Disclosure Statement and Annual Report

For the year ended 31 March 2018

TSB

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Turning 168 years old in 2018, TSB has grown from modest beginnings in New Plymouth, Taranaki, to be the seventh* largest bank in New Zealand.

We are proud to be a 100% New Zealand-owned bank whose profits are not sent overseas and to be the country's leading bank for customer service having been awarded, for the third consecutive year, Consumer New Zealand's People's Choice award for Banking.

Our history is a testament to our past success, but it does not guarantee our future success. That is why our strategy is focused on how to differentiate our business from our competitors and build a strong foundation for steady growth.

Throughout the past year we experienced some significant changes – we launched our new brand and identity and said farewell to Kevin Murphy, our CEO of the past nine years, when he retired after nearly 40 years with TSB.

Looking forward we see exciting opportunities to continue to expand our national reach and progress our vision. By providing products, services, advice and community support we can help individuals and communities across New Zealand to thrive.

We believe every New Zealander and customer has the right to get ahead and we are committed to helping them do so.

*Based on total assets. Source: Reserve Bank of New Zealand Summary information for locally incorporated banks

Year in review

Economic Environment

The past year was one of change; geopolitical risks created volatility in financial markets which continued throughout the year. While world affairs were tumultuous, New Zealand, despite the fall in business confidence leading up to the general election and subsequent change of Government, continued to prosper with annual growth of 2.9%* in the year ending 31 December 2017.

In November, the Reserve Bank of New Zealand announced that, from January 2018, it was relaxing its Loan to Value Ratio (LVR) policy put in place to help curb rapid house price inflation and household leverage. This came at a time of concern by local and foreign investors as to the possible removal of negative gearing taxation benefits, the introduction of a capital gains tax and the restrictions on foreign purchases of residential housing and other land assets in New Zealand.

New Zealand banks have been carefully following Australia's Royal Commission inquiry into banking which has seen the lending and financial advice practices of Australia's major banks and financial services firms coming under scrutiny. In light of the recent publication of submissions to the Australian Royal Commission, New Zealand banks have been asked to provide information about their customer interactions for New Zealand regulators. We are pleased to participate in this and are confident in the standard of service our customers have received.

*Statistics New Zealand – GDP December 2017 quarter

Year in review

Our financial results

Despite some uncertainty in the economic climate during 2017, TSB continued to grow and closed the financial year ending 31 March 2018 with profit before tax of $72.1 million. Our profit includes a write-back of a Solid Energy provision amounting to $15.5 million. This is in response to a previous full write-down of our holdings in Solid Energy.

During the year our deposits increased 9.5% and now sit at a record high of $6.7 billion. This growth has come from across New Zealand and was supported by 3% growth in new-to-bank customers.

While the early part of the year brought a highly competitive domestic market for deposits, the latter part of the year saw a renewed focus on lending with rates trending upwards and margins tightening. Our lending portfolio growth of 14% was less than last year but still exceeded current market growth.

Our home lending slowed slightly at the end of the financial year to 14% but was still well in excess of market growth at 5.8%.

We maintained strong lending results in Auckland despite a relatively flat market. We attribute this to our increased investment and focus in the area over the past few years as well as ensuring our teams are equipped to identify leads and have quality conversations with customers tailored to support their individual financial needs and life circumstances. Providing quality customer experiences through both our branch and mobile mortgage manager networks, supported by competitive pricing and award-winning customer service, has helped us to grow our portfolio.

The entire banking industry has faced historically low margins and we expect this to carry on over the coming months. We are diversifying our product mix, market presence and customer base to assist in mitigating this while still meeting our customers' needs. This brings the question of non-interest income into greater focus and we are aiming to address this through the addition of other customer products and services.

At the same time there is a general move from our competitors to reduce their fees to customers to ensure they better reflect the cost of providing the service. TSB has provided a low/no fees offering for many years and, from a customer's perspective, it's good to see the market moving nearer to our position.

Our AgriBusiness and Business Banking units continue to grow as their teams and strategies mature. Our AgriBusiness division, now in its fifth year, is comprised of rural experts who provide specialist knowledge to regional farmers. Our rural loan book grew by 6% in the last year which is considered a steady result considering difficult weather conditions – a very wet spring and dry summer – created additional business challenges for farmers such as reduced production and restricted cashflow. The team was focused on working closely with and supporting existing customers during challenging periods throughout the year which demonstrates TSB's 'customer first' approach across all of our business.

Our specialist Business Banking team entered their third year of operation. This portfolio increased 19% during the year as a result of additional specialist resources and significant increases in commercial property finance enquiries and opportunities. Our business banking growth was seen across the country and was supported through referrals and leads from our branch network.

Our strategy and focus

In our third year of a five-year strategy, TSB continued investing in our people and technology capital for future growth. The trend of digitisation within the banking sector aligned with a need to deliver quality in-person customer experiences means we need to stay focused on balancing our investment across our people and technology. This year we also invested in our new brand to stay relevant to New Zealanders. None of these areas are short-term investments but all are necessary for long-term success. Our investment in these areas is reflected in our cost to income ratio of 53.48%.

Building our Brand

On 2 October 2017 we revealed our new "TSB" brand and identity to New Zealand. After decades of growth, we had recognised our company and the needs of our customers were changing and it was time to make sure our brand was still relevant. Our research told us that our customers valued our New Zealand roots and ownership so our rebranding reflects those attributes.

Our brand update saw us drop 'Bank' from our name to simply become TSB – similar to the evolution of other major banks. Our old logo, which featured Mt Taranaki, had a makeover to reflect our growth outside the Taranaki region and be identifiable to people from all around the country – as a reflected mountain peak, sails or even a compass. This new logo reflects our commitment to helping New Zealanders conquer their own goals and challenges, through our financial advice, products and services.

Our new brand has now been incorporated across all of our branches and the majority of our communication material. We continue to update our brand across the country on significant properties that bear our name and logo.

Our new brand campaign entitled 'Life changes. We'll be there' was designed to show the real ups and downs of peoples' lives and position TSB as an organisation that can provide astute financial support to help people through those life moments. The campaign was recognised when it won two Gold Ingots at the Midas Awards in early 2018. The Midas Awards are international awards celebrating excellence in financial advertising and marketing on a global scale. There were entries from 21 countries and TSB was the only New Zealand financial institution to win anything across the gold, silver or certificate awards.

TSB

We are extremely proud of all of our people who contributed to our rebrand and for the recognition it provided us.

Our strategy and focus

Growing nationally

TSB has grown to be the seventh largest bank in New Zealand and this position aligns with our aspiration to be recognised as a national bank for all New Zealanders.

We continue to have strong growth across both our lending and deposit portfolios. Our loan portfolio is growing outside of Taranaki at a significantly higher rate than within the region. Residential lending, our dominant lending product, led our growth at nearly 2.5 times the market. Our deposits grew across the country at slightly over 1.5 times market growth with term investments making up 53% of our deposit mix.

Increased investment in our network outside of Taranaki over the past 10 years has resulted in the majority of our business now being generated from outside of the region. This is a significant indicator of our success in slowly and steadily expanding our business into new markets around New Zealand.

Residential Lending

2.5

times the market rate

This growth is attributable to an increase in business opportunities partnered with the maturity of our investment into key metropolitan areas. We have supported this growth with our consistent focus on delivering specialised resourcing, training and coaching for our teams around the country to enable quality, consultative interactions with our customers, wherever they are located.

People Leadership

Over the past year we have focused on increasing our organisational capability, building employee skill and commitment, and refining our structure to align with our strategy. Despite considerable change we have maintained our employee engagement and reduced employee turnover.

Our primary focus for skill development has been through our Coaching programme which is now mandatory for all of our people leaders. We believe investing in our people's ability to coach and mentor our own will support engagement and drive a more performance-oriented culture.

To meet our technical needs and growth requirements, we have cultivated a robust recruitment programme to effectively attract and retain talent with specialist skills within a highly competitive market.

As a result, we have successfully recruited talent from across New Zealand, and all over the world, and we are now benefiting from a more diverse and inclusive workforce developing our business.

TSB employees experienced significant changes over the past year which came in many forms – from the launch of our new brand and changes in our organisational structure to new systems and processes as well as a change in leadership.

In January, our Chief Executive Officer and Managing Director, Kevin Murphy, retired after nearly a decade in the role and nearly 40 years with TSB. Although he had, for some time, signalled to the Board his intentions to retire, he postponed his announcement until TSB realised key milestones of assisting with TSB Community Trust's acquisition of Fisher Funds and launching TSB's new brand. This commitment reflects his years of dedication and passion for TSB and the community and he will be missed by all.

To ensure continuity and a seamless transition for employees and customers upon Mr Murphy's retirement, TSB Director, Murray Bain, was appointed by the Board of Directors as Acting Managing Director. Mr Bain's significant banking experience with a community-oriented bank as well as time as Assistant Governor of the Reserve Bank of New Zealand made him ideal for the role.

At the time of writing this report, the Board is progressing the search for TSB's new CEO with an announcement expected in due course.

Customer first

Technology

The financial services industry is going through one of the most significant periods of technological change we have seen in many years. This digital revolution has led to lower foot traffic in branches and more customer interactions taking place online. Our goal in this environment is to ensure we are providing high quality customer services and experiences across all of our channels – whether in person, over the phone or via mobile and online banking – while continuing to provide customers with choice around how to do their banking.

This year we continued to invest in technology to strengthen our systems and provide digital customer experiences that deliver on our promise of making banking easy – every time and everywhere. Some of this activity included significant investment into major infrastructure upgrades and improvements across storage, server and security technologies. We also implemented a new Application Programming Interface Management Platform to support both internal system integrations and external ecosystem participation – providing efficiencies through automated interactions.

To remain relevant to our customers and competitive within our industry in the future, we need to embrace the latest digital developments and find the way they best work for our business and customers. This will be a key focus for TSB in the coming year and will continue to require a significant investment into our technology.

Interacting with customers through technology doesn't just involve banking services, but also communication channels. We have been enhancing our social media communications to build our new brand and create quality content that is relevant and encourages conversations with our audiences. Our 2017 Christmas campaign was a great example of providing more meaningful and authentic social interactions.

For this campaign, we posted a two-minute Facebook video featuring our own employees, and followed up by asking people to share their idea of 'the best present in the world'. Those who participated went into the draw to win their present. We had fantastic engagement and reinforced our brand position as a bank that genuinely cares about people and customers – a trait that is at the heart of our business and organisational culture.

Customer first

Service

As a bank regularly recognised for award winning customer service, TSB's focus on providing exceptional customer experiences remains strong. We engage customer feedback through our "Voice of Customer" programme. This helps us to understand our customers' needs and experiences with us, and gives us the opportunity to continuously improve our services.

Our Net Promoter Score (NPS) among retail customers leads the way in New Zealand with a score of +63*. This score is considered world class and shows that our activities and focus on service results in a loyal customer base.

We are pleased to be rated so highly through industry research and even more proud to be acknowledged through customer satisfaction awards.

This year we won the 2018 Consumer New Zealand's People's Choice Award for Banking. To achieve this award, a brand must stand out in terms of customer satisfaction. TSB had the highest customer satisfaction result at 87% and we are the first bank to receive this award for three consecutive years.

We also won the 2018 Canstar Blue Overall Customer Satisfaction Award with 5-star ratings across all categories. This is the fifth time in six years and the third consecutive year that TSB has won this award and demonstrates we are true to our customer-first promise and commitment.

*Nielsen Financial Tracker March 2018

Community Engagement

Our Communities

We believe in partnerships as an effective way to give back to and support the communities in which we work and live around the country. We have partnerships in all of the centres where we have branches and our passionate employees volunteer to support events and organisations in their area. This commitment to being a responsible and contributing community citizen is at the heart of our business.

When we entered our partnership with Surf Life Saving New Zealand in 2016 we designed it to help us reach and support communities across New Zealand. This past year we launched our TSB Surf Life Saving Grants programme to recognise the great work the 74 surf life saving clubs do to support communities, ensuring our sponsorship provides value to clubs coast-to-coast.

We launched the grant programme direct to clubs in July and achieved an outstanding 76% engagement rate from clubs around the country. We offered 11 grants across three categories – equipment, maintenance and training. $115,000 in grants was provided to 11 clubs with representation from all four regions – Northern, Eastern, Central and Southern. We were proud to be able to support clubs in an increasingly challenging community funding environment.

Our local partnerships have grown this year to include the Katherine Mansfield Garden Party in Hamilton, Rebel Sport New Zealand Masters Golf in Auckland and the Hilux New Zealand Rural Games in Palmerston North. In addition, we were proud to continue to support some of our long-established partnerships such as the TSB Festival of Lights in New Plymouth, WOMAD in Taranaki and TSB Arena in Wellington.

Looking ahead, we welcome the opening of the new Christchurch City Library – Tūranga – in which our TSB Space (a 200-seat venue) will be available to the local community. This marks our largest partnership in Christchurch and what we anticipate will be an opportunity to build our involvement within the city and with its citizens.

Our Shareholder

Being a community-owned bank whose profits remain in New Zealand, means we have a close relationship with our shareholder – the TSB Community Trust. The Trust celebrated its 30-year anniversary in May 2018 having been established in 1988 as a means for us – then named Taranaki Savings Bank – to remain independent from the government's proposal for a merger of all 12 independent New Zealand banks. We knew it wasn't in the best interests of our customers to participate in the merger. The merger faltered after a few years and was sold off to a big Australian bank. Our choice to remain independent allowed us to grow stronger and we are still making decisions in the best interests of our customers today. The Trust owns 100% of TSB Bank Ltd through TSB Group Ltd.

Like publicly owned companies, we pay dividends to our shareholder. TSB's dividends are used by our shareholder in its endeavours to support the community both now and in the future. This year we paid an annual dividend of $10 million to assist the TSB Community Trust in achieving its strategic vision to be an agent of beneficial change within Taranaki with a focus on child and youth wellbeing.

In August 2017 we also paid a one-off special dividend of $10 million which was used to facilitate the Trust's increased shareholding in Fisher Funds through its Group investment arm. In doing so, TSB helped strengthen and diversify the Trust's asset base – providing greater financial depth for our shareholder which in turn provides us with increased security and potential capital opportunities in the long-term.

Since the Trust's establishment 30 years ago we have paid over $140* million in dividends to support the Trust in its work.

TSB Community Trust

30

year anniversary

*excludes special dividends

TSB faced a significant amount of change over the last year and throughout it maintained a firm commitment to our employees and customers. As we look to the future we know we have a lot of work ahead of us, particularly when it comes to developing our digital technologies and defining what sets us apart from other banks.

TSB has grown over nearly 168 years of operation in New Zealand and while our past success does not dictate our future success we can celebrate and learn from it. We have a resilient leadership team prepared for what we believe is an exciting future for TSB.

We are confident our strategic efforts to invest in and strengthen the foundation of our business over the last couple of years means we are in a good position to fulfil our vision of being a stronger, more relevant and competitive bank – now and in the future.

J.J. Kelly
Chair - Board of Directors
24 May 2018

M.I. Bain
Acting Managing Director
Deputy Chair - Board of Directors
24 May 2018

General Information

This Disclosure Statement contains information as required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) ('the Order').

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.

Principal Activity

The Bank continues to offer a full range of Retail Banking Services to its customers along with support areas of operation in Real Estate and Foreign Exchange. The Bank has no direct exposure to the funds management industry, though it promotes the sale of Fisher Funds products, a related party.

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.

Ownership

The Bank is wholly owned by the TSB Community Trust (an independent body), through the Trust's fully owned subsidiary, TSB Group Limited, and is domiciled in New Zealand. TSB Community Trust appoints the Board of Directors. Address for Service is 21 Dawson Street, PO Box 667, New Plymouth, 4340.

Results and Distributions	**$000**
Net profit after tax	51,873
Dividends	
Interim dividend paid	2,657
Special dividend paid	10,000
Final dividend	7,343
Retained profit for the Year	31,873

Financial and Supplementary Disclosures

This Disclosure Statement is inclusive of the Bank's audited financial statements for the year ended 31 March 2018. All necessary additional financial and supplementary disclosures are included in the notes attached to the financial statements..

Guarantee Arrangements

No material obligations of the Bank are guaranteed.

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.

Items Excluded by Shareholder Agreement

The report has been prepared so as to include all information required to be disclosed under the Companies Act 1993 except where the Shareholder has resolved to take advantage of the reporting concessions available to them under section 211 (3) of the Companies Act 1993. The Shareholder has resolved to exclude remuneration received by the most highly paid employees during the accounting period.

Auditor

It is proposed that our Auditor, KPMG, continue in accordance with Section 196 of the Companies Act 1993.

KPMG
10 Customhouse Quay
Wellington 6011

Credit Rating

The Bank has a credit rating applicable to its long term senior unsecured obligations payable in New Zealand, in New Zealand dollars. The rating in effect on the date on which the disclosure statement is signed, is A-/Stable/a-, a Long Term Issuer Default Rating, which was reaffirmed by Fitch Ratings on 10 October 2017.

Rating scale for long term senior unsecured obligations:

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

Plus (+) or Minus (-): The ratings from 'AA' to 'CCC' may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

Directorate

All Directors of the Bank reside in New Zealand.

J.J. (John) Kelly

Independent and non-executive Director
(Chair – Board of Directors)
Company Director

External Directorship: John Kelly Livestock Limited, Te Tapu Lands Limited, Taranaki Veterinary Centre Limited, J & M Kelly Trustees Limited, JJ Kelly Family Trust, Taranaki Rugby Football Union.

M.I. (Murray) Bain, M Com (Hons), BSc, C.F.Inst.D

Executive Director
(Deputy Chair - Board of Directors)
(Acting Managing Director)
Company Director

External Directorship: Oryx Technologies Limited, M.I. Bain & Associates Limited, Central Region's Technical Advisory Services Limited, Top Energy Ngawha Spa Limited, Ngawha Generation Limited, Top Energy Limited, ESA Publications (NZ) Limited, Optimum Services Limited, Open Polytechnic of NZ.

M.A. (Anne) Blackburn, MA, BA

Independent and non-executive Director
Company Director

External Directorship: New Zealand Venture Investment Fund Limited, NZVIF Investments Limited, Fidelity Life Assurance Company Limited, Warren and Mahoney Limited, Ten Gracie Square Limited, Committee for Auckland Limited, Fisher Funds Management Limited, TSB Group Capital Limited, TSB Group Investments Limited, Wairaka Land Company Limited.

K.M. (Kelly) Marriner, LLB, BA

Non-executive Director
Company Director

External Directorship: 42 Limited, Zoe Limited, Marriner Nominees Limited, Zahk Limited, TSB Community Trust, TSB Group Limited. TSB Group Capital Limited.

N. (Natalie) Pearce, B.Com

Independent and non-executive Director
Company Director

External Directorship: Boosted, Home of the Brave.

P.M. (Peter) Schuyt, B Com, C.F.Inst.D

Independent and non-executive Director
Company Director

External Directorship: Pumpkin Patch Limited (In Receivership and in Liquidation), Tax Management New Zealand Limited, Dairy NZ Inc. (DairyNZ Limited), Dairy Investment Fund Limited, The Tatua Co-operative Dairy Company Limited, Foodstuffs North Island Limited, Ahikouka Holdings Limited, Alliance Group Limited.

D.J. (Dion) Tuuta

Independent and non-executive Director
Company Director

External Directorship: Port Nicholson Fisheries General Partner Limited, Koura Inc. General Partner Limited, Te Ohu Kaimoana Custodian Limited, Tuuta Waetford Tapui Limited, Seafood New Zealand Limited, Te Wai Maori Trustee Limited, PKW Farms GP Limited, Charisma Developments Limited, Southern Seabirds Trust.

H.P.W. (Hayden) Wano

Non-executive Director
Company Director

External Directorship: Tui Ora Limited, TSB Community Trust, Wano Family Trust, Te Niho oTe Atiawa Inc., TSB Group Limited.

The following changes to the composition of the Board of Directors have occurred since the publication date of the 31 March 2017 Annual Report/ Full Year Disclosure Statement:

- Kevin Murphy retired from the Board with effect from 31 January 2018; and
- Murray Bain became an executive director on 01 February 2018.

There have been no transactions between the Bank and any Director or immediate relative or close business associate of any Director which either, has been entered into on terms other than those which would in the ordinary course of business of the Bank be given to any other person of the like circumstances or means or, which could be reasonably likely to influence materially the exercise of the Director's duties.

The Address to which any communication to the Directors may be sent is:-

TSB Bank Limited
PO Box 240
New Plymouth 4310

Directorate (continued)

Policy on Directors' Conflicts of Interest

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

Directors Fees

Directors Fees received by the Directors for the year ended 31 March 2018.

Name of Director	Board Fee NZD	Audit Committee NZD	Risk Committee NZD	Nomination & Remuneration Committee NZD	Total NZD
J. J. Kelly	(Chair) 124,114	-	-	-	124,114
M. I. Bain*	(Deputy Chair) 58,352	3,620	3,620	3,103	68,695*
P. M. Schuyt	62,057	(Chair) 3,620	3,620	-	69,297
H. P. W. Wano	62,057	-	-	3,103	65,160
K. M. Marriner	62,057	-	3,620	-	65,677
M. A. Blackburn	62,057	3,620	(Chair) 3,620	-	69,297
D. J. Tuuta	62,057	-	-	(Chair) 3,103	65,160
N. Pearce	62,057	-	3,620	2,327	68,004
K. J. Murphy* (retired 31 January 2018)	-	-	-	-	-*
Total	**554,809**	**10,860**	**18,100**	**11,636**	**595,405**

* Excluding any salary received for executive services.

Fees paid to Directors of the Bank for the year totalled $595,405 (31 March 2017; $602,746).

Directors' and Officers' Liability Insurance

The Bank has effected insurance for Directors and Officers in respect of liability and costs that may arise from their positions in accordance with Section 162 of the Companies Act 1993. The insurance does not cover liabilities arising from criminal actions.

Directors' Interests

Directors maintain personal banking relationships with the Bank and these are undertaken fulfilling normal bank criteria. Directors are required to table all possible conflicts of interest at the Board of Directors' meetings and are required to abstain from any vote on those proceedings. The Bank complies with all the requirements of the Companies Act 1993 in terms of registers and notices for Directors' conflict of interest.

Directors' Statement

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

(a) The Disclosure Statement contains all the information required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order");
(b) The Disclosure Statement is not false or misleading.

The Directors believe, after due enquiry, that over the financial year to 31 March 2018:

(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) Subject to the comment in note 18. Risk Management System Reviews, 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.

J.J. Kelly
Chair - Board of Directors
24 May 2018

M.I. Bain
Acting Managing Director
Deputy Chair - Board of Directors
24 May 2018

M.A. Blackburn
24 May 2018

K.M. Marriner
24 May 2018

N. Pearce
24 May 2018

P.M. Schuyt
24 May 2018

D.J. Tuuta
24 May 2018

H.P.W. Wano
24 May 2018

Historical Summary of Financial Statements

All in $000's

	2018	2017	2016	2015	2014
Financial Performance					
Interest income	296,270	290,385	317,809	314,785	286,985
Interest expense	169,465	158,850	187,810	189,120	176,277
Net interest income	**126,805**	**131,535**	**129,999**	**125,665**	**110,708**
Income from associate	-	-	-	5,656	4,407
Other income	36,518	17,224	13,829	15,450	15,068
Net operating income	**163,323**	**148,759**	**143,828**	**146,771**	**130,183**
Operating expenses	87,340	80,241	67,003	57,243	50,919
Impairment losses / (reversal of impairment losses)	3,918	4,010	(8,723)	56,052	11,492
Profit before tax	**72,065**	**64,508**	**85,548**	**33,476**	**67,772**
Tax expense	20,192	18,168	23,985	7,959	17,819
Net profit attributable to shareholder	**51,873**	**46,340**	**61,563**	**25,517**	**49,953**
Dividend	20,000	10,000	19,850	5,030	10,200
Retained profit for the year	**31,873**	**36,340**	**41,713**	**20,487**	**39,753**
Financial Position					
Total assets	7,416,277	6,802,680	6,427,143	5,912,151	5,681,875
Total impaired assets - loans and advances	4,400	8,919	10,434	692	3,960
Impaired asset - Solid Energy	-	-	-	53,874	13,757
Deposits	6,740,890	6,156,809	5,813,192	5,366,029	5,155,881
Total liabilities	6,803,262	6,214,556	5,872,735	5,414,436	5,204,532
Shareholder's Equity					
Retained profit for the year	31,873	36,340	41,713	20,487	39,753
Total shareholder's equity	613,015	588,124	554,408	497,715	477,343
Performance					
Return on shareholder's equity	8.46%	7.88%	11.10%	5.13%	10.46%
Return on average total assets	0.73%	0.70%	1.00%	0.44%	0.90%
Growth in total assets	9.02%	5.84%	8.71%	4.05%	4.66%
Growth in depositors' funds	9.49%	5.91%	8.33%	4.08%	4.38%
Residential lending	4,389,811	3,851,176	3,125,154	2,738,069	2,592,508
Total lending	5,309,357	4,657,668	3,829,983	3,275,292	3,088,354
Net profit after tax					
- as a % of average shareholder's equity	8.64%	8.11%	11.70%	5.23%	10.92%
- per employee	111.73	105.26	158.67	76.86	162.71
Operating expenses to net operating income	53.48%	53.94%	46.59%	39.00%	39.11%
Prudential					
Shareholder's equity as a % of total assets	8.27%	8.65%	8.63%	8.42%	8.40%
Common equity Tier 1 capital ratio	14.28%	14.60%	14.52%	13.53%	13.91%
Total capital	14.28%	14.60%	14.52%	13.85%	14.21%

The amounts set out in the Financial Summary have been prepared from audited financial statements of the Bank. The Bank has no extraordinary items or minority interests.

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 March 2018

All in $000's

	Note	2018	2017
Interest income	2	296,270	290,385
Interest expense	2	169,465	158,850
Net interest income		**126,805**	**131,535**
Other operating income	3	36,518	17,224
Net operating income		**163,323**	**148,759**
Operating expenses	4	87,340	80,241
Profit before impairment and tax		**75,983**	**68,518**
Impairment losses / (reversal of impairment losses)	15.(e)	3,918	4,010
Profit before tax		**72,065**	**64,508**
Tax expense	5	20,192	18,168
Net profit after tax		**51,873**	**46,340**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Movement in fair value of available for sale investments		(7,690)	(7,014)
Movement in effective portion of changes in fair value of cash flow hedges		(2,007)	3,369
Income tax on items that may be reclassified to profit or loss	5	2,715	1,021
Other comprehensive income for the year (net of tax)		**(6,982)**	**(2,624)**
Total comprehensive income for the year		**44,891**	**43,716**

Total comprehensive income for the year is attributable to shareholder.

These financial statements are to be read in conjunction with the notes on pages 21 - 54

Statement of Changes in Equity

For the year ended 31 March 2018

All in $000's

For the year ended March 2018	Note	Share capital	Available-for-sale investments revaluation reserve	Cash flow hedge reserve	Retained earnings	Total Equity
Balance at 1 April 2017		**10,000**	**14,083**	**(1,842)**	**565,883**	**588,124**
Total comprehensive income for the period:						
Net profit after tax		-	-	-	51,873	51,873
Other comprehensive income:						
Movement in effective portion of changes in fair value of cash flow hedges (net of tax)		-	-	(1,445)	-	(1,445)
Movement in fair value of available-for-sale investments (net of tax)		-	(5,537)	-	-	(5,537)
Total other comprehensive income		-	(5,537)	(1,445)	-	(6,982)
Total comprehensive income for the period		**-**	**(5,537)**	**(1,445)**	**51,873**	**44,891**
Transactions with owner, recorded directly in equity: Dividends to equity holder	13	-	-	-	(20,000)	(20,000)
Total transactions with owner		**-**	**-**	**-**	**(20,000)**	**(20,000)**
Balance at 31 March 2018		**10,000**	**8,546**	**(3,287)**	**597,756**	**613,015**

For the year ended March 2017	Note	Share capital	Available-for-sale investments revaluation reserve	Cash flow hedge reserve	Retained earnings	Total Equity
Balance at 1 April 2016		**10,000**	**19,133**	**(4,268)**	**529,543**	**554,408**
Total comprehensive income for the period:						
Net profit after tax		-	-	-	46,340	46,340
Other comprehensive income:						
Movement in effective portion of changes in fair value of cash flow hedges (net of tax)		-	-	2,426	-	2,426
Movement in fair value of available-for-sale investments (net of tax)		-	(5,050)	-	-	(5,050)
Total other comprehensive income		-	(5,050)	2,426	-	(2,624)
Total comprehensive income for the period		**-**	**(5,050)**	**2,426**	**46,340**	**43,716**
Transactions with owner, recorded directly in equity: Dividends to equity holder	13	-	-	-	(10,000)	(10,000)
Total transactions with owner		**-**	**-**	**-**	**(10,000)**	**(10,000)**
Balance at 31 March 2017		**10,000**	**14,083**	**(1,842)**	**565,883**	**588,124**

These financial statements are to be read in conjunction with the notes on pages 21 - 54

Statement of Financial Position

For the year ended 31 March 2018

All in $000's

	Note	2018	2017
Assets			
Cash and cash equivalents		138,123	144,200
Derivative financial instruments	9	839	350
Investment securities (available-for-sale)	8	1,933,466	1,969,995
Loans and advances to customers	7	5,309,357	4,657,668
Deferred tax asset	5	5,137	3,248
Property, plant and equipment		19,650	17,662
Intangible assets		8,299	8,339
Other assets		1,406	1,218
Total assets		**7,416,277**	**6,802,680**
Liabilities			
Deposits	10	6,740,890	6,156,809
Derivative financial instruments	9	8,196	8,285
Current tax liability		6,919	2,451
Other liabilities	11	47,257	47,011
Total liabilities		**6,803,262**	**6,214,556**
Shareholder's Equity			
Share capital	13	10,000	10,000
Available-for-sale investments revaluation reserve		8,546	14,083
Cash flow hedge reserve		(3,287)	(1,842)
Retained earnings		597,756	565,883
Total shareholder's equity		**613,015**	**588,124**
Total liabilities and shareholder's equity		**7,416,277**	**6,802,680**
Total interest earning and discount bearing assets		7,338,448	6,722,094
Total interest and discount bearing liabilities		6,382,688	5,838,074

For and on behalf of the Board of Directors:

J.J. Kelly
Chair - Board of Directors
24 May 2018

M.I. Bain
Acting Managing Director
Deputy - Board of Directors
24 May 2018

These financial statements are to be read in conjunction with the notes on pages 21 - 54

Statement of Cash Flows

For the year ended 31 March 2018

All in $000's

	Note	2018	2017
Cash Flows from Operating Activities			
Cash provided from (applied to):			
Interest income received		294,582	292,911
Other income received		36,328	17,021
Interest paid		(164,707)	(159,492)
Operating expenditure		(82,989)	(75,078)
Taxes and subvention payments		(14,899)	(11,512)
Cash flows from operating profits before changes in operating assets and liabilities		**68,315**	**63,850**
Net changes in operating assets and liabilities:			
Increase in loans and advances to customers		(651,956)	(831,077)
Derivative financial instruments		(2,585)	400
Increase in deposits		579,323	344,259
Cash flows from operating assets and liabilities		**(75,218)**	**(486,418)**
Net cash flows from operating activities	6	**(6,903)**	**(422,568)**
Cash Flows from Investing Activities			
Cash provided from (applied to):			
Net maturity of Investment securities (available-for-sale)		26,878	468,394
Property, plant and equipment purchased		(4,991)	(1,561)
Intangible assets purchased		(1,577)	(5,750)
Net cash flows from investing activities		**20,310**	**461,083**
Cash Flows from Financing Activities			
Cash provided from (applied to):			
Dividends paid		(19,484)	(12,648)
Net cash flows from financing activities		**(19,484)**	**(12,648)**
Net increase in cash and cash equivalents		**(6,077)**	**25,867**
Add cash and cash equivalents at beginning of the year		144,200	118,333
Cash and cash equivalents at end of year		**138,123**	**144,200**
Reconciliation of Cash and cash equivalents to the Statement of Financial Position			
Cash and cash at bank		22,858	27,692
Balances with Reserve Bank		115,265	116,508
Total cash and cash equivalents at end of Year		**138,123**	**144,200**

These financial statements are to be read in conjunction with the notes on pages 21 - 54

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Notes to the Financial Statements

For the year ended 31 March 2018

Basis of Preparation

1. Statement of Compliance and General Accounting Policies

(a) Statement of compliance

TSB Bank Limited (the Bank) is a profit-oriented company registered under the Companies Act 1993 and incorporated in New Zealand. The Bank's principal business activity is retail banking in New Zealand. These financial statements have been prepared in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 2013, and the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order"). The financial statements also comply with the requirements of the Financial Markets Conduct Act 2013 and the Order.

The Bank's financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The financial statements were approved by the Board of Directors on 24 May 2018.

(b) Basis of measurement

The measurement base adopted is that of historical cost as modified by the fair value measurement of financial instruments at fair value through profit or loss, investments classified as available-for-sale, and all derivative contracts.

(c) Presentation currency and rounding

The amounts contained in this disclosure statement and the financial statements are presented in New Zealand dollars and are rounded to the nearest thousand dollars. New Zealand dollars is the functional currency of the Bank.

(d) Comparative data

To ensure consistency with the current period, comparative figures have been restated where appropriate.

(e) Segment reporting

The Bank operates as one segment, in the business of retail banking in New Zealand. The Bank has no debt or equity instruments trading in the public market. The 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.

(f) Foreign currency translation

The Bank trades foreign currency throughout its branch network. All foreign currency monetary assets and liabilities are converted at the rates of exchange ruling as at balance date. Unrealised gains and losses arising from these revaluations and gains and losses arising from foreign exchange dealings are recognised immediately in profit or loss.

(g) Other assets

Other assets includes the accrual of other service related income, and the payment in advance of the delivery of goods or the rendering of services.

(h) Financial instruments

The Bank is a full service financial institution offering an extensive range of financial instruments. Financial instruments are transacted on a commercial basis to derive an interest yield / cost with terms and conditions having due regard to the nature of the transaction and the risks involved. All financial instruments are accounted for on a settlement date basis, except for derivatives which are accounted for on trade date.

At initial recognition, financial instruments are classified into one of the following categories depending on the characteristics and the business purpose of acquiring them: financial assets at fair value through profit or loss, available for sale financial assets, loans and receivables, held-to-maturity, financial liabilities at fair value through profit or loss and other financial liabilities.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. This arises when the Bank provides money, or goods and services directly to a debtor, with no intention of selling the receivable. Assets in this category are measured at amortised cost using the effective interest rate method and include cash and cash equivalents, loans and advances to customers, and other assets.

- Cash and cash equivalents consist of cash, call deposits due from/to other banks and demand balances with the Reserve Bank. They are short-term, highly liquid instruments that are readily convertible to known amounts of cash and therefore subject to insignificant risk of changes in value. Cash and cash equivalents are used in the day-to-day cash management of the Bank.
- Loans and advances to customers: Refer to note 7. Loans and Advances to Customers.
- Other assets include the accrual of other service related income.

Investment securities (available-for-sale)

Investment securities are non-derivative financial assets that are designated as available for sale or are not classified as another category of financial assets. Available for sale investments are intended to be held for an indefinite period of time but they may be sold in response to needs for liquidity or changes in interest rates or exchange rates. At initial recognition, Investment securities are measured at fair value plus transaction costs that are directly attributable to the acquisition of the assets and subsequently held at fair value.

Refer to note 8. Investment Securities (Available-for-Sale) for further information.

Financial assets and financial liabilities designated at fair value through profit or loss (FVTPL)

The Bank classifies financial assets and liabilities at fair value through profit or loss (FVTPL) if they are acquired principally for the purpose of selling in short-term (held for trading), or if so designated by management due to accounting mismatches with other financial assets or liabilities or, where the instruments are managed at fair value. Financial instruments at FVTPL are recorded in the statement of financial position at fair value. Gains or losses arising from changes in fair value are recognised in other operating income. Included in the categories are derivative assets and derivative liabilities.

Refer to note 9. Derivative Financial Instruments for more information.

1. Statement of Compliance and General Accounting Policies (continued)

(h) Financial instruments (continued)

Other financial liabilities

This category includes all financial liabilities other than those at fair value through profit or loss. Liabilities in this category are initially measured at fair value less transaction costs and subsequently measured at amortised cost using the effective interest rate method. These include deposits and other liabilities. Refer to note 10. Deposits and note 11. Other Liabilities for further information.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Bank has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognised when its contractual obligations are discharged, cancelled or expire. The differences between the carrying amount of financial assets / liabilities measured at the date of derecognition and the consideration received / paid to the counterparty involved are recognised in profit or loss.

The Bank offsets financial assets and financial liabilities and reports the net balance in the statement of financial position where there is a legally enforceable right to set-off and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Details on how the fair value of financial instruments is determined are disclosed in note 12. Fair Value of Financial Instruments.

(i) Critical accounting estimates, assumptions and judgements

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in the relevant accounting policy or in the relevant note (further information in note 12. Fair Value of Financial Instruments and note 15. Credit Risk Management and Asset Quality).

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(j) Change in accounting policy

All accounting policies are consistent with those used in previous periods.

(k) Standards issued but not yet effective

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

NZ IFRS 9 Financial Instruments: NZ IFRS 9 covers the classification and measurement of financial assets and liabilities, introduces a new expected credit loss (ECL) model for calculating impairment and general hedge accounting requirements which will align hedge accounting more closely with risk management. ECL model uses a three-stage approach based on the extent of credit deterioration since initial recognition. The Bank estimates the IFRS 9 transition amount will have +/- $1m impact on the provision for doubtful debts and the shareholder's equity. However, the Bank does not expect the implementation of the ECL model will have significant effect on its capital adequacy ratios. This standard will be effective from 1 April 2018 for the Bank.

NZ IFRS 15 Revenue from Contracts with Customer: This standard outlines a single, principle based model of accounting for revenue arising from contracts with customers and will become effective from 1 April 2018 for the Bank. The Bank has completed the impact assessment based on the five-step model framework of NZ IFRS 15 and identified following revenue streams that are most likely to be impacted by the adoption of NZ IFRS 15.

- Yield related fee is the portion of deferred acquisition costs (currently recognised over the average life of the related loans and advances) and it amounts to $238k representing 0.15% of the net operating income of the Bank. The timing of the revenue recognition under NZ IFRS 15 is expected to be reasonably consistent with the Bank's current practice for yield related fees.

- Credit card related revenue includes interest, fees and other charges from the customers. The interest income is outside the scope of IFRS-15 as it is within the scope of NZ IFRS 9. Credit card fees and other charges are believed to be within the scope of NZ IFRS 15 as they entitle cardholders to ancillary services. Upon adoption of the new standard, credit card fees and other charges will be recognised and allocated on a basis that is consistent with the pattern of transfer of the associated services provided by the Bank. The Bank, however, does not expect this change to have a significant impact on its financial position or performance as fees and other charges are short-term in nature (e.g. the length of promised service for these fees and charges are usually less than 12 months) and represent insignificant portion of the Bank's net operating income.

Consequently, the new standard may result in a change in revenue recognition from current practice. However, the Bank concludes that the adoption of NZ IFRS 15 will not have a significant impact on its financial position or performance upon its effective date.

NZ IFRS 16 Leases: This standard introduces a single, on-balance sheet accounting model for lessees to increase transparency and comparability. As at 31 March 2018, the bank has non-cancellable operating lease commitments of $24.06m as disclosed in note 21. Commitments and Contingent Liabilities. A preliminary assessment indicates that these commitments will meet the definition of a lease under IFRS 16, and hence the Bank will recognise a right of use of asset and a corresponding liability in respect of these leases unless they qualify for the standard's exemptions. Lease payments currently included in other operating expense as 'premises occupancy' (refer to note 4. Operating Expenses) will be reclassified to financing and amortisation costs under IFRS 16 and consequently there will also be a shift in the classification of cash flows. The Bank does not anticipate that this new requirement will have a material impact on its financial statements yet it is not practical to provide quantitative information at this stage. NZ IFRS 16 will apply to the Bank from 1 April 2019.

Management have considered amendments to NZ IFRS which became relevant for the Bank for the first time during the year ended 31 March 2018 and have concluded they have no material impact on the Bank's financial position or performance. No new standards, amendments or interpretations to existing standards that are not yet effective have been early adopted by the Bank in these financial statements.

Notes to the Financial Statements
For the year ended 31 March 2018

All in $000's

Financial Performance

2. Net Interest Income

For financial instruments measured at amortised cost, the effective interest rate (EIR) method is used to measure the interest income or interest expense recognised in profit or loss. The EIR method exactly discounts estimated future cash receipts through the expected life of a financial asset or liability, or when appropriate, a shorter period to that asset's or liability's net carrying amount.

For financial instruments measured at fair value through profit or loss, interest income or interest expense is recognised on an accrual basis, either daily or on a yield to maturity basis.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. The interest income or expense is allocated through the life of the instrument and is measured for inclusion in profit or loss by applying the effective interest rate to the instrument's amortised cost.

Interest expense on deposits from customers relates to financial liabilities measured at amortised cost.

	2018	2017
Interest income		
Cash and cash equivalents	1,530	1,671
Investment securities (available-for-sale)	60,239	81,024
Loans and advances to customers [1]	234,501	207,690
Total interest income	**296,270**	**290,385**
Interest expense		
Deposits from customers [2]	168,780	158,537
Wholesale deposits	685	313
Total interest expense	**169,465**	**158,850**
Net interest income	**126,805**	**131,535**

[1] Includes interest income earned on the commercial loan due from TSB Group Limited (refer to note 22. Related Party Transactions and Balances for further information). Interest earned on impaired assets is $0.538m (31 March 2017; $0.523m).

[2] Includes interest expense on deposits from TSB Community Trust (refer to note 22. Related Party Transactions and Balances for further information).

3. Other Operating Income

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Bank and that the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Lending charges and direct costs pertaining to loan origination, refinancing or restructuring, and commitments are deferred and amortised over the life of the loan using the effective interest rate method. Lending charges not directly related to the origination of a loan are recognised at the time of service.

Commission and other trading income includes income from TSB Realty, TSB Foreign Exchange and Fisher Funds (refer to note 22. Related Party Transactions and Balances for more information).

Gains or losses on derivative financial instruments at fair value represent unrealised gains or lossess from re-measurement of derivative financial instruments, and the interest income / (expenses) accrued.

Other income includes the recoverable proportion of goods and services tax (GST) on expenses incurred. Refer to note 5. Taxation for more information on GST.

	2018	2017
Lending and credit facility related income	2,889	2,639
Commission and other trading income	12,634	11,204
Cumulative gain transferred from available for sale investments revaluation reserve *	18,480	-
Gain / (loss) on derivative financial instruments at fair value	235	1,193
Gain on sale of fixed assets	25	19
Other income	2,255	2,169
Total other operating income	**36,518**	**17,224**

* Includes recovery of $15.5m (2017; $nil) from Solid Energy (SENZ), refer to note 8. Investment Securities (Available-for-Sale) for further information.

All in $000's

4. Operating Expenses

All expenses are recognised in profit or loss on an accrual basis

Depreciation
The cost of property, plant and equipment (excluding land) less the estimated residual value is depreciated over their useful lives on a straight line basis. The range of useful lives of the asset classes are:

Buildings	50 to 100 years
Furniture and Fittings	5 to 10 years
Computer Equipment	1 to 5 years

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate at each balance date.

Assets are reviewed for indications of impairment at least annually and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Any impairment loss or write-down is recognised in profit or loss as an expense.

Amortisation
Amortisation is provided on intangible assets that consist of acquired computer software licences, naming rights and certain acquired and internally generated software.

Acquired computer software licences are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over their expected useful lives (two to four years) on a straight line basis.

The identifiable and directly associated cost of acquiring and developing software are capitalised where the software is controlled by the Bank, and where it is probable that future economic benefits will flow from its use over more than one year. Intangible assets are amortised on a straight line basis over their expected useful lives (two to ten years). Costs associated with maintaining software are recognised as an expense as incurred. Intangible assets are subject to the same impairment review process as property, plant and equipment. Any impairment loss is recognised profit or loss as an expense.

Personnel
Personnel includes expenses associated with employees' wages, salaries and other associated costs. The expense is recognised over the period the employee renders the service to receive the benefit.

	2018	2017
Fees paid to auditor:		
Audit and review of financial statements [1]	145	140
Audit of TSB Realty Trust	5	5
Other services [2]	156	347
Total fees paid to auditor	306	492
Depreciation	3,003	3,063
Amortisation of intangible assets	1,618	1,052
Directors' fees	595	603
Personnel	40,261	34,564
Defined contribution plan	1,735	1,635
Information technology	9,619	9,058
Premises occupancy	5,345	5,073
Marketing	10,956	11,678
Debit / Credit card expenses	4,639	3,689
Other	9,263	9,334
Total operating expenses	**87,340**	**80,241**

[1] The audit fee includes the audit fees for both the annual audit of the financial statements and the review of the interim financial statements.
[2] Other services in 2018 relate to regulatory / risk advisory services $59k (2017; $321k) and technical accounting services $97k (2017; $26k) relating to hedge accounting and IFRS 9.

Notes to the Financial Statements

For the year ended 31 March 2018

All in $000's

5. Taxation

Income tax

Income tax on the profit for the period comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at balance date after taking advantage of all allowable deductions under current taxation legislation and any adjustment to tax payable in respect of previous years.

Deferred tax is accounted for in respect of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts used for tax purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at balance date.

In accordance with NZ IAS 12 Income Taxes, a deferred tax asset is recognised only to the extent that it is probable (i.e. more likely than not) that a future taxable profit will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

When the temporary differences cause the operating surplus to be higher than the taxable surplus, a deferred tax liability is recognised. When the operating surplus is lower than the taxable surplus, a deferred tax asset is recognised.

Movements in fair value (and deferred tax) related to investment securities, cash flow hedges and the revaluation of non-current assets (if applicable), are recognised in other comprehensive income and presented in shareholder's equity accordingly.

Reconciliation of net profit before tax to tax expense	2018	2017
Net profit before tax	72,065	64,508
Tax at 28%	20,178	18,062
Adjustments to prima facie tax	14	106
Tax expense	**20,192**	**18,168**
Income tax recognised in profit or loss		
Current tax expense:		
Current year	19,305	18,452
Prior period adjustments	61	(9)
Deferred tax expense:		
Current year	826	(275)
Income tax expense	**20,192**	**18,168**
Deferred tax recognised in profit or loss		
Depreciation	(37)	(4)
Amortisation of intangibles	(257)	(214)
Provision for impairment losses	506	1,075
Derivative financial instruments	(409)	(877)
Other temporary differences*	(629)	295
Total deferred tax recognised in profit or loss	**(826)**	**275**
Income tax recognised in other comprehensive income		
Deferred tax expense:		
Cash flow hedge reserve	562	(943)
Available-for-sale revaluation reserve	2,153	1,964
Total deferred tax recognised in other comprehensive income	**2,715**	**1,021**

* Other temporary differences reflect adjustments for employee benefits.

All in $000's

5. Taxation (continued)

	2018	2017
Deferred tax:		
Balance at beginning of year	3,248	1,952
Deferred tax recognised in profit or loss	(826)	275
Deferred tax recognised in equity	2,715	1,021
Balance at end of year	**5,137**	**3,248**
Deferred tax relates to:		
Property, plant, and equipment	(1,007)	(910)
Amortisation of intangibles	(424)	(167)
Provision for impairment losses	7,015	6,509
Fair value adjustments for derivative financial instruments	1,393	1,240
Fair value movements on available-for-sale investments	(3,324)	(5,477)
Depreciation recovery	-	(60)
Other temporary differences *	1,484	2,113
Total deferred tax asset	**5,137**	**3,248**

* Other temporary differences reflect adjustments for employee benefits.

The imputation credits available to carry forward and utilise in future periods are $255.12m (31 March 2017; $249.24m).

Goods and services tax (GST)
Revenues, expenses and assets are initially recognised gross of the amount of goods and services tax (GST) unless stated otherwise. As the principal activity of the Bank is providing financial services, only a proportion of GST paid on inputs is recoverable from Inland Revenue Department. The recoverable proportion of GST is adjusted from the cost of acquisition of the asset or is recognised as other income.

6. Notes to the Cash Flow

The statement of cash flows has been prepared using the direct approach, including the netting of cash flows associated with deposits from customers, loans and advances to customers and investment securities (available-for-sale).

The following are the definitions of the terms used in the statement of cash flows:
(a) Cash is considered to be cash on hand and current accounts in banks, net of bank overdrafts;
(b) Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment, intangible assets, and Investment securities;
(c) Financing activities are those activities that result in changes in the size and composition of the capital structure of the Bank; and
(d) Operating activities include all transactions and other events that are not investing or financing activities.

Reconciliation of net profit after tax to net cash flows from operating activities	2018	2017
Net profit after tax	**51,873**	**46,340**
Add movements in statement of financial position Items:		
Accounts payable	4,488	406
Current tax	4,467	6,930
Deposits from customers	579,323	344,259
Deferred tax asset	825	(274)
Accounts receivable	(1,877)	2,323
Derivative financial instruments	(2,585)	400
Loans and advances to customers	(651,956)	(831,077)
	(67,315)	**(477,033)**
Add non - cash items:		
Amortisation of intangible assets	1,618	1,052
Depreciation	3,003	3,063
Impairment losses / (gains)	3,918	4,010
	8,539	**8,125**
Net cash flows from operating activities	**(6,903)**	**(422,568)**

All in $000's

Financial Position

7. Loans and Advances to Customers

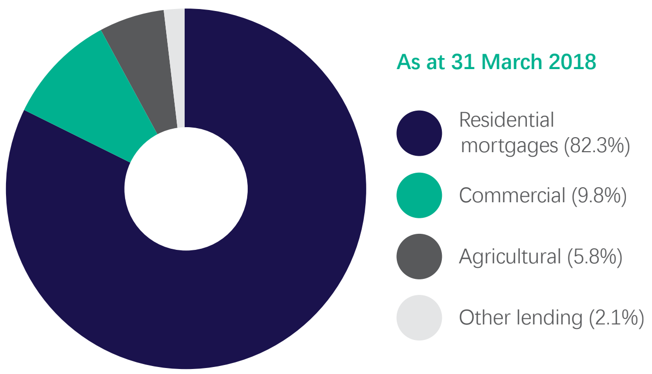
This covers all forms of lending to customers, and include mortgages, overdrafts, personal loans and credit card balances. Loans and advances to customers are recognised in the statement of financial position when cash is advanced to the customer and subsequently measured at amortised cost less allowance for impairment to reflect the estimated recoverable amounts. Refer to note 15. Credit Risk Management and Asset Quality for further information on provision for credit impairment.

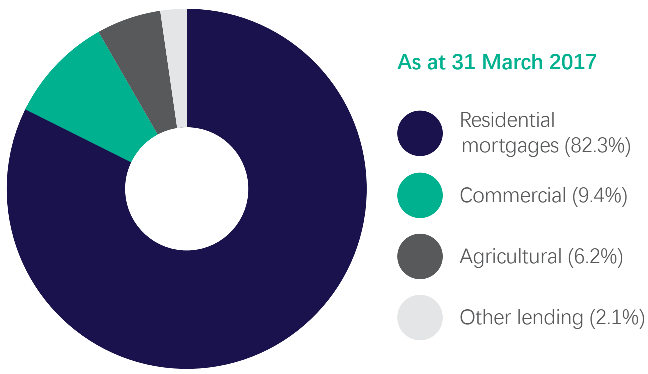
Residential mortgages comprise 82.3% (31 March 2017: 82.3%) of the total loan portfolio and they are secured by a first mortgage over freehold dwellings. For overdrafts and credit card balances, some are unsecured as well as secured by obligation mortgages, which cover all undertakings with the Bank.

	Note	2018	2017
Residential mortgages	19.(d)	4,389,811	3,851,176
Commercial [1]		522,012	438,265
Agricultural		307,538	289,672
Community		3,472	4,504
Personal [2]		89,335	78,943
Others [3]		22,246	18,356
Total gross loans and advances to customers		**5,334,414**	**4,680,916**
Less provision for doubtful debts	15.(e)	(25,057)	(23,248)
Total loans and advances to customers		**5,309,357**	**4,657,668**

[1] Commercial includes a loan to TSB Group Limited (Refer to note 22. Related Party Transactions and Balances for more information).
[2] Personal is inclusive of lending through Harmoney platform, other retail lending and credit card balances.
[3] Others include lending accruals and deferred acquisition costs.

Charts below show the percentage (%) breakdown of the loans and advances to customers.





8. Investment Securities (Available-for-Sale)

Included in this category are investment securities that are available for sale financial assets such as certificates of deposit, commercial paper and other debt securities. They are used to manage liquidity and may be sold prior to maturity. Interest earned whilst holding investment securities is recognised in the profit or loss using the effective interest rate method.

Unrealised gains and losses are recognised directly in other comprehensive income and presented in the available-for-sale investments revaluation reserve within the statement of changes in equity, until the assets are sold or otherwise disposed of, or until they are impaired. On disposal the accumulated change in fair value is transferred to profit or loss and reported under other Income. Interest, premiums and discounts are amortised through profit or loss using the effective interest method.

	2018	2017
Available for sale:		
Local authority securities	366,733	493,336
Government securities	437,744	190,943
Registered bank securities	520,650	536,680
Other investments *	608,339	749,036
Total investment securities	**1,933,466**	**1,969,995**

* Other investments relate to investments in utility companies, SOE's and commercial paper, and Bonds of New Zealand corporates. Included in this amount are $nil (31 March 2017: $17.825m) for Solid Energy (SENZ) restructured asset.

All in $000's

9. Derivative Financial Instruments

The Bank uses derivatives for trading and risk management purposes as part of its asset and liability risk management activities to manage exposure to interest rate changes. Derivatives held for risk management purposes include hedges that either meet the hedge accounting requirements or hedges that are economic hedges, but do not meet the hedge accounting requirements. The treatment of changes in the derivatives' fair value depends on their classification. Provided certain criteria are met for hedge accounting under NZ IAS 39, either fair value or cash flow hedge accounting can be applied.

The main derivative type used by the Bank is interest rate swaps. Interest rate swaps relate to contracts taken out by the Bank with other counterparties to manage the interest rate exposure on identified fixed rate loans, investment securities and deposits. The Bank designates interest rate swaps as hedges of variability in future cash flows attributable to a recognised asset or liability. Cash flow hedge accounting is used for derivatives designated in this way, provided certain criteria are met. Derivative financial instruments that do not meet the criteria for hedge accounting are classified as held for trading and recorded at fair value through profit or loss. For derivatives, any accrued interest is recognised and measured as part of the derivative's fair value.

The Bank documents, at inception of the transaction, the relationship between hedging instruments and hedged items, as well as the Bank's risk management objective and strategy for undertaking these hedge transactions. In addition, the documents outline how effectiveness will be measured throughout the life of the hedge relationship and its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedge transactions are highly effective in offsetting changes in cash flows of hedged items.

Any derivative that is de-designated as a hedging derivative will be accounted for as held for trading from the time that it is de-designated, with all subsequent movements in fair value recognised in the profit or loss.

Economic hedge

Included under this classification are any derivatives entered into by the Bank in order to economically hedge its exposures for risk management purposes that do not meet the IAS 39 hedge accounting criteria.

Cash flow hedge

The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and presented in the cash flow hedge reserve in equity, while the gain or loss relating to any ineffective portion is recognised immediately in the profit or loss. The carrying value of the hedged item is not adjusted.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the profit or loss when the forecast transaction ultimately affects profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit or loss.

Fair value hedge

Changes in the fair value of derivatives associated with investment securities in a fair value hedge relationship are recorded in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

FX forward exchange currency assets

The Bank enters into forward exchange contracts (FEC) on its own and on behalf of customers with other banks. Where the contract is entered on behalf of customers, a separate contract is formed between the Bank and customers for any liability / asset that may arise as a result of the FEC. The fair value of these derivatives is obtained from observable market prices as at reporting date. As at reporting date, there were no material holdings of foreign currency.

The Bank's risk management policy is included in note 16. Market Risk Management.

	As at 31 March 2018			As at 31 March 2017		
	Notional Amount	Fair Values Assets	Fair Values Liabilities	Notional Amount	Fair Values Assets	Fair Values Liabilities
Interest rate swaps						
Derivatives held as economic hedges	54,657	-	1,108	119,561	281	2,189
Derivatives held as cash flow hedges	1,058,000	839	6,948	923,000	-	6,096
Derivatives held as fair value hedges	29,000	-	140	29,000	36	-
Total interest rate swaps	**1,141,657**	**839**	**8,196**	**1,071,561**	**317**	**8,285**
FX forward exchange currency assets	-	-	-	839	33	-
Total derivative financial instruments	**1,141,657**	**839**	**8,196**	**1,072,400**	**350**	**8,285**

The notional amount, recorded gross, represents the quantity of the derivative contracts' underlying instruments.

All in $000's

10. Deposits

Deposits cover all forms of funding, and include savings, transactional accounts, term deposits, registered certificate of deposits (RCD's), apart from those classified as fair value through profit or loss. Wholesale deposits consist of registered certificates of deposit (RCD). All creditors and depositors are ranked equally.

	2018	2017
Retail term deposits *	3,599,488	3,080,422
On call deposits bearing interest	2,748,779	2,737,705
On call deposits not bearing interest	358,201	318,736
Wholesale deposits bearing interest	34,422	19,946
Total deposits	**6,740,890**	**6,156,809**

* Includes term deposits from TSB Community Trust. Refer to note 22. Related Party Transactions and Balances for more information.

Concentrations of funding
Concentrations of funding by geographic region and industry sector at balance date are as follows:

	2018	2017
Retail deposits		
Taranaki	3,004,941	2,891,680
Rest of New Zealand	3,558,219	3,084,608
Outside New Zealand	177,730	180,521
Total funding by geographic region	**6,740,890**	**6,156,809**
Government and public authorities	4,984	4,558
Finance	34,422	19,946
Households	6,573,197	6,018,088
Community	43,755	44,742
Commercial	84,532	69,475
Total funding by industry sector	**6,740,890**	**6,156,809**

11. Other Liabilities

The Bank provides for the cost of employees' annual entitlements and long-service entitlements under the terms of their employment contracts. The liability for long-service entitlements is calculated as the present value of the expected future payments after allowing for salary reviews, years of service with the Bank, and other parameters affecting probability of payment. A provision is recognised for the amount expected to be paid and therefore recorded in other liabilities.

	2018	2017
Employee entitlements	9,150	10,801
Dividend payable	7,344	6,827
Trade and other payables	30,099	28,660
Other non-financial liabilities	664	723
Total other liabilities	**47,257**	**47,011**

All creditors and depositors are ranked equally.

12. Fair Value of Financial Instruments

Fair value valuation methodology

Certain financial instruments are carried on the statement of financial position at fair value. The best evidence of fair value is a quoted market price in an active market. Therefore, where possible, fair value is based on quoted market prices.

The following fair value hierarchy, as set out in NZ IFRS 13: Fair Value Measurement, has been used to categorise the inputs to valuation techniques used to measure the financial assets and financial liabilities which are carried at fair value:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

Where a quoted market price for an instrument is not available, the Bank uses its judgement to select a variety of methods and make assumptions depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instruments at each reporting date. Specific valuation techniques used to value financial instruments are described below in fair value estimates.

Fair value estimates

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques . For financial instruments measured in the Bank's statement of financial position at their fair value, fair value is estimated as follows:

Cash and cash equivalents

Included are cash and call deposits with the Reserve Bank. These assets are short term in nature and therefore the related carrying value is equivalent to their fair value.

Derivative assets and liabilities

Derivative financial instruments are classified in level 2 and their fair values are obtained from market yields and discounted cash flow models.

The fair values are estimated using present value or other market acceptable valuation techniques, using methods or assumptions that are based on observable market conditions and risks existing as at the reporting date.

Investment securities

Estimates of fair value for investment securities (available-for-sale) are based on quoted market prices or dealer price quotations for financial instruments traded in active markets, or by using valuation techniques. Where a market price in a liquid market is not readily available, the fair value is determined by reference to the market price available for a security with similar credit, maturity and yield characteristics or by using industry standard pricing models incorporating observable market inputs.

Loans and advances to customers

The fair value of loans and advances to customers is estimated using discounted cash flow models based on the interest rate repricing of the loans and advances. Discount rates applied in this calculation are based on the current market interest rates for loans and advances to customers with similar credit and maturity profiles. The current market interest rates are based on what the scheduled rate would be for a similar term and maturity profile as at reporting date.

Refer to the note 16. Market Risk Management for further information on interest rate repricing.

Other assets, deposits from customers and other liabilities

For non-interest bearing debt, call and variable rate deposits, the carrying amounts in the statement of financial position are a reasonable estimate of their fair value because all are short-term in nature. For other term deposits, fair value is estimated using discounted cash flow models based on the maturity of the deposits. The discount rates applied in this calculation are based on current market interest rates for similar deposits with similar maturity profiles. For all other assets, and other liabilities, the carrying amounts in the statement of financial position are a reasonable estimate of their fair value.

All of the Bank's financial instruments that are recognised and measured at fair value on a recurring basis sit within Level 2.

There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the reporting period.

12. Fair Value of Financial Instruments (continued)

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

As at 31 March 2018	Note	Available-for-sale	Held for trading	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
Financial assets:							
Cash and cash equivalents		-	-	131,303	6,820	138,123	138,123
Derivative financial instruments	9	-	839	-	-	839	839
Investment securities (available-for-sale)	8	1,933,466	-	-	-	1,933,466	1,933,466
Loans and advances to customers	7	-	-	5,309,357	-	5,309,357	5,289,415
Other assets		-	-	1,406	-	1,406	1,406
Total financial assets		**1,933,466**	**839**	**5,442,066**	**6,820**	**7,383,191**	**7,363,249**
Financial liabilities:							
Deposits	10	-	-	-	6,740,890	6,740,890	6,705,303
Derivative financial instruments	9	-	8,196	-	-	8,196	8,196
Other liabilities		-	-	-	53,512	53,512	53,512
Total financial liabilities		**-**	**8,196**	**-**	**6,794,402**	**6,802,598**	**6,767,011**
As at 31 March 2017							
Financial assets:							
Cash and cash equivalents		-	-	137,391	6,809	144,200	144,200
Derivative financial instruments	9	-	350	-	-	350	350
Investment securities (available-for-sale)	8	1,969,995	-	-	-	1,969,995	1,969,995
Loans and advances to customers	7	-	-	4,657,668	-	4,657,668	4,626,794
Other assets		-	-	1,218	-	1,218	1,218
Total financial assets		**1,969,995**	**350**	**4,796,277**	**6,809**	**6,773,431**	**6,742,557**
Financial liabilities:							
Deposits	10	-	-	-	6,156,809	6,156,809	6,134,272
Derivative financial instruments	9	-	8,285	-	-	8,285	8,285
Other liabilities		-	-	-	48,739	48,739	48,739
Total financial liabilities		**-**	**8,285**	**-**	**6,205,548**	**6,213,833**	**6,191,296**

13. Share Capital, Retained Earnings and Dividend Paid

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 through the Trust's fully owned subsidiary, TSB Group Limited. Dividends are recognised in the financial year in which they are authorised and approved by the Board of Directors.

Share capital:	2018	2017
Issued and fully paid up capital:		
20,000,000 ordinary shares	10,000	10,000
Total share capital	**10,000**	**10,000**
Retained earnings:		
Opening balance	565,883	529,543
Net profit after taxation (NPAT)	51,873	46,340
Retained earnings after NPAT	617,756	575,883
Dividends	(20,000)	(10,000)
Retained earnings at end of period	**597,756**	**565,883**

	31 March 2018		31 March 2017	
Dividend	$000	$ per share	$000	$ per share
Interim	2,657	0.133	3,173	0.159
Special	10,000	0.500	-	-
Final	7,343	0.367	6,827	0.341
Total	**20,000**	**1.000**	**10,000**	**0.159**

Risk Management and Capital Adequacy

14. Risk Governance

The Bank is committed to the appropriate management of all risks arising from its activities, in accordance with the stated risk appetite of the Board of Directors. The Bank has governance 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 and setting the risk appetite for the material risks facing the Bank.

(a) Risk governance and the role of the Board

The Board of the Bank has the primary responsibility for ensuring that the Bank's acceptance and management of risk is in accordance with the wishes or expectations of its Shareholder, Regulators, and Legislation. These responsibilities can however be delegated in some form to the Management of the Bank.

The Bank's risk management framework embeds risk authority and accountability throughout the Bank.

Accordingly, this framework is grounded on the following principles:
- A well constituted organisational structure defining clearly the roles and responsibilities of individuals involved in instigating, accepting, managing and reporting risk;
- Separation of risk-taking from risk review functions – e.g. credit risk asset reviews, internal audit, and compliance complimented by separate reporting lines directly to the Board, Board sub-committees or Senior Management;
- Clearly defined risk management policies and procedures covering risk identification, acceptance, measurement, monitoring, reporting and control; and
- Mechanisms for the on-going review of systems, policies, and procedures, including independent review by Internal and External Audit.

The Board determines the risk domain, risk appetite, statement of policy and metrics to measure risk exposures and delegates authority and accountability where appropriate. The various sub-committees of the Board monitor performance against the appetite, policy and metrics. The Executive of the Bank ensures that the policy is managed appropriately. In doing this, the Executive makes use of Standing Management Committees. The tactical implementation of policies through the Executive ensure that operational processes are appropriately implemented and risks taken on by the organisation are effectively identified, measured, allocated and managed in accordance with the appetite of the Board.

(b) Standing Committees of the Board and Executive Management

Audit Committee (Board Committee)
The role of the Audit Committee is to assist the Board in discharging its oversight responsibilities by:

1.1 Overseeing the effectiveness and integrity of the Bank's financial controls; financial reporting process; and internal audit function;

1.2 Reviewing and recommending to the Board appropriate actions around the:
- appointment of external auditor;
- integrity of the financial statements and financial reporting systems;
- compliance with financial reporting regulatory requirements; and
- compliance with non-financial regulatory requirements.

1.3 Approving the:
- external audit plan; and
- internal audit plan;

Risk Committee (Board Committee)
The role of the Risk Committee is to assist the Board in discharging its oversight responsibilities by overseeing the effectiveness and integrity of the risk management framework and risk reporting in the context of the approved strategic objectives and risk appetite of the Bank.

Nominations and Remuneration Committee (Board Committee)
The role of the Nominations and Remuneration Committee is to assist the Board in discharging its responsibilities by:

1.1 Working with the Chairman of the Board in planning the Board composition, evaluating the competencies required of prospective directors, identifying those prospective directors, evaluating their independence and competencies, developing succession plans for the Board, setting board remuneration policies and making recommendations to the Board accordingly;

1.2 Providing oversight surrounding Executive Management, people management processes, including specifically appointments, remuneration, performance assessments, succession management and making recommendations to the Board accordingly; and

1.3 Overseeing the effectiveness and integrity of people management policies of the Bank.

14. Risk Governance (continued)

(b) Standing Committees of the Board and Executive Management (continued)

Asset and Liability Committee (Executive Committee)
The role of the Asset and Liability Committee (ALCO) is to assist Management with its oversight responsibilities with respect to asset and liability management, liquidity and capital management, as well as the management of interest rate and FX market risk. The ALCO will oversee the implementation of an effective process for managing the Bank's FX & interest rate market risk (including pricing and product approval), liquidity risk, and Internal and Regulatory Capital risks relating to the Bank's balance sheet and associated activities, including the adoption from time to time of policies, risk limits and capital levels. The Committee is also responsible for the oversight and effective management processes in relation to the credit risk arising from the Bank's Investment and liquidity portfolio.

Credit Committee (Executive Committee)
The role of the Credit Committee is to assist management in discharging its oversight responsibilities with respect to credit risk management. The Committee will oversee the implementation of an effective process for managing credit risk relating to the Bank's retail, agribusiness, commercial and business lending portfolio. The Committee also has the delegated authority to review and approve credit exposures outside of the CEO's delegated authority. The terms of reference of this committee and its membership is set by the Risk Committee of the Board.

(c) Areas of risk management

The Board exercises its authority through policy statements and performance metric requirements, and through a comprehensive set of delegated authorities for both the lending and non-lending activities of management. These authorities are reviewed annually, and the exercise of material CEO and Credit Committee discretions are reported back to the Board for noting.

The primary risks arising from the activities of the Bank are credit risk, market risk (mainly interest rate risk and foreign currency risk), liquidity risk, and operational risk. As indicated earlier, the Board of the Bank, through the Risk Committee is responsible for the governance and risk appetite declaration in respect of these risks, as well as the review and approval of the Bank's systems of risk management, internal control, code of conduct and legal compliance management.

Credit risk
Credit risk is the potential risk for loss arising from failure of a debtor or counterparty to meet their contractual obligations to the Bank. Credit risk principally arises within the Bank from its core business of providing lending facilities, and comprises both on-balance sheet and off-balance sheet exposures.

Details of credit risk management and asset quality are shown in note 15. Credit Risk Management and Asset Quality.

Market risk
Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices.

Details of market risk management are shown in note 16. Market Risk Management.

Liquidity risk
The Bank defines liquidity risk generally as the inability of the bank to access the funds that it needs to meet its obligations when they become due. Liquidity can be in the form of cash on hand, securities available for sale, or borrowing arrangements that the Bank can utilise when required.

The Bank's business model gives rise to liquidity risk largely through its role in the maturity transformation between its assets (loans and investments) and its liabilities (deposits and other funding). The Bank acknowledges that it takes on liquidity risk as a core part of its business strategy and that the Bank's shareholder is unlikely to be able to provide additional liquidity support should it be required.

The liquidity risks faced by the bank can be generally be classified into three different types:
- Operational liquidity risk - the risk that the bank does not have sufficient cash or collateral to make payments to its counterparties and customers as they fall due;
- Structural liquidity risk - the risk associated with longer term liquidity mismatches that might exist within the bank's balance sheet and which may create an unnecessarily large funding need in the future; and
- Market liquidity risk - the risk that an asset cannot be sold in the market quickly, or if its sale is executed very rapidly, that this can only be achieved at a heavily discounted price.

Details of liquidity and funding risk management are shown in note 17. Liquidity and Funding Risk Management.

Operational risk
Operational risk arises from the day to day operational activities not performing as expected resulting in either direct loss, increased cost, or other indirect loss to the Bank (such as reduced revenue). These losses may arise as a result of failure to comply with policies, processes, laws and regulations; inadequate or inappropriate policies or processes; fraud and forgery; breakdown in the availability or integrity of services, systems or information; human error through incompetence or lack of training or oversight or damage to the Bank's reputation through innocent actions by the Bank.

14. Risk Governance (continued)

(c) Areas of risk management (continued)

Operational risk (continued)

The Bank understands that efforts to reduce operational risk to zero could impact on ease of doing business and will therefore seek to cost effectively minimise operational risk by either reducing the probability or impact of its occurrence. It does not and cannot reasonably expect to seek to eliminate all instances of operational risk.

The management of operational risk is a challenge due to its broad scope as operational risks arise from all activities conducted across the Bank. To address this challenge the Bank maps risks across the Bank at an operational/outcome level with controls installed and monitored to mitigate these risks. Management benchmark practices against peers and regulatory obligations, furthermore, where appropriate, residual operational risk is transferred by the Bank, through its insurance programme.

Effective operational risk management helps increase the probability of success and reduces the probability of failure. The requirements for management of operational risks are applicable to all of the Bank business units. It applies to all Bank staff, particularly managers, who have the primary accountability for day-to-day management of operational risk, and those who assist management in fulfilling their operational risk management accountabilities. However, staff are expected to minimise and mitigate any operational risk arising from their own activities and to bring unmitigated risks to the attention of management where they are unable to mitigate the risk themselves.

The Risk Committee of the Board provides oversight of operational risk management across the Bank. This committee, as well as the executive management team of the Bank receive regular reports on the Bank's operational risk profile.

To implement its operational risk management approach, the Bank applies the three lines of defence model in the context of operational risk. The first line of defence is responsible for identifying and managing the inherent operational risks in processes they own. The second line of defence is responsible for setting and maintaining control standards and policies, and monitoring adherence to these standards. The third line of defence is the independent assurance provided by the outsourced internal audit function of the Bank, as well as the external auditors of the Bank.

Detailed policy parameters around operational risk are more comprehensively detailed in the operational risk policies for fraud management; employment practices and workplace safety management ; management of non-financial assets (including information and virtual assets); product, client and business practice management; business disruption and system failure management; execution, delivery and process failure management; outsourcing management; and legal and contractual compliance management.

(d) Internal audit

Internal audit's role is to evaluate and improve the effectiveness of governance, risk management and control processes and act as the third line of defence. This provides members of the Board and Management with assurance that assists them in fulfilling their duties to the Bank and its stakeholders.

The internal audit function is outsourced to PwC. It has no direct reporting line to Management, but attends executive meetings on a monthly basis. The function reports directly to the Chairman of the Audit Committee. In performance of this role, the Internal Audit function adopts a risk based approach, encompassing reviews of major risks that could impact upon the Bank, and is supported by the risk function in its reviews of branch based activities, and the implementation of management action plans. Significant findings and the status of management corrective actions are reported quarterly to the Audit Committee.

15. Credit Risk Management and Asset Quality

(a) Credit risk management

The Bank seeks to provide credit across its core customer base that is retail, agribusiness and the commercial and business sector. The Bank does not seek to remove risks across this sector, rather it seeks to offer credit to sound customers that have the intent, willingness and ability to repay. Entry into new product or market segments is to be undertaken with caution, piloted as necessary to gain necessary experience and resource before significant growth is undertaken.

The Bank aims to manage its credit exposures by focusing its activities on areas that it is most able to manage and influence, avoiding areas where the Bank has limited experience or knowledge.

Credit risk is managed through a framework that sets out policies and procedures covering the measurement and management of credit risk. There is clear segregation of duties between transaction originators in the business and approvers – apart from structural delegation processes in the retail portfolio. All credit exposure limits are approved within a defined credit approval authority framework and the Bank manages its exposures following the principle of diversification across products, regions, industries, collateral types and client segments.

Credit risk governance is managed through a delegation framework from the Board Risk Committee to the Credit Committee, CEO and Head of Credit, who all have specific roles within the credit function. Regular meetings are undertaken and reports to the CEO, executive management and the risk committee are provided to ensure that risks arising from credit activities are within parameters set by the Board through the Risk Committee.

Overarching credit risk policies are approved by the Risk Committee of the Board and are consistent with the overall and specific Risk Appetite Statement (RAS) associated with the individual areas of credit risk. The principles of credit delegation are outlined in the credit policies and the Credit Committee is responsible for the oversight of these delegations, their performance, and overall portfolio performance.

Risk measurement plays a key role, along with judgement and experience, in informing risk taking and portfolio management decisions. A standard application risk grading system is used to support and inform retail credit decisions. The Bank refers to external ratings from credit bureaus where these are available, but are not the only input used to determine retail risk grades. Higher grades are indicative of a higher probability of default. Risk grades are also assigned to non-performing and default loans as well as loans that have been restructured.

Agribusiness, commercial and business bank loans are also risk graded at initiation using standardised models, experience and data provided on application. These grades are updated at least annually for material exposures through an annual review process, which is independently reviewed by the second line credit risk function.

Credit risk is managed through the use of trained, competent lenders, structured approval processes considering the character, capacity, capability, collateral and condition of the borrower; validation of this information; hind sighting reviews; and portfolio and exposure performance management. Non-standard, non-retail lending activities are undertaken by specialist units within the Bank to ensure that the Bank's exposures are appropriately managed.

Loans which are showing signs of stress are initially managed through the front line, but are escalated for management by the credit risk management function, which is responsible for taking action to realise securities where appropriate and to minimise losses in the event of default. All defaults are reported to credit bureaus.

Wholesale counterparty credit arrangements in respect of the Bank's investment and liquidity portfolio are managed through an approved counterparty approach, derived from Board policy and delegations. This allows maximum limits in respect of credit risk associated with the counterparty relating to the credit rating of the counterparty, the type of instrument that has been issued by the counterparty, and the maturity profile of the counterparty.

Major credit exposures to individual counterparties, groups, connected persons, and portfolios of retail exposures are reviewed and approved by the Credit Committee.

All other credit approval authorities are delegated through the Risk Committee of the Board to the CEO and the Head of Credit, who have the ability to delegate further to individuals based upon their proven competence and experience, and the size and characteristics of the loan. Delegations are managed through a delegation policy and all decisions made through the delegation process are subject to independent hindsight review.

Credit concentration risk is managed through counterparty or group limits, industry limits (where appropriate), product limits, collateral type limits and regional exposure limits. Credit risk is further mitigated through the use of tools such as collateral, credit insurance and guarantees. The reliance that can be placed on such mitigating factors is assessed in the light of legal certainty and enforceability, market valuation, correlation and counterparty risk of the credit insurance provider. However, the existence of credit mitigations do not substitute for the ability of the borrower to pay, which is the primary consideration of any lending decision.

All credit risk is denominated in New Zealand dollars, and for non-wholesale credit exposure, is based in New Zealand.

15. Credit Risk Management and Asset Quality (continued)

(b) Credit assessment

The Bank assesses the credit quality of its material financial assets, loans and advances to customers, and recognises losses if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the loan and that the loss event has an impact on the estimated future cash flows of the financial assets that can be reliably estimated.

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 except the restructured assets.

Impaired assets

The impaired assets consist of restructured assets, assets acquired through the enforcement of security and other individually impaired assets.

A restructured asset is any credit exposure for which:
(a) The original terms have been changed to grant the counterparty a concession that would not otherwise have been available, due to the counterparty's difficulties in complying with the original terms;
(b) The revised terms of the facility are not comparable with the terms of new facilities with comparable risks; and
(c) The yield on the asset following restructuring is equal to, or greater than, the Bank's average cost of funds, or a loss is not otherwise expected to be incurred.

Assets acquired through the enforcement of security are where the Bank assumes ownership of an asset (primarily real estate) in settlement of all or part of the debt.

Other individually impaired assets means any credit exposures for which an impairment loss is required to be recognised in accordance with NZ IAS 39.

Past due asset

A past due asset is any credit exposure where a counterparty has failed to make payment when contractually due, and which is not a restructured asset, other individually impaired asset, or a financial asset acquired through the enforcement of security. A 90-day past due asset is any past due asset which has not been operated by the counterparty within its key terms for at least 90 days and which is not a restructured asset, other individually impaired asset, or a financial asset acquired through the enforcement of security.

Asset under administration

An asset under administration is any credit exposure which is not an individually impaired asset or a past due asset but which is to a counterparty:
(a) who is in receivership, liquidation, bankruptcy, statutory management or any form of administration in New Zealand; or
(b) who is in any other equivalent form of voluntary or involuntary administration in an overseas jurisdiction.

(c) Provision for credit impairment allowances

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Liabilities and provisions to be settled beyond twelve months are recorded at their present value. Provisions are reassessed at each balance date. Changes in the present value of cash flow estimates are recognised in profit or loss.

Increases in the specific and collective allowances are recognised in profit or loss. When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off directly to profit or loss, and the provision for doubtful debts is adjusted accordingly. If in a subsequent period the amount of impairment loss decreases, the write-down or allowance is reversed through profit or loss.

Financial assets at fair value through profit or loss are not assessed for impairment as their fair value reflects the credit quality of the instrument and changes in fair value are recognised in other income.

All in $000's

15. Credit Risk Management and Asset Quality (continued)

(c) Provision for credit impairment allowances (continued)

The Bank regularly reviews its holdings of investment securities in terms of its counterparty credit policy and decides whether to recognise provision against possible credit losses in this portfolio based on the review and other information on hand.

All other assets are reviewed for impairment at least annually. Impairment losses are recognised in profit or loss and presented as impairment losses and subsequent recoveries of amounts previously written off are credited against the expense as reversal of impairment losses. See note 15.(e). Movement in balances of credit impairment allowances for information about how impairment losses are calculated.

The Bank has a policy of providing a provision for doubtful debts over its lending portfolio. Currently the calculation of a collective provision is derived from an aggregate of three key components. The first component is weighting of the risk bands based on historical loan default payments. The second component is weighting of loan totals based on geographical location. The third component consists of the loan portfolio being weighted based on a sector breakdown and the perceived distress arising from the current economic cycle. The aggregation of the above three components gives the total collective provision to be provided for. A collective allowance is maintained to reduce the carrying amount of loans and advances to customers to its estimated recoverable amount as at balance date. This allowance relates to incurred losses not yet specifically identified in the portfolio.

Specific allowances are made against the carrying amount of loans and advances to customers, that are identified as being impaired based on regular reviews of outstanding balances, to reduce these loans and advances to customers to their recoverable amounts. The recoverable amount is measured by estimating the future cash flows and discounting these to their present value using the original effective interest rate.

The expected future cash flows in a group of financial assets that are collectively evaluated for impairment, are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions. In addition, the Bank uses its experienced judgement to estimate the amount of an impairment loss.

The use of such judgement and reasonable estimates is considered by management to be an essential part of the process and does not impact reliability. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(d) Credit quality information

The majority of the Bank's provisions for impairment are made on a collective basis. The lending portfolio is predominantly residential mortgages secured by a first 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 table below shows the credit quality information for loans and advances to customers.

As at 31 March 2018	Note	Residential mortgage loans	Commercial exposures	Agricultural exposures	Other exposures	Total Credit exposures
Neither past due or impaired		**4,340,488**	**516,288**	**283,240**	**109,779**	**5,249,795**
Past due assets not impaired:						
Less than 30 days		34,969	303	18,888	2,590	56,750
30 to 59 days		8,267	2,052	-	1,171	11,490
60 to 89 days		2,261	-	-	520	2,781
90 days and over		2,858	3,369	1,978	993	9,198
Balance of past due but not impaired assets at end of period		**48,355**	**5,724**	**20,866**	**5,274**	**80,219**
Movements in individually impaired assets:						
Balance at beginning of period		1,203	247	7,233	236	8,919
Additions		1,175	-	24	2	1,201
Amounts written off / loans closed out		(471)	-	-	-	(471)
Transfer back to loans and advances to customers		(939)	(247)	(3,825)	(238)	(5,249)
Balance of impaired assets at end of period		**968**	**-**	**3,432**	**-**	**4,400**
Total gross loans and advances to customers	7	**4,389,811**	**522,012**	**307,538**	**115,053**	**5,334,414**
Less provision for doubtful debts	15.(e)	19,775	2,995	1,947	340	25,057
Total loans and advances to customers		**4,370,036**	**519,017**	**305,591**	**114,713**	**5,309,357**

All in $000's

15. Credit Risk Management and Asset Quality (continued)

(d) Credit quality information (continued)

As at 31 March 2017	Note	Residential mortgage loans	Commercial exposures	Agricultural exposures	Other exposures	Total Credit exposures
Neither past due or impaired		**3,804,456**	**426,422**	**280,713**	**101,274**	**4,612,865**
Past due assets not impaired:						
Less than 30 days		31,192	10,292	-	136	41,620
30 to 59 days		7,304	-	625	29	7,958
60 to 89 days		518	1,010	-	33	1,561
90 days and over		6,503	294	1,101	95	7,993
Balance of past due but not impaired assets at end of period		**45,517**	**11,596**	**1,726**	**293**	**59,132**
Movements in individually impaired assets:						
Balance at beginning of period		242	247	9,945	-	10,434
Additions		1,733	-	6,595	236	8,564
Amounts written off / loans closed out		(168)	-	-	-	(168)
Transfer back to loans and advances to customers		(604)	-	(9,307)	-	(9,911)
Balance of impaired assets at end of period		**1,203**	**247**	**7,233**	**236**	**8,919**
Total gross loans and advances to customers	7	**3,851,176**	**438,265**	**289,672**	**101,803**	**4,680,916**
Less provision for doubtful debts	15.(e)	17,586	2,531	2,639	492	23,248
Total loans and advances to customers		3,833,590	435,734	287,033	101,311	4,657,668

Undrawn balances on lending commitments to counterparties
Undrawn balances on lending commitments to counterparties for whom drawn balances are classified as individually impaired total $8k at reporting date (2017; $54k).

Restructured asset
At 31 March 2018, the Bank had lending restructured assets totalling $553k (2017; $48k) and one investment restructured asset (refer note 8). Interest foregone on lending restructured assets throughout the year was nil (2017; $nil).

Other assets under administration
The Bank does not have any assets under administration, or material assets acquired through the enforcement of security at reporting date (2017; $nil).

All in $000's

15. Credit Risk Management and Asset Quality (continued)

(e) Movement in balances of credit impairment allowances

As at 31 March 2018	Residential mortgage loans	Commercial exposures	Agricultural exposures	Other exposures	Total Credit exposures
Specific provision for doubtful debts					
Balance at beginning of period	330	160	500	148	1,138
Add new provisions	368	-	-	-	368
Current year amounts written off	(471)	-	-	-	(471)
Reversal of previously recognised provision	(22)	(160)	(400)	(148)	(730)
Specific provision balance at end of period	**205**	**-**	**100**	**-**	**305**
Collective provision for doubtful debts					
Balance at beginning of period	17,256	2,371	2,139	344	22,110
Recognised in profit or loss	2,314	624	(292)	(4)	2,642
Collective provision balance at end of period	**19,570**	**2,995**	**1,847**	**340**	**24,752**
Total provision for impairment loss	**19,775**	**2,995**	**1,947**	**340**	**25,057**
As at 31 March 2017					
Specific provision for doubtful debts					
Balance at beginning of period	163	165	1,170	-	1,498
Add new provisions	398	-	230	148	776
Current year amounts written off	(172)	-	-	-	(172)
Reversal of previously recognised provision	(59)	(5)	(900)	-	(964)
Balance of specific provision at end of period	**330**	**160**	**500**	**148**	**1,138**
Collective provision for doubtful debts					
Balance at beginning of period	14,153	1,650	1,903	202	17,908
Recognised in profit or loss	3,103	721	236	142	4,202
Collective provision balance at end of period	**17,256**	**2,371**	**2,139**	**344**	**22,110**
Total provision for impairment loss	**17,586**	**2,531**	**2,639**	**492**	**23,248**

The Bank's total provision for credit impairment was $25.1m (2017; $23.2m) at balance date representing 0.47% (2017; 0.50%) of the total loans and advances to customers.

Impairment losses recognised in profit or loss	2018	2017
Individual impairment expenses	2,109	168
Movement in specific provision	(833)	(360)
Movement in collective provision	2,642	4,202
Impairment losses – loans and advances	**3,918**	**4,010**

The estimated fair value of collateral and other charges related to financial assets that are individually impaired is $4.627m (2017; $8.595m).

(f) Concentrations of credit exposures

Concentrations of credit exposures arise where the Bank is exposed to risk in activities or industries of a similar nature.

Credit exposure is calculated on the basis of selected items on and off-balance sheet. The exposures shown below are based on net carrying amounts as reported in the statement of financial position without taking account of any collateral held. Off-balance sheet exposures include undrawn lending commitments. Refer to note 21. Commitments and Contingent Liabilities for more information on commitments.

(i) On and off- balance sheet	Note	2018	2017
On balance sheet:			
Cash and cash equivalents		138,123	144,200
Investment securities	8	1,933,466	1,969,995
Loans and advances to customers	7	5,309,357	4,657,668
Off balance sheet:			
Lending commitments	21	735,991	698,945
Total Credit Exposures		**8,116,937**	**7,470,808**

All in $000's

15. Credit Risk Management and Asset Quality (continued)

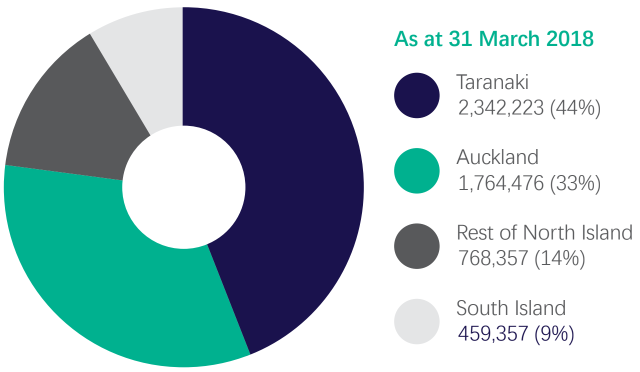
(f) Concentrations of credit exposures

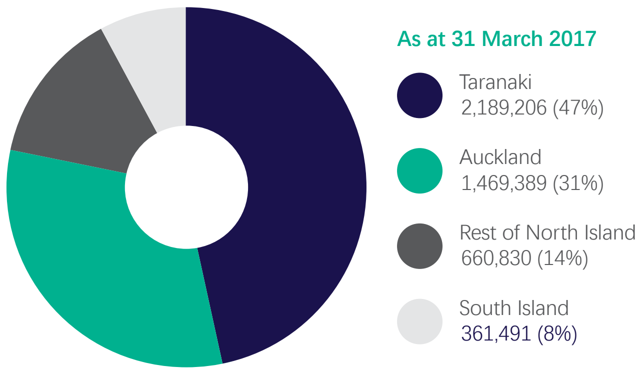
Australian and New Zealand Standard Industrial Classification ("ANZSIC") codes have been used as the basis for disclosing customer industry sectors. An analysis of financial assets by geographic region and industry sector as at balance date is as follows:

(ii) Concentration of credit exposure by geographic region

As at 31 March 2018	Note	Cash and cash equivalent	Investment securities	Loans and advances to customers	off-balance sheet	Total Credit exposures
New Zealand total		138,123	1,495,082	5,334,414	735,991	7,703,610
Outside New Zealand		-	438,384	-	-	438,384
Provision for impairment	15.(e)	-	-	(25,057)	-	(25,057)
Total credit exposure		**138,123**	**1,933,466**	**5,309,357**	**735,991**	**8,116,937**
As at 31 March 2017						
New Zealand total		144,200	1,634,172	4,680,916	698,945	7,158,233
Outside New Zealand		-	335,823	-	-	335,823
Provision for impairment	15.(e)	-	-	(23,248)	-	(23,248)
Total credit exposure		**144,200**	**1,969,995**	**4,657,668**	**698,945**	**7,470,808**

Charts below show further breakdown of loans and advances to customers by geographic region.





(iii) Concentration of credit exposure by industry sector

	Note	2018	2017
Cash on hand		22,858	27,692
Local government lending and investments		425,292	557,969
New Zealand registered banks		520,650	550,926
Multilateral development banks and other international institutions		322,097	340,819
Other financial institutions		44,099	
Sovereigns and Central Bank		553,009	308,194
Food product and beverages		19,422	19,510
Utilities		162,016	296,757
Mining		-	17,825
Transport, postal and warehousing		32,339	32,396
Information media and telecommunications		28,367	28,667
Agricultural lending		323,994	306,490
Residential lending		4,888,434	4,301,945
Personal and other lending		222,076	201,970
Community lending		5,964	5,690
Commercial lending		571,377	497,206
Provision for impairment loss	15.(e)	(25,057)	(23,248)
Total credit exposure		**8,116,937**	**7,470,808**

All in $000's

15. Credit Risk Management and Asset Quality (continued)

(g) Concentration of credit exposures to individual counterparties

The following disclosures show the number of individual counterparties or groups of closely related counterparties where the period end and peak end-of-day credit exposures equalled or exceeded 10% of the Bank's Common Equity Tier 1 (CET1) capital as at balance date (excluding exposures to connected persons, central government of any country with a long-term credit rating of A- or A3 or above, or its equivalent, and any supranational or quasi-sovereign agency with a long-term credit rating of A- or A3 or above, or its equivalent). The peak aggregate end of day credit exposure is the largest daily actual credit exposure for the most recent quarter. Credit exposures disclosed are based on actual exposures. The credit rating is applicable to an entity's long term senior unsecured obligations payable in New Zealand, in New Zealand dollars.

% of Shareholders equity	Year ended 31 March 2018							
	Number of bank counterparties				Number of non bank counterparties			
As at Balance date	"A" Rated	"B" Rated	Unrated	Total	"A" Rated	"B" Rated	Unrated	Total
11% - 15%	3	-	-	3	2	-	-	2
16% - 20%	2	-	-	2	-	-	-	-
21% - 25%	-	-	-	-	-	-	-	-
Total	**5**	**-**	**-**	**5**	**2**	**-**	**-**	**2**
Peak exposure								
11% - 15%	3	-	-	3	3	-	-	3
16% - 20%	1	-	-	1	-	-	-	-
21% - 25%	1	-	-	1	-	-	-	-
Total	**5**	**-**	**-**	**5**	**3**	**-**	**-**	**3**

% of Shareholders equity	Year ended 31 March 2017							
	Number of bank counterparties				Number of non bank counterparties			
As at Balance date	"A" Rated	"B" Rated	Unrated	Total	"A" Rated	"B" Rated	Unrated	Total
11% - 15%	2	-	-	2	3	1	-	4
16% - 20%	1	-	-	1	1	-	-	1
21% - 25%	-	-	-	-	-	-	-	-
26% - 30%	1	-	-	1	-	-	-	-
Total	**4**	**-**	**-**	**4**	**4**	**1**	**-**	**5**
Peak exposure								
11% - 15%	1	-	-	1	5	1	-	6
16% - 20%	3	-	-	3	-	1	-	1
21% - 25%	1	-	-	1	1	-	-	1
26% - 30%	-	-	-	-	-	-	-	-
31% - 35%	1	-	-	1	-	-	-	-
Total	**6**	**-**	**-**	**6**	**6**	**2**	**-**	**8**

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.

(h) Concentration of credit exposures to connected persons

Credit exposure concentrations are disclosed on the basis of actual credit exposures and calculated on a gross basis (net of specific provisions and excluding advances of a capital nature). The Bank only has credit exposures to non-bank connected persons. Peak end- of-day credit exposures to non-bank connected persons are calculated using the Bank's tier one capital at the end of the period. The rating-contingent limit, which is applicable to the Bank as at balance date, is 30%. There have been no rating-contingent limit changes during the last quarter. Within the rating-contingent limit there is a sub-limit of 15%, which applies to non-bank connected persons. All limits on aggregate credit exposure to all connected persons and non-bank connected persons in the Bank's Conditions of Registration have been complied with at all times over the last quarter. The information on credit exposures to connected persons has been derived in accordance with the Reserve Bank of New Zealand document entitled "Connected Exposures Policy (BS8)" dated November 2015.

There are no specific provisions against credit exposures to connected persons as at 31 March 2018 (31 March 2017; $nil).

All in $000's

15. Credit Risk Management and Asset Quality (continued)

(h) Concentration of credit exposures to connected persons (continued)

	2018	2017
Credit exposures to non-bank connected persons at period end	83,600	78,500
Credit exposures to non-bank connected persons at period end (expressed as % of total tier one capital)	13.87%	13.57%
Peak credit exposures to non-bank connected persons during the period	83,600	78,500
Peak credit exposures to non-bank connected persons during the period (expressed as % of total tier one capital)	13.87%	13.57%

(i) 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 21. Commitments and Contingent Liabilities represent the Bank's maximum exposure to credit risk for on and off-balance sheet financial instruments.

(j) Coverage provided by collateral held on loans

The table below presents the maximum exposure to credit risk for balance sheet financial instruments before taking account of the financial effect of any collateral held, unless such collateral meets the offsetting criteria in NZ IAS 32 Financial Instruments: Presentation.

The most common types of acceptable collateral include security over real estate, cash deposits, and other security over business assets.

	As at 31 March 2018			As at 31 March 2017		
Balance sheet position	Maximum exposure to credit risk	Financial effect of collateral	Unsecured portion of credit exposure	Maximum exposure to credit risk	Financial effect of collateral	Unsecured portion of credit exposure
Cash and cash equivalents	138,123	138,123	-	144,200	144,200	-
Derivative financial instruments	839	-	839	350	-	350
Investment securities	1,933,466	366,732	1,566,734	1,969,995	437,460	1,532,535
Loans and advances to customers	5,309,357	5,220,022	89,335	4,657,668	4,571,562	86,106
Other financial assets	1,406	1,406	-	1,218	1,218	-
Total exposure to credit risk	**7,383,191**	**5,726,283**	**1,656,908**	**6,773,431**	**5,154,440**	**1,618,991**

16. Market Risk Management

Interest rate risk

Interest rate risk (IRR) refers to the risk to the Bank's economic value or earnings arising from adverse movements in interest rates. The Bank has a preference for stability of earnings, which is consistent with the shareholder's expectations of stable dividend payments over time.

When interest rates change, the present value and timing of future cash flows change. This in turn changes the underlying value of the bank's assets, liabilities and off-balance sheet instruments and in turn, their economic value. Changes in interest rates also affect the bank's earnings by altering interest rate-sensitive income and expenses, affecting its net interest income (NII).

The Bank measures and manages its interest rate risk using a combination of economic value and earnings-based measures.

Under the economic value approach, the measure of interest rate risk is the theoretical change in the market value of the entire balance sheet. The economic value for both on and off-balance sheet items is derived from their contractual cash flows, which are discounted to reflect current market rates.

Under the earnings-based measure, the focus is on the impact of changes in interest rates on future reported net interest income (NII). This focus reflects both the importance of NII the bank's overall earnings and the direct link to changes in interest rates.

The bank is exposed to IRR from mismatches in the repricing dates, or differences in the repricing characteristics of its assets and liabilities. The bank closely monitors the repricing behaviour of its assets and liabilities and ensures that any mismatches remain within policy limits. This may be done with the use approved derivative transactions. The Bank does not seek to eliminate interest rate risk, rather to limit downside variability in NII.

Foreign currency risk

Foreign currency risk is the risk to the Bank's earnings or market value caused by movements in foreign exchange rates.

The Bank provides foreign exchange services via its branch network and offers foreign currency deposit accounts to customers via a third party.

Limits are in place to control the amount of foreign currency exposure the Bank's policy is to maintain minimal levels of foreign currency cash balances and therefore foreign currency exposure is immaterial. The Bank also ensures customers who have foreign currency deposit accounts with the Bank are aware that they could be exposed to foreign currency fluctuations in their own right.

All in $000's

16. Market Risk Management (continued)

(a) Interest rate repricing schedule

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

As at 31 March 2018	0-3 Months	3-6 Months	6-12 Months	1-2 years	Over 2 years	Non-Interest sensitive	Total
Assets							
Cash and cash equivalents	115,265	-	-	-	-	22,858	138,123
Investment securities	1,004,030	107,400	223,902	160,434	415,248	22,452	1,933,466
Loans and advances to customers	1,639,780	488,815	1,033,273	1,487,617	662,684	(2,812)	5,309,357
Other financial assets [1]	-	-	-	-	-	2,245	2,245
Total financial assets	**2,759,075**	**596,215**	**1,257,175**	**1,648,051**	**1,077,932**	**44,743**	**7,383,191**
Liabilities							
Deposits	3,927,913	915,207	569,778	768,627	201,163	358,202	6,740,890
Other financial liabilities [2]	-	-	-	-	-	61,708	61,708
Total financial liabilities	**3,927,913**	**915,207**	**569,778**	**768,627**	**201,163**	**419,910**	**6,802,598**
Lending commitments	**735,991**	**-**	**-**	**-**	**-**	**-**	**735,991**
Derivative notional principals (net)	**936,962**	**(245,305)**	**(451,057)**	**(212,600)**	**(28,000)**	**-**	**-**
Interest sensitivity gap	**504,115**	**(564,297)**	**236,340**	**666,824**	**848,769**	**(375,167)**	**1,316,584**
As at 31 March 2017							
Assets							
Cash and cash equivalents	137,391	-	-	-	-	6,809	144,200
Investment securities	1,144,661	121,382	144,082	226,033	333,837	-	1,969,995
Loans and advances to customers	1,069,878	334,300	720,172	1,677,025	861,184	(4,891)	4,657,668
Other financial assets [1]	-	-	-	-	-	1,568	1,568
Total financial assets	**2,351,930**	**455,682**	**864,254**	**1,903,058**	**1,195,021**	**3,486**	**6,773,431**
Liabilities							
Deposits	3,712,021	614,760	1,104,954	233,558	195,902	295,614	6,156,809
Other financial liabilities [2]	-	-	-	-	-	57,024	57,024
Total financial liabilities	**3,712,021**	**614,760**	**1,104,954**	**233,558**	**195,902**	**352,638**	**6,213,833**
Lending commitments	**698,945**	**-**	**-**	**-**	**-**	**-**	**698,945**
Derivative notional principals (net)	**1,072,401**	**(220,194)**	**(45,550)**	**(701,057)**	**(105,600)**	**-**	**-**
Interest sensitivity gap	**411,255**	**(379,272)**	**(286,250)**	**968,443**	**893,519**	**(349,152)**	**1,258,543**

[1] Other financial assets include receivables and derivative financial instruments.
[2] Other financial liabilities include accounts payable, current tax liability, provision for dividend, and derivative financial instruments.

All in $000's

16. 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 income and shareholder's equity based on fluctuations in interest rates.

The primary objective of the Bank's framework for the management of interest rate risk is to minimise the impact of changes in wholesale interest rates on the Bank's earnings. The Risk Framework includes limits for both earnings at risk and economic value, as well as re-pricing gap analysis.

Next 12 months net interest earnings

The figures in the table below indicate the outcome of the earnings at risk measure for the current period.

Scenarios	Change in net Interest Earnings ($m)	
	31 Mar 2018	31 Mar 2017
-2.0%	3.6	1.5
-1.0%	1.7	0.7
1.0%	(2.4)	(1.1)
2.0%	(4.7)	(2.1)

The earnings at risk measure looks at the sensitivity of net interest earnings over the next twelve months to potential changes in interest rates and is measured on a monthly basis.

Earnings at risk is measured assuming immediate one percent and two percent parallel movement in interest rates across the yield curve. Sensitivity of net interest earnings is measured using a model that takes into account current and projected future changes in terms of asset and liability levels as well as product mix.

Economic value of shareholder's equity (EVE)

The figures in the table below indicate the outcome of the EVE measure for the current period.

Scenarios	Change in EVE ($m)	
	31 Mar 2018	31 Mar 2017
-2.0%	33.2	21.9
-1.0%	15.8	10.5
1.0%	(17.3)	(11.8)
2.0%	(34.4)	(23.2)

The economic value of shareholders equity (EVE) risk measure looks at the sensitivity of the economic value of the Bank to changes in wholesale interest rates and is measured on a monthly basis.

The current economic value for both on and off-balance sheet assets and liabilities is derived from their contractual cash flows, which are discounted to reflect current market rates. The sensitivity of the EVE is measured assuming immediate one percent and two percent parallel movements in interest rates across the yield curve.

17. Liquidity and Funding Risk Management

(a) Core liquid assets

The Bank maintains a portfolio of highly marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption in cash flow. The table below lists the Bank's core liquid assets.

	2018	2017
Cash and cash equivalents	**138,123**	**144,200**
Investment securities:		
Local authority securities	366,024	443,235
Government securities	437,744	190,943
Registered bank securities	492,979	499,472
Other investments	367,953	338,709
Total investment securities	**1,664,700**	**1,472,359**
Total core liquid assets	**1,802,823**	**1,616,559**

All in $000's

17. Liquidity and Funding Risk Management (continued)

(b) Contractual cash flows

The following tables analyse the Bank's 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.

As at 31 March 2018	On demand	0-1 months	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities:							
Deposits	3,141,403	533,984	776,856	1,402,945	1,010,536	37	6,865,761
Other financial liabilities *	-	31,114	18,001	4,540	7,561	492	61,708
Total financial liabilities	**3,141,403**	**565,098**	**794,857**	**1,407,485**	**1,018,097**	**529**	**6,927,469**
Lending commitments (off-balance sheet)	**735,991**	**-**	**-**	**-**	**-**	**-**	**735,991**
As at 31 March 2017							
Liabilities:							
Deposits	3,076,387	500,280	540,030	1,687,772	454,654	-	6,259,123
Other financial liabilities *	-	43,549	2,416	510	10,549	-	57,024
Total financial liabilities	**3,076,387**	**543,829**	**542,446**	**1,688,282**	**465,203**	**-**	**6,316,147**
Lending commitments (off-balance sheet)	**698,945**	**-**	**-**	**-**	**-**	**-**	**698,945**

* Other financial liabilities include accounts payable, current tax liability, provision for dividend and derivative financial instruments.

(c) Current and non-current assets and liabilities

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.

The Reserve Bank of New Zealand's Liquidity Policy (BS13) sets regulatory minimums for liquidity risk that the bank is required to meet as part of its conditions of registration. As part of its over-arching risk management practices, the Bank has adopted a conservative approach to liquidity management and aims for liquidity to be well in excess of the minimum regulatory requirements. The Bank's Treasury Policy, which is approved by the Board of Directors, sets out the minimum internal liquidity requirements for the Bank as well as providing guidance for the Bank's portfolio of liquid assets.

The Bank manages its liquidity risk through a combination of forward looking cash flow management, as well as maintaining a portfolio of high quality liquid assets that can be realised quickly if required. The Bank also closely monitors a series of potential leading indicators for liquidity risk, including term deposit reinvestment rates and the weighted average term of funding.

In the event of a severe liquidity event, the Bank has a contingency funding plan in place which outlines the actions the Bank would take in order to manage the situation.

All in $000's

17. Liquidity and Funding Risk Management (continued)

(c) Current and non-current assets and liabilities (continued)

	As at 31 March 2018			As at 31 March 2017		
	Current	Non-current	Total	Current	Non-current	Total
Assets						
Cash and cash equivalents	138,123	-	138,123	144,200	-	144,200
Derivative financial instruments	839	-	839	350	-	350
Investment securities	840,219	1,093,247	1,933,466	727,350	1,242,645	1,969,995
Loans and advances to customers	2,109,969	3,199,388	5,309,357	1,679,182	2,978,486	4,657,668
Deferred tax asset	-	5,137	5,137	-	3,248	3,248
Property, plant and equipment	-	19,650	19,650	-	17,662	17,662
Intangible assets	-	8,299	8,299	-	8,339	8,339
Other assets *	1,406	-	1,406	1,218	-	1,218
Total assets	**3,090,556**	**4,325,721**	**7,416,277**	**2,552,300**	**4,250,380**	**6,802,680**
Liabilities						
Deposits	5,763,505	977,385	6,740,890	5,725,803	431,006	6,156,809
Derivative financial instruments	8,196		8,196	2,926	5,359	8,285
Current tax liability	6,919	-	6,919	2,451	-	2,451
Other liabilities	42,004	5,253	47,257	41,821	5,190	47,011
Total liabilities	**5,820,624**	**982,638**	**6,803,262**	**5,773,001**	**441,555**	**6,214,556**

* Other assets include receivables, prepayments and sundry debtors.

(d) Regulatory liquidity ratios

Liquidity ratios below were calculated at the close of each working day in the periods specified in accordance with the conditions of registration relating to liquidity-risk policy and management.

	Three month period ending on 31 March 2018	Three month period ending on 31 December 2017
One-week mismatch ratio	13.5%	14.0%
One-month mismatch ratio	23.9%	24.6%
Core funding ratio	128.4%	131.3%

18. Risk Management Systems Reviews

Apart from the items outlined below, there have been no material changes to the risk management policies since publication of the previous annual report. The changes below are refinements to existing policies which have been implemented to reflect the latest market approaches to the management of these risks and changes in the overall Board risk appetite in these areas:

- Retail credit risk; - an update of the credit policies and practices to reflect the current risk appetite of the Board.
- AgriBusiness credit risk; - an update of the credit policies and practices to reflect the current risk appetite of the Board.
- Business and commercial credit risk; - an update of the credit policies and practices to reflect the current risk appetite of the Board.
- Treasury counterparty credit risk - an update of the credit policies and practices to reflect the current risk appetite of the Board.
- Balance sheet interest rate risk; - an update of the interest rate risk policies and practices to reflect the current risk appetite of the
- Liquidity risk - an update of the liquidity risk policies and practices to reflect the current risk appetite of the Board.
- General risk management - Internal Capital Adequacy Assessment Processes (ICAAP); - an improved and focussed update of the existing ICAAP to ensure that it meets the requirements of the regulator and the Board.
- Capital management policy; - an enhancement of the capital management programme arising from an updated review of the ICAAP programme.
- Operational risk – non financial asset management (including information assets) – an update of existing policies and processes to reflect the current risk appetite of the Board.
- Operational risk – Health and Safety – an update of existing policies and processes to reflect material regulatory changes in this
- Operational risk – Anti-Money Laundering (AML) – an update of existing policies and processes to reflect changes identified through the updated AML risk assessment processes.

18. Risk Management Systems Reviews (continued)

Finally, the Bank was subject to an AML inspection by the Reserve Bank as its AML regulator in October 2017. This was the third supervisory interaction RBNZ has had with TSB Bank Limited ('TSB') since the AML/CFT Act came into force on 30 June 2013. During the course of the 2017 on-site visit, RBNZ obtained assurance that TSB had taken the necessary steps to address the breach outlined in the formal warning (issued in 2016), and had adequate and effective procedures, policies, and controls in place to ensure ongoing compliance with sections 57(1), 58 and 59(1) of the AML/CFT Act. During the course of the 2017 on-site visit RBNZ did not identify any breaches of the AML/CFT Act which require enforcement action, however, RBNZ identified three deficiencies that require supervisory action to achieve compliance which TSB has committed to remediating in 2018.

The following reviews of the Bank's risk management systems have been undertaken. The recommendations arising from these reviews have either been implemented, or are in the process of being implemented by the Bank. Apart from the reviews required by legislation, these reviews have been requested by the Board or Management to ensure that the Bank is appropriately equipped for future change. The reviews are as follows:

- TSB commercial loan portfolio & business review - An in depth review of the Bank's commercial lending portfolio including the maturation of associated risk processes and controls. This review was conducted at the request of Management by an independent third party and its findings are being implemented. This was an ad-hoc review; and
- TSB council lending review - An in depth review of the Bank's council lending policy. This review was conducted at the request of Management by an independent third party and its findings are being implemented. This was an ad-hoc review.

19. Capital Adequacy

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 Bank's objectives for the management of Capital Adequacy are to comply at all times with the regulatory capital requirements set by the Reserve Bank of New Zealand (RBNZ); to maintain a strong capital base to cover the inherent risks of the business in excess of that required by rating agencies to maintain an investment credit grading; and to support the future development and growth of the business to maximise shareholder's value.

Total regulatory capital is divided into Tier 1 and Tier 2 capital. Tier 1 capital comprises Common Equity Tier 1 ("CET1") capital and Additional Tier 1 ("AT1") capital. Tier 1 capital primarily consists of shareholder's equity and other capital instruments acceptable to the RBNZ, less intangible assets, cash flow hedge reserve, deferred tax assets and a deduction for any advances of a capital nature to connected persons. Tier 2 Capital comprises capital instruments as defined by the RBNZ.

Regulatory capital adequacy ratios are calculated by expressing capital as a percentage of risk weighted exposures. Risk weighted exposures are derived by assigning a risk weight percentage to certain categories of exposures, including statement of financial position assets (excluding intangible assets and capital deductions for investments in subsidiaries not wholly owned or funded), and off-balance sheet assets. The risk weighting categories range from 0% - 150%. It should be noted that the regulatory risk weightings may not be consistent with the loss experience of the Bank.

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

- Total capital must not be less that 8% of risk weighted exposure.
- Tier 1 capital must not be less than 6% of risk weighted exposure.
- Common Equity Tier 1 capital must not be less than 4.5% of risk weighted exposure.
- Capital must not be less than NZ$30m.
- Buffer ratio must be not less than 2.5%.

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 on a monthly basis to the RBNZ.

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 year ended 31 March 2018. During the period and the comparative period shown, the Bank complied with all of the RBNZ capital requirements to which it is subject. The Board approved levels of regulatory capital have been increased from 13.50% to 13.75% during the year.

All in $000's

19. Capital Adequacy (continued)

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 which financial instruments may be treated as regulatory capital. The key benefit of higher capital ratios is the reduced probability that there will be a financial crisis.

The adoption of Basel III necessitated changes to a number of Banking Supervision Handbook documents as well as the "Standardised Approach" as per BS2A that the Bank adopts to calculate regulatory capital requirements. The main changes affecting the Bank as a result of Basel III are increased capital deductions from Common Equity Tier 1 capital and the increase in capitalisation rates referred to above.

(a) Capital Adequacy Ratios

Total capital adequacy ratios for the Bank at balance date are:

	RBNZ Minimum ratio requirement	2018 31 Mar Unaudited Basel III	2017 31 Mar Unaudited Basel III
Common Equity Tier 1 capital ratio	4.50%	14.28%	14.60%
Tier 1 capital ratio	6.00%	14.28%	14.60%
Total capital ratio	8.00%	14.28%	14.60%
Buffer ratio	2.50%	6.28%	6.60%

(b) Regulatory Capital

	2018 Basel III Unaudited	2017 Basel III Unaudited
Tier 1 capital		
Common Equity Tier 1 ("CET1") capital		
Issued and fully paid up share capital	10,000	10,000
Retained earnings	565,883	529,543
Current period's audited retained earnings	31,873	36,340
Available for sale investments revaluation reserve	8,546	14,083
Cash flow hedge reserve	(3,287)	(1,842)
	613,015	**588,124**
Less Deductions from CET1 Capital		
Intangible assets	8,299	8,339
Cash flow hedge reserve	(3,287)	(1,842)
Deferred tax assets	5,137	3,248
	10,149	**9,745**
Total CET 1 capital	**602,866**	**578,379**
Additional Tier 1 ("AT1") Capital	-	-
Total Tier 1 capital	**602,866**	**578,379**
Tier 2 capital		
Unrealised revaluation on security holdings at 45%	-	-
Total capital	**602,866**	**578,379**

All in $000's

19. Capital Adequacy (continued)

(c) Credit risk

(i) On-balance sheet exposures

As at 31 March 2018 (Unaudited)	Risk weighting	Total exposure	Risk weighted exposure	Minimum Pillar one capital requirement
Cash	0%	6,820	-	-
Sovereigns & RBNZ	0%	553,010	-	-
Multilateral development banks	0%	265,425	-	-
Multilateral development banks	20%	56,672	11,334	907
Public sector entities	20%	382,223	76,445	6,116
Banks	20%	118,858	23,772	1,902
Banks	50%	417,830	208,915	16,713
Corporate	20%	45,856	9,171	734
Corporate	50%	47,211	23,606	1,888
Corporate	100%	994,015	994,015	79,521
Residential mortgages not past due:				
Non-property investment <80% LVR *	35%	2,685,754	940,014	75,201
Non-property investment 80%<90% LVR *	50%	245,579	122,790	9,823
Non-property investment 90%<100% LVR *	75%	26,048	19,536	1,563
Non-property investment >100% LVR *	100%	777	777	62
Property investment <80% LVR *	40%	1,257,582	503,033	40,243
Property investment 80%<90% LVR *	70%	11,487	8,041	643
Property investment 90%<100% LVR *	90%	282	254	20
Property investment >100% LVR *	100%	17	17	1
Welcome home <80% LVR *	35%	3,150	1,103	88
Welcome home 80%<90% LVR *	35%	62,609	21,913	1,753
Welcome home 90%<100% LVR *	50%	58,560	29,280	2,342
Welcome home >100% LVR *	100%	3,929	3,929	314
Reverse mortgages <60% LVR *	50%	10,840	5,420	434
Reverse mortgages 60%<80% LVR *	80%	73	58	5
Reverse mortgages >80% LVR *	100%	25	25	2
Past due residential mortgages *	100%	3,324	3,324	266
Other past due assets	100%	-	-	-
Other past due assets	150%	9,270	13,905	1,112
Other lending	100%	113,720	113,720	9,098
Other assets	100%	21,895	21,895	1,752
Non-risk weighted assets	0%	13,436	-	-
Total on-balance sheet exposures		**7,416,277**	**3,156,294**	**252,503**

* Total exposure of residential mortgages is $4,370,036.

All in $000's

19. Capital Adequacy (continued)

(c) Credit risk (continued)

(ii) Off-balance sheet exposures

As at 31 March 2018	Total exposure	Credit conversion factor	Credit equivalent amount	Average risk weight	Risk weighted exposure	Minimum Pillar one capital requirement
Commitments that can be cancelled unconditionally	574,398	0%	-	N/A	-	-
Commitment with certain drawdown	161,593	100%	161,593	45%	72,688	5,815
Market related contracts:						
Foreign exchange contracts	-	Various	-	50%	-	-
Interest rate contracts*	1,141,657	Various	3,536	38%	1,333	107
Credit valuation adjustment (CVA)	-			-	832	67
Total off-balance sheet exposures	**1,877,648**		**165,129**		**74,853**	**5,989**

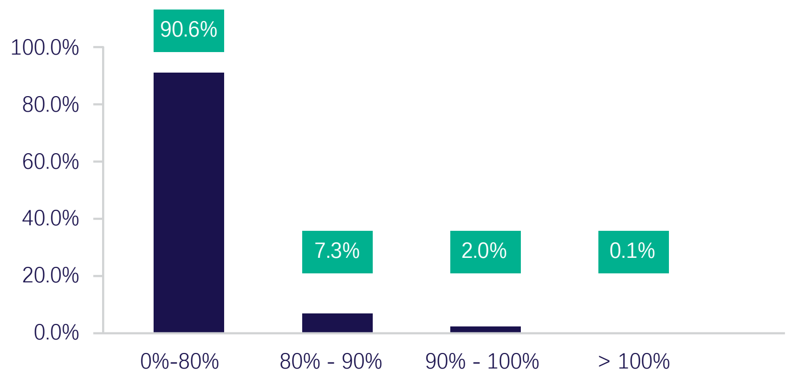
* The credit equivalent amount for market related contracts (which are all interest rate contracts) were calculated using the current exposure method.

(d) Residential mortgages by loan-to-valuation (LVR) ratio

As at 31 March 2018

LVR Range	Note	0%-80%	80% - 90%	90% - 100%	> 100%	Total
On-balance sheet exposures		3,974,789	320,867	85,304	5,025	4,385,985
Past due and impaired		3,247	147	283	149	3,826
Total value of on-balance sheet exposures	7,15(d)	**3,978,036**	**321,014**	**85,587**	**5,174**	**4,389,811**
Less provisions:						
Collective		17,687	1,167	413	303	19,570
Specific		205	-	-	-	205
Total residential mortgages		**3,960,144**	**319,847**	**85,174**	**4,871**	**4,370,036**
Off-balance sheet exposures		486,496	10,832	1,254	40	498,622
Total residential mortgages		**4,446,640**	**330,679**	**86,428**	**4,911**	**4,868,658**

The bar graph represents the percentage (%) of residential mortgage by LVR



All in $000's

19. Capital Adequacy (continued)

(e) Market risk

In accordance with clause 9 of Schedule 9 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014, 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, are derived by following the risk methodology for measuring capital requirements within Part 10 of - Capital Adequacy Framework (Standardised Approach) (BS2A).

As at 31 March 2018		Implied risk weighted exposure	Aggregate capital charge	Aggregate capital charge as % of Bank's equity	Banks equity
End of period capital charges	Interest risk	255,084	20,407	3.38%	602,866
Peak end of day capital charges	Interest risk	270,945	21,676	3.60%	602,866

(f) Risk weighted exposure and total capital requirements

As at 31 March 2018	Total exposure after credit risk mitigation	Risk weighted exposure or Implied RWE	Capital requirement
Total credit risk plus equity	7,581,405	3,231,144	258,491
Operational risk	N/A	448,321	35,866
Implicit risk *	N/A	286,643	22,931
Market risk	N/A	255,084	20,407
Total	**7,581,405**	**4,221,192**	**337,695**

* As per Condition 1C and 1D of Conditions of registration for TSB Bank Limited, that apply on and after 1 November 2015.

(g) Capital for other material risks (Pillar II)

Pillar 2 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, investment portfolio risk, sector and regional concentration risk, natural disaster risk, brand risk and ownership structure.

The Bank has made an internal capital allocation of $171m (2017; $218m) to cover these identified risks.

All in $000's

Other Disclosures

20. Securitisation, Funds Management, Other Fiduciary Activities and Marketing and Distribution of Insurance Products

The Bank has no involvement with any securitisation, custodial, or other fiduciary activities. 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 at arm's length terms and conditions and measured 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. The Bank markets Fisher Funds KiwiSaver products through the Bank's branch network. Refer to note 22. Related Party Transactions and Balances in regards to the related party loan to TSB Group Limited and commission income from Fisher Funds Management Limited.

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 the Bank. However, the Trust Deed stipulates that the TSB Bank PIE Unit Trust is invested exclusively in TSB Bank debt securities.

As at 31 March 2018, the TSB Bank PIE Unit Trust had $19.2m (31 March 2017; $29.2m) invested with the Bank.

21. Commitments and Contingent Liabilities

The Bank is involved in a range of transactions that give rise to contingent and/or future liabilities. The Bank discloses a contingent liability when it has a possible obligation arising from past events that will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the Bank's control. A contingent liability is disclosed when a present obligation is not recognised because it is not probable that an outflow of resources will be required to settle an obligation, or the amount of the obligation cannot be measured with sufficient reliability.

The Bank issues commitments to extend credit and other credit facilities. These financial instruments attract service charges in line with market process for similar arrangements. They are not sold or traded. The items generally do not involve cash payments other than in the event of default. The service charges are set as part of the broader customer credit process and reflects the probability of default. They are disclosed as commitments at their face value.

	2018	2017
Lending commitments:		
Commitments approved to advance less than one year	107,178	101,276
Commitments approved to advance greater than one year *	628,813	597,669
Total lending commitments	**735,991**	**698,945**
Other commitments:		
Rental / lease commitments less than one year	3,058	3,095
Rental / lease commitments greater than one year	21,000	11,528
Capital commitments	707	878
Total other commitments	**24,765**	**15,501**
Total commitments	**760,756**	**714,446**

* Includes $12.56m (31 March 2017, $32.17m) related to the facility granted to TSB Group Limited, a related entity.

There are no material contingent liabilities and outstanding claims known by the Directors as at 31 March 2018 that would impact on the financial statements.

All in $000's

22. Related Party Transactions and Balances

The Bank is wholly owned by the TSB Community Trust (the Trust) through the Trust's fully owned subsidiary, TSB Group Limited. During the period the Trust operated bank account facilities which were on normal customer terms and conditions.

The outstanding balances shown below arose from the ordinary course of business and the corresponding interest rates charged to, and by, related parties are at normal commercial rates.

The Bank markets Fisher Funds KiwiSaver products through the Bank's branch network and receives commission income in return. TSB Group Limited together with its subsidiary, TSB Group Investments Limited, hold 75.01% (2017; 49%) shareholding of Fisher Funds Management Limited.

		2018			2017		
Recognised in	Note	TSB Community Trust	TSB Group Limited	Fisher Funds	TSB Community Trust	TSB Group Limited	Fisher Funds
Statement of Financial Position							
Loan balance	7	-	71,045	-	-	46,327	-
Deposit balance	10	14,269	-	-	17,009	-	-
Statement of Changes in Equity							
Dividends	13	-	20,000	-	-	10,000	-
Statement of Profit or Loss							
Interest income	2	-	2,563	-	-	1,974	-
Interest expense	2	682	-	-	633	-	-
Commission income	3	-	-	476	-	-	336

Transactions with directors and key management personnel

Key management personnel are defined as the directors and senior management of the Bank – those persons having the authority and responsibility for planning, directing and controlling the activities of the entity. Loans made to and deposits held by the key management personnel are made in the course of ordinary business on normal terms and conditions, other than some loans made to key management personnel, which are made with an interest rate at a slight discount to market.

	2018	2017
Key management compensation:		
Short-term employee benefits	3,618	4,399
Other long-term benefits	(39)	158
Retirement benefits	1,020	-
Total key management compensation	**4,599**	**4,557**
Loans to directors and key management personnel:		
Balance at beginning of period	2,952	3,699
Net loans (repaid) during the period	(38)	(747)
Balance at end of period	**2,914**	**2,952**
Deposits from directors and key management personnel:		
Balance at beginning of period	3,201	2,557
Net deposits received/(repaid) during the period	(2,673)	644
Balance at end of period	**528**	**3,201**

23. Subsequent Events

There have been no material events subsequent to the reporting date that require adjustments, or disclosure in these financial statements.

These conditions will apply on and after 1 January 2018.

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

1. That—
   (a) the Total capital ratio of the banking group is not less than 8%;
   (b) the Tier 1 capital ratio of the banking group is not less than 6%;
   (c) the Common Equity Tier 1 capital ratio of the banking group is not less than 4.5%;
   (d) the Total capital of the banking group is not less than $30 million;
   (e) the bank must not include the amount of an Additional Tier 1 capital instrument or Tier 2 capital instrument issued after 1 January 2013 in the calculation of its capital ratios unless it has received a notice of non-objection to the instrument from the Reserve Bank; and
   (f) the bank meets the requirements of Part 3 of the Reserve Bank of New Zealand document "Application requirements for capital recognition or repayment and notification requirements in respect of capital" (BS16) dated November 2015 in respect of regulatory capital instruments.

   For the purposes of this condition of registration,—

   except to the extent modified by Condition 1C, the Total capital ratio, the Tier 1 capital ratio, the Common Equity Tier 1 capital ratio and Total capital must be calculated in accordance with the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015;

   an Additional Tier 1 capital instrument is an instrument that meets the requirements of subsection 8(2)(a) or (c) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015.

   a Tier 2 capital instrument is an instrument that meets the requirements of subsection 9(2)(a) or (c) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015.

1A. That—

   (a) the bank has an internal capital adequacy assessment process ("ICAAP") that accords with the requirements set out in the document "Guidelines on a bank's internal capital adequacy assessment process ('ICAAP')" (BS12) dated December 2007;
   (b) under its ICAAP the bank identifies and measures its "other material risks" defined as all material risks of the banking group that are not explicitly captured in the calculation of the Common Equity Tier 1 capital ratio, the Tier 1 capital ratio and the Total capital ratio under the requirements set out in the document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015; and
   (c) the bank determines an internal capital allocation for each identified and measured "other material risk".

1B. That, if the buffer ratio of the banking group is 2.5% or less, the bank must:
   (a) according to the following table, limit the aggregate distributions of the bank's earnings to the percentage limit to distributions that corresponds to the banking group's buffer ratio:

Banking group's buffer ratio	Percentage limit to distributions of the bank's earnings
0% – 0.625%	0%
>0.625 – 1.25%	20%
>1.25 – 1.875%	40%
>1.875 – 2.5%	60%

   (b) prepare a capital plan to restore the banking group's buffer ratio to above 2.5% within any timeframe determined by the Reserve Bank for restoring the buffer ratio; and
   (c) have the capital plan approved by the Reserve Bank.

   For the purposes of this condition of registration, except to the extent modified by Condition 1C — "buffer ratio", "distributions", and "earnings" have the same meaning as in Part 3 of the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015.

1C. That when calculating the banking group's Common Equity Tier 1 capital ratio, Tier 1 capital ratio and Total capital ratio for the purposes of Condition 1, and the banking group's buffer ratio for the purposes of Condition 1B, the bank calculates "total capital requirement for operational risk" used in the definitions of those ratios in Part 3 of BS2A as the sum of the operational risk capital requirement determined in accordance with Part 9 of BS2A, and an additional capital charge for the implicit risk arising from the bank's association with Fisher Funds Management Limited, which must be the greater of—

   (a) an amount determined by the formula set out in the document "TSB Implicit Risk Capital Policy" dated 17 August 2015, as approved by the board of the bank; and
   (b) an amount equal to 0.25% of total funds under management of Fisher Funds Management Limited.

   For the purposes of this condition of registration, "BS2A" means the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015.

1D. That the bank, in every full year and half year disclosure statement that it is required to publish, discloses the amount of the implicit risk capital charge required by Condition 1C as a separate item within the required disclosure of operational risk capital requirement.

2. That the banking group does not conduct any non-financial activities that in aggregate are material relative to its total activities.

   In this condition of registration, the meaning of "material" is based on generally accepted accounting practice.

3. That the banking group's insurance business is not greater than 1% of its total consolidated assets.

   For the purposes of this condition of registration, the banking group's insurance business is the sum of the following amounts for entities in the banking group:

   (a) if the business of an entity predominantly consists of insurance business and the entity is not a subsidiary of another entity in the banking group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total consolidated assets of the group headed by the entity; and
   (b) if the entity conducts insurance business and its business does not predominantly consist of insurance business and the entity is not a subsidiary of another entity in the banking group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total liabilities relating to the entity's insurance business plus the equity retained by the entity to meet the solvency or financial soundness needs of its insurance business.

   In determining the total amount of the banking group's insurance business—
   (a) all amounts must relate to on balance sheet items only, and must comply with generally accepted accounting practice; and
   (b) if products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets must be considered part of the insurance business.

   For the purposes of this condition of registration,—

   "insurance business" means the undertaking or assumption of liability as an insurer under a contract of insurance:

   "insurer" and "contract of insurance" have the same meaning as provided in sections 6 and 7 of the Insurance (Prudential Supervision) Act 2010.

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

Credit rating of the bank[1]	Connected exposure limit (% of the banking group's Tier 1 capital)
AA/Aa2 and above	75
AA-/Aa3	70
A+/A1	60
A/A2	40
A-/A3	30
BBB+/Baa1 and below	15

[1] This table uses the rating scales of Standard & Poor's, Fitch Ratings and Moody's Investors Service. (Fitch Ratings' scale is identical to Standard & Poor's.)

   Within the rating-contingent limit, credit exposures (of a non-capital nature and net of any allowances for impairment) to non-bank connected persons shall not exceed 15% of the banking group's Tier 1 capital.

   For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled "Connected exposure policy" (BS8) dated November 2015.

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

6. That the bank complies with the following corporate governance requirements:
   (a) the board of the bank must have at least five directors;
   (b) the majority of the board members must be non-executive directors;
   (c) at least half of the board members must be independent directors;
   (d) an alternate director,—
      (i) for a non-executive director must be non-executive; and
      (ii) for an independent director must be independent;
   (e) at least half of the independent directors of the bank must be ordinarily resident in New Zealand;
   (f) the chairperson of the board of the bank must be independent; and
   (g) the bank's constitution must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. the bank).

   For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated July 2014.

7. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer or to the deputy chief executive officer, is made in respect of the bank unless:
   (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
   (b) the Reserve Bank has advised that it has no objection to that appointment.

8. That a person must not be appointed as chairperson of the board of the bank unless:
   (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
   (b) the Reserve Bank has advised that it has no objection to that appointment.

9. That the bank has a board audit committee, or other separate board committee covering audit matters, that meets the following requirements:
   (a) the mandate of the committee must include: ensuring the integrity of the bank's financial controls, reporting systems and internal audit standards;
   (b) the committee must have at least three members;
   (c) every member of the committee must be a non-executive director of the bank;
   (d) the majority of the members of the committee must be independent; and
   (e) the chairperson of the committee must be independent and must not be the chairperson of the bank.

   For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated July 2014.

10. That a substantial proportion of the bank's business is conducted in and from New Zealand.

11. That the banking group complies with the following quantitative requirements for liquidity-risk management:
   (a) the one-week mismatch ratio of the banking group is not less than zero per cent at the end of each business day;
   (b) the one-month mismatch ratio of the banking group is not less than zero per cent at the end of each business day; and
   (c) the one-year core funding ratio of the banking group is not less than 75 per cent at the end of each business day.

   For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) dated January 2018 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated December 2011.

12. That the bank has an internal framework for liquidity risk management that is adequate in the bank's view for managing the bank's liquidity risk at a prudent level, and that, in particular:
   (a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;
   (b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;
   (c) identifies the principal methods that the bank will use for measuring, monitoring and controlling liquidity risk; and
   (d) considers the material sources of stress that the bank might face, and prepares the bank to manage stress through a contingency funding plan.

13. That no more than 10% of total assets may be beneficially owned by a SPV.

   For the purposes of this condition,—
   "total assets" means all assets of the banking group plus any assets held by any SPV that are not included in the banking group's assets:

   "SPV" means a person—
   (a) to whom any member of the banking group has sold, assigned, or otherwise transferred any asset;
   (b) who has granted, or may grant, a security interest in its assets for the benefit of any holder of any covered bond; and
   (c) who carries on no other business except for that necessary or incidental to guarantee the obligations of any member of the banking group under a covered bond:

   "covered bond" means a debt security issued by any member of the banking group, for which repayment to holders is guaranteed by a SPV, and investors retain an unsecured claim on the issuer.

14. That—
   (a) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the notification threshold, and does not meet the non-objection threshold, unless:
      (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination and at least 10 working days have passed; and
      (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and
   (b) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the non-objection threshold unless:
      (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination;
      (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and
      (iii) the Reserve Bank has given the bank a notice of non-objection to the significant acquisition or business combination.

   For the purposes of this condition of registration, "qualifying acquisition or business combination", "notification threshold" and "non-objection threshold" have the same meaning as in the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011.

15. That the bank is pre-positioned for Open Bank Resolution and in accordance with a direction from the Reserve Bank, the bank can—
    (a) close promptly at any time of the day and on any day of the week and that effective upon the appointment of the statutory manager—
        (i) all liabilities are frozen in full; and
        (ii) no further access by customers and counterparties to their accounts (deposits, liabilities or other obligations) is possible;
    (b) apply a *de minimis* to relevant customer liability accounts;
    (c) apply a partial freeze to the customer liability account balances;
    (d) reopen by no later than 9 am the next business day following the appointment of a statutory manager and provide customers access to their unfrozen funds;
    (e) maintain a full freeze on liabilities not pre-positioned for open bank resolution; and
    (f) reinstate customers' access to some or all of their residual frozen funds.

    For the purposes of this condition of registration, *"de minimis"* , "partial freeze", "customer liability account", and "frozen and unfrozen funds" have the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

16. That the bank has an Implementation Plan that—
    (a) is up-to-date; and
    (b) demonstrates that the bank's prepositioning for Open Bank Resolution meets the requirements set out in the Reserve Bank document: "Open Bank Resolution Pre-positioning Requirements Policy" (BS 17) dated September 2013.

    For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

17. That the bank has a compendium of liabilities that—
    (a) at the product-class level lists all liabilities, indicating which are—
        (i) pre-positioned for Open Bank Resolution; and
        (ii) not pre-positioned for Open Bank Resolution;
    (b) is agreed to by the Reserve Bank; and
    (c) if the Reserve Bank's agreement is conditional, meets the Reserve Bank's conditions.

    For the purposes of this condition of registration, "compendium of liabilities", and "pre-positioned and non pre-positioned liabilities" have the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

18. That on an annual basis the bank tests all the component parts of its Open Bank Resolution solution that demonstrates the bank's prepositioning for Open Bank Resolution as specified in the bank's Implementation Plan.

    For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

19. That, for a loan-to-valuation measurement period, the total of the bank's qualifying new mortgage lending amount in respect of property-investment residential mortgage loans with a loan-to-valuation ratio of more than 65%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

20. That, for a loan-to-valuation measurement period, the total of the bank's qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans with a loan-to-valuation ratio of more than 80%, must not exceed 15% of the total of the qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

21. That the bank must not make a residential mortgage loan unless the terms and conditions of the loan contract or the terms and conditions for an associated mortgage require that a borrower obtain the registered bank's agreement before the borrower can grant to another person a charge over the residential property used as security for the loan.

In these conditions of registration,—

"banking group" means TSB Bank Limited (as reporting entity) and all other entities included in the group as defined in section 6(1) of the Financial Markets Conduct Act 2013 for the purposes of Part 7 of that Act.

"generally accepted accounting practice" has the same meaning as in section 8 of the Financial Reporting Act 2013.

In conditions of registration 19 to 21,—

"loan-to-valuation ratio", "non property-investment residential mortgage loan", "property-investment residential mortgage loan", "qualifying new mortgage lending amount in respect of property-investment residential mortgage loans", "qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans", and "residential mortgage loan" have the same meaning as in the Reserve Bank of New Zealand document entitled "Framework for Restrictions on High-LVR Residential Mortgage Lending" (BS19) dated January 2018:

"loan-to-valuation measurement period" means a period of six calendar months ending on the last day of the sixth calendar month, the first of which ends on the last day of June 2018.

Internal Audit identified a failure to calculate capital in accordance with BS2A which represented a minor breach of the Bank's conditions of registration, minor as the adjustment to the reported March 2017 Total Capital Ratio would have been 0.02% lower.

Changes in Conditions of Registration

The following changes have been made to the Bank's Conditions of Registration since 31 December 2017 and are effective on and after 1 January 2018 pursuant to section 74(2) of the Reserve Bank of New Zealand Act 1989:

- Condition 11 has been modied to reflect the issue date of revised Liquidity Policy (BS13); and
- Conditions of registration 19 to 21 have been updated to reflect the changes made to Framework for Restrictions on High-LVR Residential Mortgage Lending (BS19). The changes include -
  - No more than 15 percent (previously 10 percent) of the Bank's new mortgage lending to owner occupiers can be at LVRs of more than 80 percent; and
  - No more than 5 percent of the Bank's new mortgage lending to residential property investors can be at LVRs of more than 65 percent (previously 60 percent).

Independent Auditor's Report

To the shareholder of TSB Bank Limited

Report on the disclosure statement

Opinion

In our opinion, the accompanying financial statements (excluding supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements) of TSB Bank Limited (the bank) on pages 17 to 54:

i. give a true and fair view of the bank's financial position as at 31 March 2018 and its financial performance and cash flows for the year ended on that date; and

ii. comply with New Zealand Generally Accepted Accounting Practice, which in this instance means New Zealand Equivalents to International Financial Reporting Standards ("NZIFRS") and International Financial Reporting Standards.

In our opinion, the supplementary information (excluding supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements) that is required to be disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order") and is included within notes 14, 15, 18, and 20 of the disclosure statement:

i. has been prepared, in all material respects, in accordance with the guidelines issued pursuant to section 78(3) of the Reserve Bank of New Zealand Act 1989 and any conditions of registration;

ii. is in accordance with the books and records of the in all material respects; and

iii. fairly states the matters to which it relates in accordance with those Schedules

We have audited the accompanying financial statements and supplementary information (excluding supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements) which comprise:

— the statement of financial position as at 31 March 2018;

— the statements of comprehensive income, changes in equity and cash flows for the year then ended;

— notes, including a summary of significant accounting policies and other explanatory information; and

— the information that is required to be disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order.

Basis for Opinion

We conducted our Audit in accordance with International Standards on Auditing (New Zealand) (ISA's (NZ)). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the bank in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the

International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISA (NZ) are further described in the auditor's responsibilities for the audit of the financial statements (excluding supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements) section of our report.

Our firm has also provided other services to the bank in relation to regulatory/risk advisory services and technical accounting services. Subject to certain restrictions, 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 auditor of the bank. The firm has no other relationship with, or interest in, the bank.

Other information

The Directors, on behalf of the bank, are responsible for the other information included in the bank's Annual Report. Other information includes the Chairman and Managing Director's report and information required to be included in the Disclosure Statement in accordance with Schedule 2 of the Order and is included on pages 2 to 16 and 55 to 59. Our opinion on the performance report does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the performance report or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Report on other legal and regulatory requirements

In accordance with the requirements of clauses 2(1)(d) and 2(1)(e) of Schedule 1 of the Order, we report that:

— we have obtained all the information and explanations we have required; and

— in our opinion, proper accounting records have been kept by the , as far as appears from our examination of those records.

Responsibilities of Directors for the financial statements and supplementary information (excluding supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements)

The Directors, on behalf of the bank, are responsible for:

— the preparation and fair presentation of the financial statements in accordance with Clause 24 of the Order, NZIFRS and International Financial Reporting Standards;

— the preparation and fair presentation of supplementary information (excluding the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements), in accordance with Schedules 2, 4, 7, 13, 14, 15 and 17 of the Order;

— implementing necessary internal control to enable the preparation of financial statements that are fairly presented and free from material misstatement, whether due to fraud or error; and

— assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements and supplementary information (excluding supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements)

Our objective is:

- to obtain reasonable assurance about whether the disclosure statement, including the financial statements prepared in accordance with Clause 24 of the Order, and supplementary information (excluding the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements), in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (New Zealand) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-6/

This description forms part of our independent auditor's report.

Review conclusion on the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements

Based on our review, nothing has come to our attention that causes us to believe that the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements, disclosed in notes 17 and 19 to the disclosure statement, is not, in all material respects disclosed in accordance with Schedule 9 of the Order.

We have reviewed the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements, as disclosed in notes 17 and 19 of the disclosure statement for the year ended 31 March 2018. The supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements comprises the information that is required to be disclosed in accordance with Schedule 9 of the Order.

Basis for conclusion on the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements

A review of the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* ("NZ SRE 2410") is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. Our responsibilities under that standard are further described in the Auditor's Responsibilities for the Review of the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements section of our report.

As the auditor of the bank, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

Responsibilities of Directors for the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements

The directors are responsible for the preparation of supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements that are required to be disclosed under Schedule 9 of the Order and described in notes 17 and 19 to the disclosure statement.

Auditor's responsibilities for the review of the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements

Our responsibility is to express a conclusion on the Capital Adequacy and Regulatory Liquidity Requirements based on our review. We conducted our review in accordance with NZ SRE 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity ("NZ SRE 2410") issued by the New Zealand External Reporting Board. As the auditor of the bank, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements, and plan and perform the review to obtain limited assurance about whether the supplementary information relating to Capital Adequacy and Liquidity Requirements is, in all material respects disclosed in accordance with Schedule 9 of the Order.

A review of the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirement disclosures.

Use of this independent auditor's report

This independent auditor's report is made solely to the shareholder as a body. Our work has been undertaken so that we might state to the shareholder those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholder as a body for our work, this independent auditor's report, or any of the opinions or conclusions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Brent Manning.

For an on behalf of

KPMG

KPMG
Wellington

24 May 2018

Directory

Directors

J.J. (John) Kelly, Chair
M.I. (Murray) Bain, M Com (Hons), BSc, C.F.Inst.D, Acting Managing Director / Deputy Chair
M.A. (Anne) Blackburn, MA, BA
K.M. (Kelly) Marriner, LLB, BA
N. (Natalie) Pearce, B.Com
P.M. (Peter) Schuyt, B.Com, C.F.Inst.D
D.J. (Dion) Tuuta
H.P.W. (Hayden) Wano

Executive Management

R.G. (Roddy) Bennett, B. Sci, ACA, GM Finance
D.R. (Doug) Widdowson, M. Comm, CA, GM Risk
D.S. (David) Thompson, BA (Double Major), Acting GM Risk
B.A. (Brent) Woodhead, MBA, GM Marketing
S.L. (Steve) O'Shea, Dip Bank, MBA, FFin, GM Customer Sales & Service
M.D. (Marie) Collins, GM Technology & Support
A.A. (Audrey) Young, BSc (Hons), GM People & Culture

Registered Office

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Principal Solicitors to the Company

Auld Brewer Mazengarb & McEwen
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Auditor

KPMG
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