78,600	-	-	-	-	4,696	83,296
Investment Securities	1,717,339	28,500	53,223	123,815	450,893	-	2,373,770
Investment in Associate – Fisher Funds	-	-	-	-	-	35,137	35,137
Loans and Advances to Customers	1,483,597	178,582	665,987	538,516	188,681	(15,055)	3,040,308
Other Financial Assets ¹	-	-	-	-	-	2,967	2,967
Total Financial Assets	3,279,536	207,082	719,210	662,331	639,574	27,745	5,535,478
Liabilities							
Deposits	3,110,235	628,259	771,785	194,733	166,209	196,650	5,067,871
Other Financial Liabilities ²	-	-	-	-	-	26,421	26,421
Total Financial Liabilities	3,110,235	628,259	771,785	194,733	166,209	223,071	5,094,292
Lending Commitments	122,341	-	-	-	-	-	122,341
Derivative Notional Principals	21,368	-	(1,900)	-	(19,468)	-	-

¹ Other Financial Assets include Derivative Financial Instruments and FX Fwd Exchange Currency Assets.

² Other Financial Liabilities include FX Fwd Exchange Currency Liabilities.

(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.

Scenarios	% Change in Net Interest		
	30 September 2013 Unaudited	30 September 2012 Unaudited	31 March 2013 Audited
	-2.0%	-10.3%	-13.5%
-1.0%	-5.6%	-5.3%	-5.5%
+1.0%	+4.0%	+10.3%	+6.3%
+2.0%	+7.5%	+20.6%	+10.8%

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013

19. 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 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.

Scenarios	% Change in MVSE		
	30 September 2013 Unaudited	30 September 2012 Unaudited	31 March 2013 Audited
-2.0%	+6.6%	-1.9%	+4.0%
-1.0%	+3.8%	-0.6%	+1.2%
+1.0%	-1.3%	+1.4%	-3.7%
+2.0%	-4.0%	+3.5%	-6.4%

20. 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 2013 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	83,296	-	-	-	-	-	83,296
Investment Securities	-	106,207	445,954	503,971	1,327,111	303,612	2,686,855
Investment in Associate – Fisher Funds	-	-	-	-	-	35,137	35,137
Loans and Advances to Customers	-	58,992	133,350	890,669	1,005,770	2,309,936	4,398,717
Other Financial Assets ¹	-	1,380	372	917	(80)	378	2,967
Total Financial Assets	83,296	166,579	579,676	1,395,557	2,332,801	2,649,063	7,206,972
Liabilities							
Deposits	2,543,011	98,988	483,550	1,525,600	459,410	732	5,111,291
Other Financial Liabilities ²	-	25,115	372	934	-	-	26,421
Total Financial Liabilities	2,543,011	124,103	483,922	1,526,534	459,410	732	5,137,712
Lending Commitments (Off Balance Sheet)	-	122,341	-	-	-	-	122,341
Net Financial Assets/ (Liabilities)	(2,459,715)	164,817	95,754	(130,977)	1,873,391	2,648,331	2,191,601

¹ Other Financial Assets include Derivative Financial Instruments and FX Fwd Exchange Currency Assets.

² Other Financial Liabilities include FX Fwd Exchange Currency Liabilities.

NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013

20. LIQUIDITY RISK MANAGEMENT - continued

Current and Non-current Assets and Liabilities As at 30 September 2013	Current \$	Non- current \$	Total \$
Assets			
Cash and Cash Equivalents	83,296	-	83,296
Derivative Financial Instruments	1,785	-	1,785
Investment Securities	1,007,442	1,366,328	2,373,770
Investment in Associate – Fisher Funds	-	35,137	35,137
Loans and Advances to Customers	925,931	2,114,377	3,040,308
Other Assets	1,182	192	1,374
Deferred Tax Asset	-	8,843	8,843
Property, Plant and Equipment	-	15,097	15,097
Total Assets	2,019,636	3,539,974	5,559,610
Liabilities			
Deposits	2,740,936	2,326,935	5,067,871
Derivative Financial Instruments	1,504	-	1,504
Current Tax Liability	2,684	-	2,684
Other Liabilities	30,722	-	30,722
Total Liabilities	2,775,846	2,326,935	5,102,781

Assets and liabilities are classified as current if it is expected they will be realised, consumed or settled within 12 months of the reporting date.

Non-current assets include property, plant and equipment and intangible assets as well as financial assets of a long term nature. Non-current liabilities include financial and non-financial liabilities which are expected to be settled after twelve months from reporting date.

For the purposes of this disclosure, the fair value of derivatives has been classified as current.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013

21. CAPITAL ADEQUACY (UNAUDITED)

(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 and Reserve Bank.

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 2013. During the period and the comparative period shown, the Bank complied with all of the RBNZ capital requirements to which it is subject. No changes have been made to the Board approved levels of regulatory capital to be held during the period.

Basel III

The Basel III capital framework was introduced by the Basel Committee on Banking Supervision (BCBS) in December 2010 to raise the quality and level of capital in the global banking system. On 11 December 2012 the Reserve Bank released capital adequacy standards which apply to locally incorporated registered banks in New Zealand and implement the Basel III capital requirements. The bulk of the new standards took effect from 1 January 2013 and set higher minimum requirements around how much regulatory capital must be held by registered banks, along with the types of financial instruments which may be treated as regulatory capital.

Pillar 2 of Basel III is intended to ensure that Banks have adequate capital to support all risks in their business, and includes the requirement on banks to have an "Internal Capital Adequacy Assessment Process (ICAAP)" for assessing their overall Capital Adequacy in relation to risk profile and a strategy for maintaining adequate capital to support risk. The Bank's ICAAP has identified other areas of risk not covered by Pillar I (credit risk, market risk, and operational risk) and assigned a level of capital to them. These risks include but are not limited to strategic risk, reputational risk, environmental risk, liquidity risk, and ownership structure. The Bank has made an internal capital allocation of \$166m (2012, \$163m) to cover these identified risks.

Total Capital Adequacy Ratios for the Bank as at 30 September 2013 are:

	RBNZ Minimum Ratio Requirement	2013 30 Sept Unaudited Basel III	2012 30 Sept Unaudited Basel II	2013 31 March Audited Basel III
Common Equity Tier 1 Capital ratio	4.5%	13.40%	15.39%*	14.56%
Tier 1 Capital ratio	6.0%	13.40%	15.39%*	14.56%
Total Capital ratio	8.0%	13.40%	15.39%*	14.56%

* Prepared using BS2A Capital Adequacy rules applicable at 30 September 2012.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013

21. CAPITAL ADEQUACY – continued (UNAUDITED)

(ii) Capital

	2013 30 Sept Unaudited Basel III
Tier One Capital	
Common Equity Tier 1 (“CET1”) Capital	
Issued and fully paid-up Share Capital	10,000
Retained Earnings	427,590
Current period’s Reviewed/ Audited Retained Earnings	19,239
Less Deductions from CET1 Capital	
Intangible Assets	(192)
Deferred Tax Assets	(8,843)
Investment in Associate	(35,137)
Total Common Equity Tier 1 Capital	412,657
Additional Tier 1 Capital	-
Total Tier 1 Capital	412,657
Tier 2 Capital	-
Total Capital	412,657
Buffer Ratio (RBNZ Buffer Requirement 2.5%)	5.40%

(iii) Total Risk Weighted Exposures – September 2013

	Total Exposure after credit risk mitigation Sept-13 Unaudited \$000	Risk Weight	Risk Weight Exposure Sept-13 Unaudited \$000	Minimum Pillar One Capital Requirement Sept-13 Unaudited \$000
On Balance Sheet Exposures				
Cash	4,696	0%	-	-
Reserve Bank of New Zealand	78,600	0%	-	-
Public Sector Entities	425,592	20%	85,118	6,809
Banks	958,227	20%	191,645	15,332
Banks	137,640	50%	68,820	5,506
Corporate	59,000	20%	11,800	944
Corporate	177,484	50%	88,742	7,099
Corporate	604,585	100%	604,585	48,367
Residential Bonds	25,000	35%	8,750	700
Residential Mortgages <80% LVR *	2,042,065	35%	714,723	57,178
Residential Mortgages 80%<90% LVR *	249,601	50%	124,801	9,984
Residential Mortgages Welcome Home Loans *	249,614	50%	124,807	9,985
Residential Mortgages 90%<100% LVR *	9,293	75%	6,970	557
Past Due and Impaired Residential Mortgages *	8,947	100%	8,947	716
Other Assets	485,094	100%	485,094	38,807
Non-Risk Weighted Assets	44,172	0%	-	-
Total On Balance Sheet Exposures	5,559,610		2,524,802	201,984

* Total Residential Mortgages \$2,559,520k (refer Note 10).

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013

21. CAPITAL ADEQUACY – continued (UNAUDITED)

	Total Exposure	Credit Conversion Factor	Credit Equivalent Amount	Average Risk Weight	Risk Weighted Exposure	Minimum Pillar One Capital Requirement
	Sept-13 Unaudited \$000		Sept-13 Unaudited \$000		Sept-13 Unaudited \$000	Sept-13 Unaudited \$000
Off Balance Sheet Exposure						
Revolving Credit Facility	33,700	50%	16,850	20%	3,370	270
Commitments where original maturity is:						
- more than one year: Residential	273,588	50%	136,794	35%	47,878	3,830
- more than one year: Non Residential	45,833	50%	22,917	35%	8,021	642
- less than one year	105,026	20%	21,005	100%	21,005	1,680
Market Related Contracts						
Interest Rate Contracts*	21,368	N/A	-	20%	-	-
Sub Totals	479,515		197,566		80,274	6,422

* 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	336,941	26,956
Market Risk	138,168	11,053
Sub Total	475,109	38,009

Total Capital Requirements

	Total Exposure after credit risk mitigation	Risk Weighted exposure or Implied RWE	Capital Requirement
Total credit risk plus equity	5,754,284	2,605,075	208,406
Operational Risk	N/A	336,941	26,956
Market Risk	N/A	138,168	11,053
Total		3,080,184	246,415

Residential Mortgages by Loan-to-Valuation Ratio

LVR Range	0%-80%	80% -90%	Over 90%	Total
On Balance Sheet Exposures	2,042,065	249,602	258,906	2,550,573
Past Due and Impaired	5,207	456	3,284	8,947
Total Value of On Balance Sheet Exposures (refer Note 9)	2,047,272	250,058	262,190	2,559,520
Off Balance Sheet Exposures	294,626	21,790	3,005	319,421
Total Residential Mortgages	2,341,898	271,848	265,195	2,878,941

	Implied Risk Weighted Exposure	Aggregate Capital Charge	Aggregate Capital Charge as % of Banks Equity	Banks Equity
Market Risk				
End of Period capital charges	138,168	11,053	2.68%	412,657
Peak end of day capital charges	141,163	11,293	2.74%	412,657

In accordance with clause 9 of Schedule 9 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No 2) 2013, 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 2013

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

The Bank has no involvement with any Securitisation, Custodial, or other Fiduciary activities. Through the recent acquisition of 26.39% of Fisher Funds the Bank now has an association with the Funds Management industry. The Bank does not conduct any insurance business, however general insurance, life insurance, and KiwiSaver products are marketed through the Bank's branch network. These have been provided on 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 Unit Trust is invested exclusively in TSB Bank debt securities. As at 30 September 2013, the TSB Bank PIE Unit Trust had \$60.5m (30 September 2012, \$64.1m; 31 March 2013, \$64.4m) invested with the Bank.

23. REPORTING BY SEGMENT

The Bank operates as one segment, in the business of Retail Banking in New Zealand. TSB Bank has no debt or equity instruments trading in the public market, and is not in the process of issuing. TSB Bank therefore falls outside the scope of NZ IFRS 8 Operating Segments. On this basis no detailed segment information is presented as it is not required.

	30 September 2013 Unaudited \$000	30 September 2012 Unaudited \$000	31 March 2013 Audited \$000
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24. COMMITMENTS AND CONTINGENT LIABILITIES

Commitments approved to advance less than one year	105,026	102,824	104,040
Commitments approved to advance greater than one year	353,121	316,499	324,786
Capital Commitments	-	-	-
	458,147	419,323	428,826

Lending Commitments are also split by maturity in Notes 19 and 20.

There are no material contingent liabilities and outstanding claims known as at 30 September 2013 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 2013 the Trust had \$19.450m invested with the Bank at market rates, with interest accrued of \$0.203m (30 September 2012, \$13.395m invested with interest accrued of \$0.199m; 31 March 2013, \$14.745m invested with interest accrued of \$0.189m). Interest paid to the Trust for the six months to 30 September 2013 was \$0.385m (30 September 2012, \$0.312m; and 12 months to 31 March 2013, \$0.749m). The Trust also received dividends as detailed in Note 17.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013

25. RELATED PARTY TRANSACTIONS AND BALANCES – continued

Transactions with Directors and Key Management Personnel

	30 September 2013 Unaudited \$000	30 September 2012 Unaudited \$000	31 March 2013 Audited \$000
<i>Key Management Compensation</i>			
Short-term Employee Benefits	1,795	1,311	3,155
Other long-term Benefits	(37)	46	180
	1,758	1,357	3,335
<i>Loans to Directors and Key Management Personnel</i>			
Balance at Beginning of Period	2,321	2,652	2,652
Net Loans received/(repaid) during the Period	22	(680)	(331)
Balance at End of Period	2,343	1,972	2,321
<i>Deposits from Directors and Key Management Personnel</i>			
Balance at Beginning of Period	3,694	2,447	2,447
Net Deposits received/(repaid) during the Period	34	1,675	1,247
Balance at End of Period	3,728	4,122	3,694

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.

DIRECTORS' STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013

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 2) 2013; and
- b) The Disclosure Statement is not false or misleading.

The Directors believe, after due enquiry, that for the six months ended 30 September 2013:

- 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. I. Bain



M. A. Blackburn



J. J. Kelly



D. L. Lean



K. M. Marriner



K. J. Murphy
Managing Director



H. P. W. Wano

29 November 2013



Independent Auditors' Review Report

To the Shareholder of TSB Bank Limited

We have reviewed pages 3 to 25 of the interim 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 2) 2013 (the 'Order') and the supplementary information prescribed in Schedules 3, 5, 7, 9, 13, 16 and 18 of the Order. The interim 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 2013, and its financial position as at 30 September 2013.

Directors' responsibilities

The Directors of TSB Bank Limited are responsible for the preparation and presentation of the Disclosure Statement, which includes interim financial statements prepared in accordance with Clause 25 of the Order and NZ IAS 34 *Interim Financial Reporting*. 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 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, 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 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 2013 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, 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 of the Order.

We have performed our review in accordance with the review engagement standard RS-1 Statement of Review Engagement Standards issued by the External Reporting Board. A review is limited primarily to enquiries of the Bank's 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.

KPMG has provided other assurance services involving accounting, technical, IFRS and other regulatory advice to the Bank during the period. Certain 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. 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 2013 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 29 November 2013 and our review opinion is expressed as at that date.

A handwritten signature in blue ink that reads 'KPMG', with a horizontal line drawn underneath it.

Wellington

DIRECTORY

Directors

E. (Elaine) Gill, ONZM, LLB, J.P, Chair
 B.C. (Bruce) Richards, MNZM, B.Com, FCA, CMA, A.F.Inst.D, Deputy Chair
 M.I. (Murray) Bain, M Com (Hons), BSc
 M.A. (Anne) Blackburn, MA, BA
 J.J. (John) Kelly
 D.L. (David) Lean, QSO, J.P
 K.M. (Kelly) Marriner, LLB, BA
 K.J. (Kevin) Murphy, CA, J.P, Managing Director/CEO
 H.P.W. (Hayden) Wano

Executive Management

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

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

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