ANNUAL **REPORT**
2019

Echo Chen from our Newmarket branch has a starring role in TSB and Surf Life Saving New Zealand's rip safety campaign.

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The highest customer satisfaction of any bank in New Zealand

88.5%

Roy Morgan (February 2019)

TSB won the 2018

Canstar Blue

Overall Customer Satisfaction Award

for the fifth time in six years

The majority of the Bank's new business is being generated outside of Taranaki, while the local customer base remains steady

HIGHLIGHTS 2018-19

The Bank's deposits increased by 5.2%

to a record high

$7.1b

$115,000

in grants

Distributed to 11 Surf Life Saving Clubs

throughout New Zealand

"TSB feels like home..."

Samantha H. TSB Customer, Opunake

The opening of the TSB Customer Engagement Centre

Opened in New Plymouth in November 2018. This new, fit-for-purpose workspace will empower our people to continue delivering world class service to customers right across New Zealand, from Taranaki.

TSB won the

2018 Consumer NZ

People's Choice Award for Banking

for the third year in a row

The Bank reported profit before tax of

$62.6 million

In October 2018 TSB implemented the

Living Wage

for all staff

TSB won

Best Brand Transformation

at TVNZ NZ Marketing Awards

Throughout the year more than

12,000

new customers

have joined TSB

The Bank paid an annual dividend of

$10m

to TSB Group Ltd

which supports TSB Community Trust's philanthropic work across Taranaki

"By Kiwis, for Kiwis, supporting Kiwis..."

Paula M. TSB Customer, New Plymouth

MESSAGE FROM OUR **CHAIR**

Kia ora koutou,

Looking back at the year that was for TSB, it is evident that this was a time of significant change. Throughout the year the groundwork has been carefully laid to enable the ongoing development of an effective new strategy and focus which will ensure the future success of the Bank.

TSB has continued to set the standard for customer satisfaction as it is embedded right throughout the organisation that people always come first. That culture has without doubt contributed to the achievement of a solid annual result for the business in the face of a challenging operating environment.

New direction at TSB

In July, Donna Cooper was appointed by the Board as CEO. Donna exemplifies TSB's values and has the right leadership approach to harness the collective talents of all our staff as we continue our growth strategy.

Donna has a track record of delivering strong results for customers, employees and shareholders. She has brought to TSB a passion for understanding the customer, applying innovation and technology in creative ways and working with teams and business partners to achieve outcomes everyone can be proud of. In her time so far, she has displayed a warm and approachable leadership style and commitment to building a positive organisational culture.

I would like to acknowledge TSB director Murray Bain who stepped so ably into the role of Interim Managing Director while we took the time to get this crucial appointment right. In the six months he took on this role Murray ensured continuity and a seamless transition for TSB's employees and valued customers upon Kevin Murphy's retirement. Since returning to the Board, Murray has continued to play an invaluable role in supporting Donna.

> This year TSB has continually demonstrated what it means to be a community bank that cares about its role in New Zealand.

Upon finishing his time in the interim role, Murray reflected that moving into the management team gave him a deeper understanding of the pride our people have for this Bank and their collective desire to see TSB achieve well for communities right across the country.

Good customer outcomes

During 2018 TSB participated in the Reserve Bank of New Zealand and the Financial Markets Authority's review of Bank Conduct and Culture.

The review found no evidence of widespread misconduct and culture issues across the industry and noted that locally owned banks like TSB, have good relationships with their customers and communities. However it made several recommendations for change and has provided an opportunity to further develop TSB's culture of doing right by customers.

The Board recognises the need to take ownership of conduct and culture now, and in the future, and is driving improvements across the wider organisation.

Doing what is right for NZ

This year TSB has continually demonstrated what it means to be a community bank that cares about its role in New Zealand.

In October the Living Wage was introduced for all staff at TSB and the Bank's primary cleaning contractor was actively supported to implement the Living Wage by 1 April 2019.

This was a proud moment for TSB. Paying our employees all around the country a Living Wage recognises and supports their efforts at all levels of the workforce. It also contributes to a positive and thriving New Zealand economy.

In March the decision was made to suspend all digital advertising on social media platforms in the wake of the terrorist attack in Christchurch.

TSB took a stand and boldly told the public that given the role social media played in the tragedy, it was no longer appropriate to support the channel.

Our staff were incredibly proud of this stand, and customers and other New Zealanders have praised TSB for doing what is right for our country.

This was the right call to make and I was proud to see our strong leadership team empowered to act confidently and quickly, knowing they would have the Board's backing.

Effective organisation

This year significant work has been put into ensuring TSB has the right capability, and the best systems in place, to be future fit.

There are a number of factors changing the way New Zealanders choose to bank and it is crucial that TSB addresses these head on and ensures we can continue to do the best for our customers.

Ensuring the Bank is set up to meet shifting expectations has meant significant changes have been introduced across the organisation. It has been encouraging to see our people fully invested and excited about the future vision and plans.

A business plan has been set for the year ahead while a wider strategic plan is developed. This will provide a clear and achievable focus for getting the fundamentals right, stepping it up in the customer space and knowing the key priorities which will make the biggest difference in enabling TSB's strong performance in the years to come.

Contributing to communities

As a New Zealand owned bank, giving back is part of our ethos. TSB has a proud history of investing in communities throughout the country via partnerships with organisations and events that provide important services and contribute to our local economy.

> Together we embody integrity, community focus and a commitment to New Zealand and Taranaki.

TSB Community Trust owns 100% of TSB Bank Ltd through its group company structure. In the last 30 years the Trust has invested over $137 million into Taranaki communities.

The success of the Bank plays an important role in contributing to the work the TSB Community Trust does to be a champion of positive opportunities and an agent of beneficial change for Taranaki and its people, now and in the future.

The values of the Bank and the way it operates are aligned with those of the TSB Community Trust. Together we embody integrity, community focus and a commitment to New Zealand and Taranaki.

While TSB is a national organisation, its history lies proudly in Taranaki, so it is fantastic to see our home region benefit from the Bank's success.

Looking forward

2018 has been a crucial year for putting in place the right people, structure, investment and vision to enable TSB to grow, embrace future trends in the banking industry and continue to lead the way in achieving good customer outcomes.

This is a bank with a long and proud history and the Board is confident what is to come, is just as promising.

Ngā mihi,

JKelly

John Kelly, Chair

MESSAGE FROM OUR **CEO**

Kia ora koutou,

My first eight months at TSB have been busy and exciting as we adapt to our changing and challenging operating environment. One of my first priorities when I started was to gain a real understanding of the Bank and consider insights from the people who make TSB what it is, right up and down the country.

I am continually impressed with the real passion and commitment shown by our people, who genuinely care about doing the best for our customers. It is a pleasure to lead a bank which is 100% New Zealand owned, keeps profits onshore and cares about Kiwis and their communities.

Industry environment

In the past year TSB has had to contend with several challenging factors such as low interest rates, slowing credit growth, strong competition for lending and rapidly changing technology requirements and expectations. The banking industry is transforming as customers increasingly embrace online interaction, rather than face-to-face.

Proposed changes to capital requirements for banks have been announced by the Reserve Bank of New Zealand. We support the intention to create a level playing field between all banks and the commitment to ensuring a sound banking system and economy, but we are also carefully considering the impact this could have on our future operations.

Despite these challenges, TSB delivered an annual profit before tax of $62.6 million. After removing the impact of recoveries from Solid Energy (2018: $15.5m, 2019: $2.1m), profit before tax increased from $56.6m to $60.5m, an indication that financial performance remains sound.

More than 12,000 new customers joined TSB in the last year, with the majority of the Bank's new business being generated outside of Taranaki. This indicates TSB has been successful in accessing more customers beyond our home region, while continuing to maintain a steady customer base locally.

Customer recognition

I am confident our continued focus on putting our customers first has had a direct impact on our solid financial result in what has been a challenging operating environment.

TSB is a national leader in this space. We were awarded the 2018 Consumer NZ People's Choice Award for banking for the third year in a row and won the Canstar Blue Overall Customer Satisfaction Award for the fifth time in six years.

> How we treat our customers and doing the right thing has always been part of the ethos of TSB.

TSB also achieved the highest customer satisfaction of any New Zealand bank in the latest Roy Morgan survey, achieving a rating of 88.5% for the 12 months to December.

Further to that, our Net Promoter Score of 60*, which reflects how likely our customers are to recommend TSB to a friend or colleague, is considered world class.

These results truly demonstrate that the customer is at the heart of everything we do at TSB.

Conduct and culture

The Bank Conduct and Culture Review released in November provided a timely opportunity to consider how we can grow and improve these existing foundations further and ensure a focus on good customer outcomes is embedded into everything we do.

TSB has never had an aggressive sales-based culture. How we treat our customers and doing the right thing has always been part of the ethos of TSB. But there is always room for improvement and we fundamentally support the industry moving to a more customer centric focus.

A programme of work is being implemented to make sure good conduct is understood, encouraged and exercised by staff at every layer in the organisation, and achieving the right outcome for our customers is entrenched in all our products and service.

Strategy and future

Our future strategy is being carefully shaped using analysis of key digital, market and financial trends, to ensure everything we do is putting TSB in the best position for the future.

TSB needs to evolve to meet our changing world and ensure we have the right capabilities, in the right areas of our business, to take us forward. The current industry environment looks set to continue for the foreseeable future and it does present challenges, but with that comes opportunities.

We've started work to better understand New Zealand's changing demographics so we can stay relevant and accessible. Significant investment in the digital space in 2018 has laid the groundwork for ensuring we can embrace the changing technological world in the future, while continuing to provide high quality service to our customers.

We've made some changes this year to ensure we have the right skills and capabilities for the future. I've been encouraged by our people's willingness to embrace these changes so we can continue to be as successful as we have in the past. TSB's refreshed strategy will include an organisational culture which supports collaboration and innovation and empowers our people to do their best work.

*Nielsen Financial Tracker March 2019

We cannot afford to rest on our laurels, and by setting a comprehensive and clear strategy we will be able to match what we do, with what our customers expect from us. We need to find our own path and deliver what is right for us and the role we want to play in the market; doing the same thing won't secure our success for the next phase of TSB's journey.

Giving back

TSB has a unique ownership structure and operates differently to other banks. We care about profit for purpose – not about profit for profit's sake.

As a 100% locally owned bank, TSB keeps profit in New Zealand, creates high quality careers in regions across the country, partners with national organisations doing crucial work and contributes millions to assist the TSB Community Trust – the Bank's owner, in the work it does in Taranaki.

> We care about profit for purpose – not about profit for profit's sake.

We have established partnerships across the country in order to give back to, and support, the communities in which we work and live. Investing in the growth and wellbeing of New Zealand communities and people is at the heart of our business. I encourage you to read more about our community partnerships in this report.

Looking forward

I am very optimistic about the future of TSB. Our people are skilled and passionate, and we truly have the interests of our customers and wider New Zealand at our core. The challenge is to shape our organisation so we can achieve our future goals – and those of the people who trust us with their money.

Wherever TSB's future strategy takes us, the focus on our people, customers and community will remain at the heart of who we are and what we do. Working together to keep TSB sound and healthy is something I am committed to, and the changes we are making will help set the Bank on course for the future.

TSB has an important role to play in the New Zealand banking industry going forward, the future is ours for the taking.

Ngā mihi,

Donna.

Donna Cooper, CEO

DOING WHAT IS RIGHT **FOR NEW ZEALAND**

As a New Zealand owned bank, investing in the growth and wellbeing of our people and our country is at the heart of what we do.

Not only that, but we keep our profits here, where they can help boost the local economy.

Check out below, why banking with TSB is doing what is right for New Zealand.

CREATING OPPORTUNITIES FOR KIWIS

Every dollar deposited with TSB is an opportunity for us to help New Zealanders meet their goals.

We lend money to Kiwis so they can buy the things they need.

This helps TSB to generate revenue and grow, like other locally owned companies.

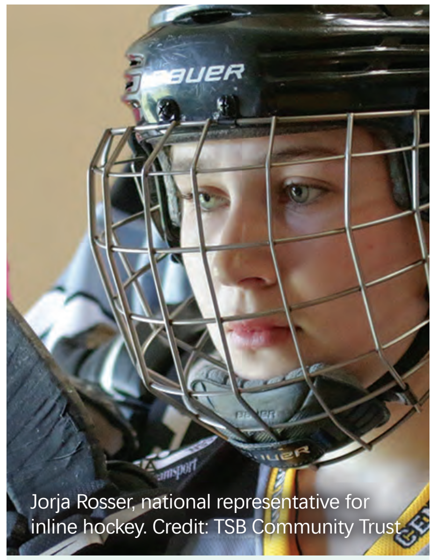
NEW ZEALAND COMMUNITY PARTNERSHIPS

TSB proudly invests in New Zealand communities through partnerships like Surf Life Saving New Zealand, Tūranga, WOMAD and TSB Festival of Lights.

BOOSTING THE COUNTRY'S ECONOMY

Being 100% locally owned means TSB's profits remain within New Zealand and continue to move through our local economy and boost regional growth.

By banking with a 100% locally owned bank, like TSB, you can feel good knowing you're supporting New Zealand's economy and our communities.



Jorja Rosser, national representative for inline hockey. Credit: TSB Community Trust

TSB COMMUNITY TRUST

We pay a multi-million-dollar dividend to TSB Group Ltd, which supports the philanthropic work its owner, TSB Community Trust, does in Taranaki.

TSB Community Trust has distributed over $137 million into Taranaki communities in the last 30 years.

The Trust helps groups, organisations and people across the region achieve their goals by investing in and facilitating opportunities for positive change.

TARANAKI COMMUNITY GROUPS

Community groups use the grant funds to carry out local initiatives, projects and events, benefiting people all over Taranaki and the regions local economy.

"Banking with TSB is like making a constant deposit into our wider community."

Richard G. TSB Customer, Auckland

TSB Community Trust is a philanthropic organisation at the heart of the Taranaki community. Through its group company structure, it owns 100% of TSB Bank Ltd.

The Trust has grown significantly as an organisation in its 30 years and is focused on proactively working with others to contribute to the success and wellbeing of Taranaki and its people.

While the Bank is a separate organisation to the Trust, it provides a solid asset base and over the years has experienced steady growth.

Our vision is to actively work with others to invest in, facilitate and co-create opportunities for beneficial change in Taranaki.

Maria Ramsay

TSB Community Trust
Chief Executive

TSB is celebrating our third year of partnership with Surf Life Saving New Zealand (SLSNZ).

It is a natural collaboration given the work SLSNZ does is in the best interests of Kiwis, and that supports our ethos.

Close to 5,000 hard-working volunteers patrol our beaches for more than 230,000 hours each year in order to save lives. We are proud to help SLSNZ keep Kiwis safe.

"We're grateful we've been able to work with TSB to better educate New Zealanders around rip currents and it's great this catchy and easy to remember message is having a real impact."

SLSNZ CEO Paul Dalton

PROUD TO PARTNER WITH THOSE **SERVING BETWEEN THE FLAGS**

Keeping Kiwis rip safe over summer

Nobody is stronger than a rip – that's what TSB and SLSNZ set out to teach New Zealanders as they hit the beach this summer.

We worked with SLSNZ to find out what their most important safety focus was and set up an education campaign to raise awareness on this crucial summer message with an easy-to-remember slogan: If you find yourself in a rip follow the three R's - Relax and float, Raise your hand and Ride the rip.

As part of the campaign, four New Zealanders shared their own terrifying rip experiences through a series of videos to help Kiwis understand why they need to remember the three R's and share it with everyone they know.

There was widespread media coverage of the education message over summer and it received an overwhelmingly positive response from New Zealanders and Surf Life Saving volunteers.

SLSNZ CEO Paul Dalton says many people think when they are caught in a rip that they're strong enough to out-swim it, but not even an Olympic swimmer can beat a rip.

"We're grateful we've been able to work with TSB to better educate New Zealanders around rip currents and it's great this catchy and easy to remember message is having a real impact."

Funding community education, equipment and maintenance

Each year, TSB invites all Surf Life Saving Clubs to apply to receive one of 11 financial grants totalling $115,000 as part of our ongoing support.

The grants recognise the important work Surf Life Saving Clubs do in communities throughout New Zealand and support clubs to purchase new equipment, provide training to members, or complete maintenance work.

In 2018, Whangarei Heads Club used a grant to purchase a new QCPR mannequin to help teach lifeguards CPR techniques and ensure guards have the best possible training and knowledge, should it be called upon in a real-life situation.

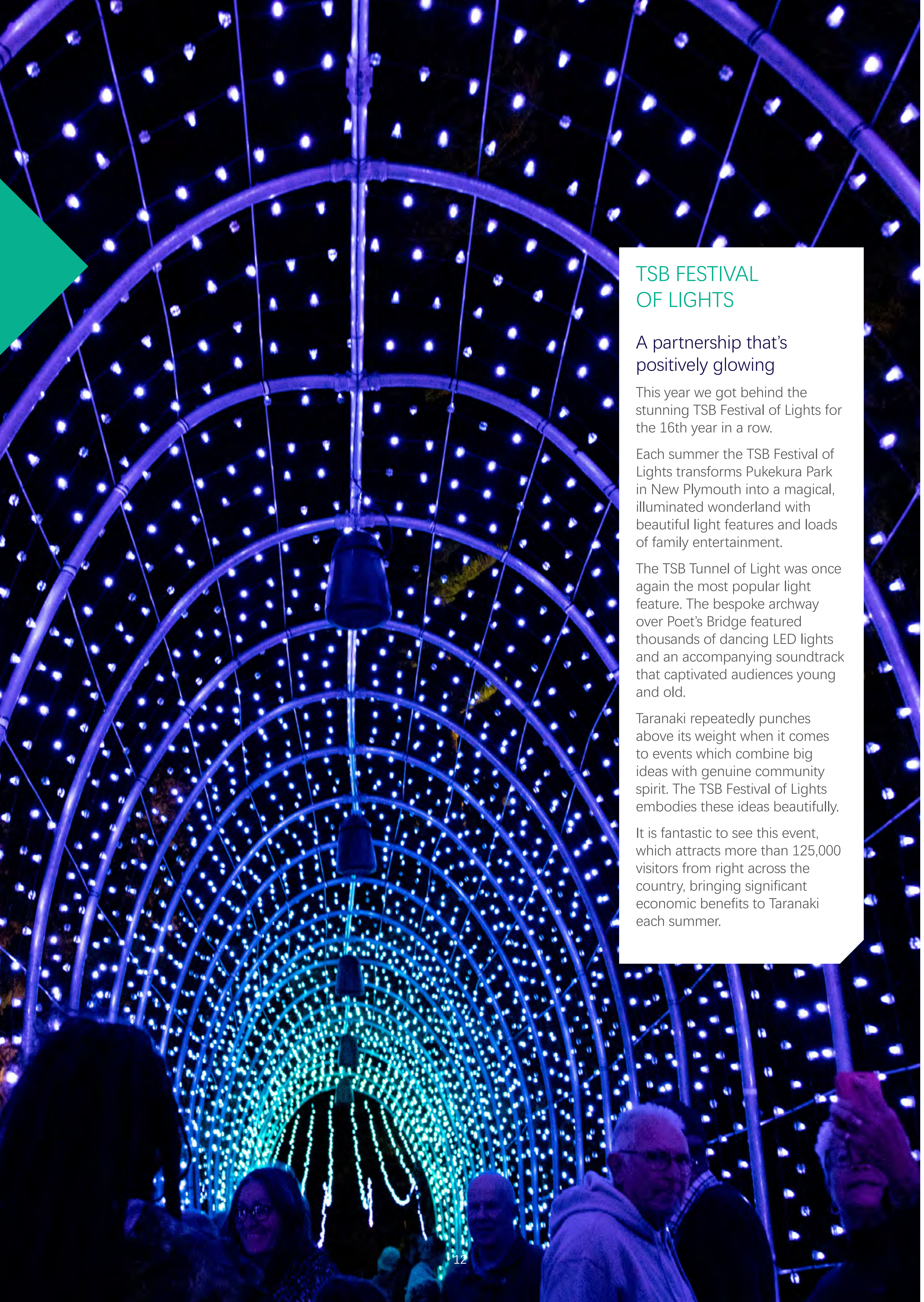
They also used their grant to buy new yellow and red tubes for the rookie and adult guards.

Junior Life Saving Coordinator for Whangarei Heads, Helen Baltus says the tubes and mannequins are a huge asset for preparing the younger members before becoming a surf lifeguard.

"The tubes are vital and used every Sunday during training to teach the kids how to relax in the water and how to tow somebody out. It's just the beginning of their training, but it gives them the confidence they need.

"Parents, coaches and managers also use the tubes for safety while in the water during trainings."

RELAX AND FLOAT **RAISE** YOUR HAND **RIDE** THE RIP



TSB FESTIVAL OF LIGHTS

A partnership that's positively glowing

This year we got behind the stunning TSB Festival of Lights for the 16th year in a row.

Each summer the TSB Festival of Lights transforms Pukekura Park in New Plymouth into a magical, illuminated wonderland with beautiful light features and loads of family entertainment.

The TSB Tunnel of Light was once again the most popular light feature. The bespoke archway over Poet's Bridge featured thousands of dancing LED lights and an accompanying soundtrack that captivated audiences young and old.

Taranaki repeatedly punches above its weight when it comes to events which combine big ideas with genuine community spirit. The TSB Festival of Lights embodies these ideas beautifully.

It is fantastic to see this event, which attracts more than 125,000 visitors from right across the country, bringing significant economic benefits to Taranaki each summer.

GIVING BACK TO **OUR COMMUNITIES**

WOMAD

The world stage at your doorstep

2019 saw TSB celebrate its 10th year sponsoring WOMAD. This partnership not only helps bring the world to Taranaki, but to share Taranaki with the world.

From March 15th-17th the TSB Bowl of Brooklands came alive with amazing music, a festival atmosphere and delicious food from around the world.

This year we supported WOMAD in its zero-waste mission by sponsoring the popular Wai Water refill stations and new reusable, metal drink bottles.

TSB wants to make a difference for Kiwis and New Zealand so this was our way to help festival-goers stay hydrated in an eco-friendly way, support the festival's zero-waste mission and keep the stunning TSB Bowl of Brooklands looking perfect.

The TSB Bach returned to WOMAD in 2019, providing ticketholders with a place to have a break, re-apply sunscreen and take shelter from the sun.

TŪRANGA

Bringing people together

TSB is delighted to be a principal partner of Tūranga – the contemporary new Christchurch City Library which opened in October.

The five-storey building features unique designs, equipment, services and programmes including our 'TSB Space' – a 200 seat arena which can be used by the local community.

We contributed to the creation of this modern space through our relationship as a City Partner of the Christchurch Foundation.

Our support of Tūranga is our chance to give back to the people of Christchurch in a way that will benefit their wellbeing, knowledge and sense of community spirit.

As a locally owned bank, TSB is a great supporter of the power of bringing people together.

Tūranga has already become an integral part of Christchurch city and TSB is incredibly proud to have played a part in creating such a fantastic resource.

TSB staff proudly accept the Consumer New Zealand People's Choice Award for Banking.

SETTING TSB UP **FOR THE FUTURE**

Building a culture of 'good' by design

A programme of work to advance our customer-oriented culture is being implemented.

We want to make sure good conduct and culture is understood, encouraged and exercised by staff at every layer in the organisation, and achieving the right outcome for our customers is entrenched in all our products and services.

- In the last year, all financial sales measures for individual staff have been removed
- We are more focused than ever on having strong relationships with customers
- Our people are being better educated on what good conduct and culture means
- We are developing better ways for customers and staff to report on poor conduct
- Processes and controls are being improved to help prevent issues, and remediate faster

At TSB we support the banking industry moving to a more customer centric focus and we plan to continue leading the way in achieving good customer outcomes.

> We want to make sure good conduct and culture is understood, encouraged and exercised by staff at every layer in the organisation.

Ensuring exceptional customer experiences

TSB's reputation for being the best bank for customer service is fundamental to our ongoing success. Our commitment to putting customers first will never change.

In 2018 TSB proved we have the customer at the heart of everything we do:

- 2018 Consumer NZ People's Choice Award for Banking – third time in a row
- 2018 Canstar Blue Overall Customer Satisfaction Award winner – fifth time in six years
- Highest customer satisfaction of any NZ bank at 88.5% according to Roy Morgan for the 12 months to December 2018, an increase of 6.1% on the previous year

TSB has a team who truly believe in the customer-first philosophy and is genuinely passionate about best-serving the people who choose to bank with us.

Investing for the long game

We are focused on lifting our eyes to the horizon, thinking about customers' needs now and, in the future, and ensuring TSB evolves its products and services in ways that matter most to our customers.

People's lives are being transformed by technology on a daily basis – this is changing the way we do business at TSB and changing the way our customers want to work with us.

In order to take on this challenge TSB has partnered with Microsoft to transform the technology platforms that support our staff and our customers. Over the past 12 months TSB has rolled out Microsoft Office 365 to support employee collaboration and productivity, and Microsoft Dynamics 365 to support even better customer service management.

A number of initiatives are currently underway to ensure we are giving all New Zealanders more reasons to trust TSB for their banking:

- Working to update and deliver leading online and mobile banking experiences
- Developing new products to better suit our customers' needs
- Giving people across NZ the ability to join TSB via our website
- Rolling out new digital programmes to enable our people to do their best work

> Our customer service and commitment to New Zealand and its communities are TSB's strengths; and we are committed to building on these.

Consumers across all industries are demanding change, this is not unique to TSB. Our goal is to evolve to meet customers' expectations in order to be successful long-term. TSB is agile enough that we can make the changes required to keep us in line with technological developments and ensure our customers are best served - improvements are coming.

Enabling the right focus

We are making sure we have the right people at TSB to lead a culture of willingness to embrace change and do what we can to evolve for the future.

An environment which supports greater performance, accountability, collaboration and innovation is being developed.

Our customer service and commitment to New Zealand and its communities are TSB's strengths; and we are committed to building on these.

With the right structure and capabilities we will put ourselves in the best position for the future and give New Zealanders more reasons to choose TSB.

DELIVERING **WORLD CLASS SERVICE**

"TSB is the most caring, efficient and helpful of all the banks around the world I've ever belonged to."

Robert N, Palmerston North

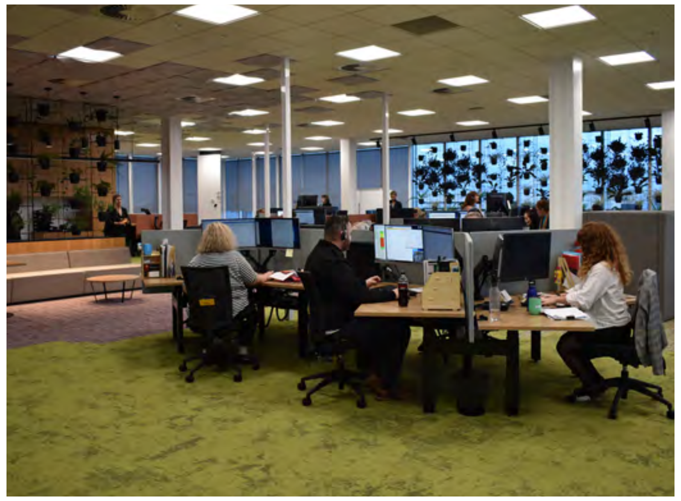
Staff come together for the opening of the new TSB Customer Engagement Centre.

It was a proud moment for TSB to open our new Customer Engagement Centre building in New Plymouth in November.

This new, fit-for-purpose workspace will empower our people to continue providing award winning service to all of our customers across New Zealand, from Taranaki.

TSB CEO Donna Cooper addresses the room during the blessing of the new building.

The TSB waiata group performs at the blessing.



The TSB Customer Engagement Centre in action.

OUR LEADERSHIP **TEAM**


Donna Cooper
CEO


Herman Visagie
Chief of Staff and General Counsel


Roddy Bennett
GM Finance


Justine St John
GM Marketing and Customer Experience


Chris Boggs
GM People and Culture


Hamish Archer
GM Technology


Marie Collins
GM Strategy and Innovation


Andrew Downie
Acting GM Customer Solutions and Service

BOARD OF **DIRECTORS**


John Kelly
Chair / Director


Murray Bain
Deputy Chair / Director


Anne Blackburn
Director


Natalie Pearce
Director


Peter Schuyt
Director


Dion Tuuta
Director


Harvey Dunlop
Director


Peter Dalziel
Director

DISCLOSURE STATEMENT AND **FINANCIAL STATEMENTS**

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	45,039
Dividends	
Interim dividend paid	2,500
Final dividend	7,500
Retained profit for the Year	35,039

Financial and Supplementary Disclosures

This Disclosure Statement is inclusive of the Bank's audited financial statements for the year ended 31 March 2019. 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.

Other Material Matters

The Bank's Directors are of the opinion that there are no matters relating to the business or affairs of the Bank which would, if disclosed in this Disclosure Statement, materially affect the decision of a person to subscribe for debt securities of which the Bank or any member of the Banking Group is the issuer.

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 14 August 2018.

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, MCom (Hons), BSc, C.F.Inst.D

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

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

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

Independent and non-executive Director
Company Director

External Directorship: Fidelity Life Assurance Company Limited, Warren and Mahoney Limited, Ten Gracie Square Limited, Committee for Auckland Limited, Fisher Funds Management Limited, Government Superannuation Fund Authority

N. (Natalie) Pearce, BCom

Independent and non-executive Director
Company Director

External Directorship: Boosted, Home of the Brave.

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

Independent and non-executive Director
Company Director

External Directorship: Tax Management New Zealand Limited, Dairy NZ Inc. (DairyNZ 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, Charisma Developments Limited, Southern Seabirds Trust.

H.F. (Harvey) Dunlop, BCom (Ag)

Non-executive Director
Company Director

External Directorship: Taradise Holdings Limited, Renaissance Holdings Limited, Taradise Holdings 2004 Limited, Taradise Property Management Limited, TSB Group Limited, Taradise Holdings 2006 Limited.

P.S. (Peter) Dalziel, MBA

Non-executive Director
Company Director

External Directorship: Dolly's Milk Limited, Barberry Hill Farm Limited.

The following changes to the composition of the Board of Directors have occurred since the publication of the Bank's disclosure statement and annual report for the year ended 31 March 2018.

- Kelly Marriner and Hayden Wano resigned from the Board on 1 July 2018.
- Harvey Dunlop and Peter Dalziel were appointed as a non-executive director of the Bank on 1 July 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

Disclosure Statement
For the year ended 31 March 2019

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.

Director's Fees

Director's Fees received by the Directors for the year ended 31 March 2019.

Name of Director	Board Fee NZD	Audit Committee NZD	Risk Committee NZD	People, Culture and Capability Committee NZD	Total NZD
J. J. Kelly	(Chair) 145,685	-	-	-	145,685
M. I. Bain*	(Deputy Chair) 62,386	4,852	(Chair) 4,852	2,773	74,863*
H. P. W. Wano	16,676	-	-	850	17,526
K. M. Marriner	16,676	-	1,187	-	17,863
P. M. Schuyt	73,676	(Chair) 6,437	6,437	-	86,550
M. A. Blackburn	73,676	6,437	6,437	-	86,550
D. J. Tuuta	73,676	-	-	3,851	77,527
N. Pearce	73,676	6,437	6,438	(Chair) 3,850	90,401
H. F. Dunlop	57,000	-	5,250	-	62,250
P. S. Dalziel	57,000	5,250	-	3,000	65,250
Total	**650,127**	**29,413**	**30,601**	**14,324**	**724,465**

* During his time as acting Managing Director, Murray Bain did not receive any Director's Fees. This figure excludes any salary received for executive services.

Fees paid to Directors of the Bank for the year totalled $724,465 (31 March 2018: $595,405).

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 2019:

(a) The Bank has complied with the Conditions of Registration;
(b) Credit Exposures to Connected Persons were not contrary to the interests of the Bank; and
(c) The Bank has systems in place to monitor and control adequately the Bank's material risks including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risks and other business risks, and that these systems are being properly applied.

J. J. Kelly
Chair - Board of Directors
28 May 2019

M. I. Bain
Deputy - Board of Directors
28 May 2019

M. A. Blackburn
28 May 2019

N. Pearce
28 May 2019

P. M. Schuyt
28 May 2019

D. J. Tuuta
28 May 2019

H. F. Dunlop
28 May 2019

P. S. Dalziel
28 May 2019

TSB

Historical Summary of Financial Statements

All in $000's

	2019	2018	2017	2016	2015
Financial Performance					
Total Interest income	312,614	296,270	290,385	317,809	314,785
Interest expense	174,591	169,465	158,850	187,810	189,120
Net interest income	**138,023**	**126,805**	**131,535**	**129,999**	**125,665**
Income from associate	-	-	-	-	5,656
Other income	23,746	36,518	17,224	13,829	15,450
Net operating income	**161,769**	**163,323**	**148,759**	**143,828**	**146,771**
Operating expenses	94,955	87,340	80,241	67,003	57,243
Impairment losses / (reversal of impairment losses)	4,236	3,918	4,010	(8,723)	56,052
Profit before tax	**62,578**	**72,065**	**64,508**	**85,548**	**33,476**
Tax expense	17,539	20,192	18,168	23,985	7,959
Net profit attributable to shareholder	**45,039**	**51,873**	**46,340**	**61,563**	**25,517**
Dividend	10,000	20,000	10,000	19,850	5,030
Retained profit for the year	**35,039**	**31,873**	**36,340**	**41,713**	**20,487**
Financial Position					
Total assets	7,819,045	7,416,277	6,802,680	6,427,143	5,912,151
Total impaired assets - loans and advances	3,814	4,400	8,919	10,434	692
Impaired asset - Solid Energy	-	-	-	-	53,874
Deposits	7,093,017	6,740,890	6,156,809	5,813,192	5,366,029
Total liabilities	7,165,920	6,803,262	6,214,556	5,872,735	5,414,436
Shareholder's Equity					
Retained profit for the year	35,039	31,873	36,340	41,713	20,487
Total shareholder's equity	653,125	613,015	588,124	554,408	497,715
Performance					
Return on shareholder's equity	6.90%	8.46%	7.88%	11.10%	5.13%
Return on average total assets	0.59%	0.73%	0.70%	1.00%	0.44%
Growth in total assets	5.43%	9.02%	5.84%	8.71%	4.05%
Growth in depositors' funds	5.22%	9.49%	5.91%	8.33%	4.08%
Residential lending	4,844,453	4,389,811	3,851,176	3,125,154	2,738,069
Total lending	5,792,049	5,309,357	4,657,668	3,829,983	3,275,292
Net profit after tax					
- as a % of average shareholder's equity	7.11%	8.64%	8.11%	11.70%	5.23%
- per employee	93.83	111.73	105.26	158.67	76.86
Operating expenses to net operating income	58.70%	53.48%	53.94%	46.59%	39.00%
Prudential					
Shareholder's equity as a % of total assets	8.35%	8.27%	8.65%	8.63%	8.42%
Common equity Tier 1 capital ratio	14.57%	14.28%	14.60%	14.52%	13.53%
Total capital	14.57%	14.28%	14.60%	14.52%	13.85%

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 Comprehensive Income

For the year ended 31 March 2019

All in $000's

	Note	2019	2018
Interest income calculated using the effective interest method		260,550	236,031
Other interest income		52,064	60,239
Interest expense		174,487	169,465
Finance cost on lease liabilities		104	-
Net interest income	2	**138,023**	**126,805**
Other operating income	3	23,746	36,518
Net operating income		**161,769**	**163,323**
Operating expenses	4	94,955	87,340
Profit before impairment and tax		**66,814**	**75,983**
Credit impairment losses / (reversal of credit impairment losses)	16.(f)	4,236	3,918
Profit before tax		**62,578**	**72,065**
Tax expense	5	17,539	20,192
Net profit after tax		**45,039**	**51,873**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Movement in fair value of available for sale investments		-	(7,690)
Movement in fair value reserve (debt instruments)		6,487	-
Movement in effective portion of changes in fair value of cash flow hedges		1,549	(2,007)
Income tax on items that may be reclassified to profit or loss	5	(2,250)	2,715
Other comprehensive income for the year (net of tax)		**5,786**	**(6,982)**
Total comprehensive income for the year		**50,825**	**44,891**

Total comprehensive income for the year is attributable to shareholder.

From 1 April 2018, the Bank has adopted and applied NZ IFRS 9 in the preparation of the Statement of Comprehensive Income. Comparative balances have not been restated. Refer to note 1.(i) Change in accounting policy for further information.

These financial statements are to be read in conjunction with the notes on pages 31-74

Statement of Changes in Equity

For the year ended 31 March 2019

All in $000's

For the year ended March 2019	Note	Share capital	Fair value reserve	Cash flow hedge reserve	Retained earnings	Total equity
Balance at 1 April 2018		**10,000**	**8,546**	**(3,287)**	**597,756**	**613,015**
Balance adjusted for adoption of NZ IFRS 9	1.(i)	-	-	-	(715)	(715)
Adjusted balance at 1 April 2018		**10,000**	**8,546**	**(3,287)**	**597,041**	**612,300**
Total comprehensive income for the period:						
Net profit after tax		-	-	-	45,039	45,039
Other comprehensive income:						
Movement in cash flow hedge reserve		-	-	1,549	-	1,549
Movement in fair value reserve		-	6,487	-	-	6,487
Related tax			(1,816)	(434)	-	(2,250)
Total other comprehensive income	14	-	4,671	1,115	-	5,786
Total comprehensive income for the period		**-**	**4,671**	**1,115**	**45,039**	**50,825**
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 2019		**10,000**	**13,217**	**(2,172)**	**632,080**	**653,125**

For the year ended March 2018	Note	Share capital	Fair value 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 cash flow hedge reserve		-	-	(2,007)	-	(2,007)
Movement in available-for-sale revaluation reserve		-	(7,690)	-	-	(7,690)
Related tax			2,153	562		2,715
Total other comprehensive income	14	-	(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**

From 1 April 2018, the Bank has adopted and applied NZ IFRS 9 in the preparation of the Statement of Changes in Equity. Comparative balances have not been restated. Refer to note 1.(i) Change in accounting policy for further information.

These financial statements are to be read in conjunction with the notes on pages 31-74

Statement of Financial Position

As at 31 March 2019

All in $000's

	Note	2019	2018
Assets			
Cash and cash equivalents		149,065	138,123
Derivative financial instruments	9	6,519	839
Investment securities	8	1,827,810	1,933,466
Loans and advances to customers	7	5,792,049	5,309,357
Property, plant and equipment		28,072	19,650
Intangible assets		9,010	8,299
Deferred tax asset	5	4,319	5,137
Other assets		2,201	1,406
Total assets		**7,819,045**	**7,416,277**
Liabilities			
Deposits	10	7,093,017	6,740,890
Derivative financial instruments	9	12,117	8,196
Current tax liability		6,423	6,919
Other liabilities	11	54,363	47,257
Total liabilities		**7,165,920**	**6,803,262**
Shareholder's Equity			
Share capital	13	10,000	10,000
Fair value reserve	14	13,217	8,546
Cash flow hedge reserve	14	(2,172)	(3,287)
Retained earnings		632,080	597,756
Total shareholder's equity		**653,125**	**613,015**
Total liabilities and shareholder's equity		**7,819,045**	**7,416,277**
Total interest earning and discount bearing assets		7,725,277	7,338,448
Total interest and discount bearing liabilities		6,711,111	6,382,688

From 1 April 2018, the Bank has adopted and applied NZ IFRS 9 in the preparation of the Statement of Financial Position. Comparative balances have not been restated. Refer to note 1.(i) Change in accounting policy for further information.

For and on behalf of the Board of Directors:

J.J. Kelly
(Chair - Board of Directors)
28 May 2019

Murray Bain
(Deputy Chair - Board of Directors)
28 May 2019

These financial statements are to be read in conjunction with the notes on pages 31-74

Statement of Cash Flows

For the year ended 31 March 2019

All in $000's

	Note	2019	2018
Cash Flows from Operating Activities			
Cash provided from (applied to):			
Interest income received		314,338	294,582
Other income received		22,951	36,328
Interest paid		(174,970)	(164,707)
Operating expenditure		(82,424)	(82,989)
Taxes and subvention payments		(19,189)	(14,899)
Cash flows from operating profits before changes in operating assets and liabilities		**60,706**	**68,315**
Net changes in operating assets and liabilities:			
Increase in loans and advances to customers		(488,173)	(651,956)
Derivative financial instruments		(211)	(2,585)
Increase in deposits		352,609	579,323
Cash flows from operating assets and liabilities		**(135,775)**	**(75,218)**
Net cash flows from operating activities	6	**(75,069)**	**(6,903)**
Cash Flows from Investing Activities			
Cash provided from (applied to):			
Net (purchase) / maturity of investment securities		110,671	26,878
Property, plant and equipment purchased		(11,657)	(4,991)
Intangible assets purchased		(3,097)	(1,577)
Net cash flows from investing activities		**95,917**	**20,310**
Cash Flows from Financing Activities			
Cash provided from (applied to):			
Dividends paid		(9,844)	(19,484)
Lease payments		(62)	-
Net cash flows from financing activities		**(9,906)**	**(19,484)**
Net increase in cash and cash equivalents		**10,942**	**(6,077)**
Add cash and cash equivalents at beginning of the year		138,123	144,200
Cash and cash equivalents at end of year		**149,065**	**138,123**
Reconciliation of cash and cash equivalents to the Statement of Financial Position			
Cash and cash at bank		22,666	22,858
Balances with Reserve Bank		126,399	115,265
Total cash and cash equivalents at end of Year		**149,065**	**138,123**

Application of NZ IFRS 9 has no impact on the Bank's Statement of Cash Flow. Refer to note 1. Statement of Accounting Policies for further information.

These financial statements are to be read in conjunction with the notes on pages 31-74

Table of Contents

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). This is the first set of the Bank's annual financial statements in which NZ IFRS 9 Financial Instruments and NZ IFRS 15 Revenue from Contracts with Customers have been applied, and the changes in significant accounting policies are described in note 1.(i).

The financial statements were approved by the Board of Directors on 28 May 2019.

(b) Basis of measurement

The financial statements have been prepared on a historical cost basis, except for certain financial instruments measured at fair value as required by relevant accounting standards.

(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 except for the impact of adoption of NZ IFRS 9. Refer to note 1.(i) Change in accounting policy for more information.

(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.

The Bank classified its financial instruments into one of the following categories under NZ IAS 39 prior to the adoption of NZ IFRS 9 from 1 April 2018: loans and receivables, available for sale financial assets, held-to-maturity, financial assets and financial liabilities designated at fair value through profit or loss and other financial liabilities. Refer to note 1.(i) changes in accounting policy for new classification and measurement approach in accordance with NZ IFRS 9.

Classification of financial instruments for comparative period under NZ IAS 39 effective prior to 1 April 2018

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 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 for further information.

All in $000's

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

(h) Financial instruments (continued)

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

The Bank classifies financial assets and liabilities at fair value through profit or loss (FVPL) 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 FVPL 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.

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 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) Changes in accounting policy

NZ IFRS 9 Financial Instruments and NZ IFRS 15 Revenue from Contracts with Customers have become effective for the Bank from 1 April 2018 and have been applied in the preparation of the financial statements. The initial application of these standards resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out below. All other accounting policies are consistent with those used in previous periods.

Impact of NZ IFRS 9 - classification and measurement of financial instruments and hedge accounting

The Bank recognises and classifies its financial instruments in accordance with NZ IFRS 9 which contains three principal classification categories for financial assets based on contractual cash flow characteristics and business model:

- Amortised cost - applies to financial assets recognised and initially measured at fair value plus transaction cost that are managed within the business model whose objective is to hold to collect the contractual cash flows and their contractual terms give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI). These assets are subsequently measured at amortised cost using the effective interest methods and the carrying value of these assets is adjusted for provision for impairment as described in the note below and note 16. Credit Risk Management and Asset Quality; and
- Fair value through other comprehensive income (FVOCI) - applies to financial assets recognised and initially measured at fair value plus transaction cost that are held in a dual business model whose objective is achieved by both collecting contractual SPPI cash flows and selling the assets. These assets are subsequently measured at fair value. Interest income calculated using the effective interest method and impairment are recognised in profit or loss. The fair value gains or losses accumulated are reported in other comprehensive income as changes of 'fair value reserve'. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss; and
- Fair value through profit or loss (FVPL) - includes the groups of trading assets or the assets managed on a fair value basis as the contractual cash flows are not SPPI on the principal amount outstanding. The Bank may designate financial assets at FVPL when doing so eliminate or significantly reduce measurement or recognition inconsistencies. Financial assets designated at FVPL cannot subsequently change their designation and therefore are not subject to the reclassification requirements of NZ IFRS 9.

Business model: the business model reflects how the Bank manages the assets in order to generate cash flows. That is whether the Bank's objective is to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. Factors considered by the Bank in determining the business model for a group of assets include past experience on how cash flows for these assets were collected. For example, the Bank's business model for the mortgage loan book is to hold to collect contractual cash flows. Another example is the liquidity portfolio of assets, which is held by the Bank as part of liquidity management and is generally classified within the hold to collect and sell business model.

SPPI: where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending agreement i.e. interest primarily includes consideration for the time value of money and credit risk. Interest can also include consideration for administration and profit margin, consistently with a basic lending agreement.

The Bank has assessed the contractual cash flow characteristics and a business model test of its financial instruments to determine any changes in classification and measurement and the changes in accordance with NZ IAS 39 and NZ IFRS 9 at 1 April 2018 are compared as follows:

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

(i) Changes in accounting policy (continued)

	NZ IAS 39 (applicable until 31 March 2018)		NZ IFRS 9 (applicable from 1 April 2018)	
Financial assets	**Category**	**Carrying amount**	**Category**	**Carrying amount**
Cash and cash equivalents	Loans and receivables	131,303	Amortised cost	131,303
	Amortised cost	6,820	Amortised cost	6,820
Total cash and cash equivalents		138,123		138,123
Derivative financial instruments				
Economic hedges	Fair value (hedging instrument)	-	Fair value (hedging instrument)	-
Cash flow hedges	Fair value (hedging instrument)	839	Fair value (hedging instrument)	839
Fair value hedges	Fair value (hedging instrument)	-	Fair value (hedging instrument)	-
Investment securities [1]	Available for sale	1,933,466	FVOCI	1,933,466
Loans and advances to customers [2]	Loans and receivables	5,309,357	Amortised cost	5,308,364
Other assets [3]	Loans and receivables	1,406	Amortised cost	1,684
Total financial assets		**7,383,191**		**7,382,476**
Financial liabilities				
Deposits	Amortised cost	6,740,890	Amortised cost	6,740,890
Derivative financial instruments				
Economic hedges	Fair value (hedging instrument)	1,108	Fair value (hedging instrument)	1,108
Cash flow hedges	Fair value (hedging instrument)	6,948	Fair value (hedging instrument)	6,948
Fair value hedges	Fair value (hedging instrument)	140	Fair value (hedging instrument)	140
Other financial liabilities	Amortised cost	53,512	Amortised cost	53,512
Total financial liabilities		**6,802,598**		**6,802,598**

[1] Included is a portfolio of debt instruments originated with a mixed objective that is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI.

[2] Includes the adjustments of $993k arising from the new impairment requirements under NZ IFRS 9. Refer to key changes in the Bank's accounting policy for credit impairment allowance below for further information.

[3] Includes the deferred tax ($278k) of the balance adjusted for adoption of NZ IFRS 9 in opening retained earnings as at 1 April 2018.

Applying hedge accounting requirements of NZ IFRS 9 has not had a significant effect on the Bank as the purpose and type of hedging relationships remain the same as that under NZ IAS 39. The Bank's risk management strategies and hedge documentation are aligned with the requirements of NZ IFRS 9 and these relationships are therefore treated as continuing hedges.

Other changes include the terms retired upon the adoption of NZ IFRS 9 and that include investment securities (available-for-sale), held for trading and loans and receivables. These instruments have been reclassified to new categories under NZ IFRS 9 with no changes to their measurement basis. Classification and measurement of financial liabilities remained largely unchanged for the Bank.

The Bank has taken advantage of the exemption in NZ IFRS 9 from restating prior periods in respect of NZ IFRS 9's classification and measurements (including impairment) requirements, due to the Bank meeting all the exemption requirements. Therefore the reclassifications and the adjustments arising from the new impairment rules are not reflected in the restated balance as at 31 March 2018. Opening balance of equity as at 1 April 2018 was adjusted for the adoption of NZ IFRS 9.

Impact of NZ IFRS 9 - credit impairment allowances

Application of NZ IFRS 9 has resulted in changes in the Bank's impairment methodology. The provision for impairment is measured based on the standard's expected credit loss (ECL) model, as opposed to an incurred credit loss model under NZ IAS 39. The Bank applies a three-stage model in accordance with NZ IFRS 9 to measure the expected credit losses associated with its debt instruments and loans and advances to customers measured at amortised cost or FVOCI with the exposure arising from loan commitments and financial guarantee contracts and to assess the changes in credit quality of those financial instruments since initial recognition.

Three-stage model is as follows :

- 12 month ECL (Stage 1): applies to all items resulting from possible default events within 12 months after reporting date.
- Lifetime ECL (Stage 2 and 3): represents the ECL that result from all possible default events over the expected life of a financial instrument. If a financial instrument experiences a significant increase in credit risk since initial recognition then is moved to Stage 2 but is not yet deemed to be credit-impaired. When objective evidence of credit-impairment emerges with one or more events that have a detrimental impact on the estimated future cash flows of the financial assets then the asset is moved to Stage 3.

The change in the credit quality of a financial asset results in movements between the three stages.

Refer to note 16. Credit Risk Management and Asset Quality for recognition and measurement of ECL along with the assumptions and significant judgement exercised.

All in $000's

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

(i) Changes in accounting policy (continued)

Credit impairment allowance for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. Impairment losses related to trade and other receivables (loans and advances to customers) are presented as credit impairment losses in the statement of profit and loss.

For debt securities at fair value through other comprehensive income (FVOCI), the credit impairment allowance is recognised in the statement of other comprehensive income instead of reducing the carrying amount of the asset. The Bank has assessed the deterioration of credit quality for investment securities as at 1 April 2018 and determined that there is no material impact on the level of provisions for these under NZ IFRS 9.

The key changes in the Bank's accounting policy for credit impairment allowances are listed below.

	Collective provision balance As at 1 April 2018		Transferred to retained earning
	NZ IAS 39	NZ IFRS 9	
Loans and advances to customers:			
Residential mortgage loans	19,570	6,823	(12,747)
Commercial	2,995	7,599	4,604
Agricultural	1,847	4,924	3,077
Other	340	6,399	6,059
Total	**24,752**	**25,745**	**993**
Deferred tax	(6,931)	(7,209)	(278)
Total (net of deferred tax)	**17,821**	**18,536**	**715**

Impact of NZ IFRS 15 Revenue from Contracts with Customer

NZ IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 8 Revenue, IAS 11 Construction Contracts and related interpretations.

The Bank initially applied NZ IFRS 15 on 1 April 2018 retrospectively in accordance with IAS 8 with practical expedients for contracts where the original expected duration was one year or less. The adoption of NZ IFRS 15 Revenue from Contracts with Customers did not result in any material changes to the accounting policies in relation to the recognition of revenues within the scope of NZ IFRS 15. The impact of NZ IFRS 15 was limited to the new disclosure requirements (see note 3. Other Operating Income).

(j) 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 16. 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.

(k) Standards and amendments 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 16 Leases will apply to the Bank from 1 April 2019. As at 31 March 2019, the Bank has non-cancellable operating lease commitments of $10.74m as disclosed in note 22. Commitments and Contingent Liabilities and most of these rental / lease commitments will meet the definition of a lease under NZ IFRS 16. The Bank has assessed the impact and the initial recognition of the right of use of asset and a corresponding liability in respect of these leases is estimated to be $9.54m. 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 NZ IFRS 16 and consequently there will also be a shift in the classification of cash flows.

NZ IFRS 17 Insurance Contracts was issued in August 2017 to replace NZ IFRS 4 and is not effective for the Bank until 1 April 2021. NZ IFRS 17 establishes principles for the recognition, measurement, presentation, and disclosure of insurance contracts. The Bank does not issue insurance or reinsurance contracts therefore NZ IFRS 17 is not expected to have a material impact on the Bank.

Management have considered amendments to NZ IFRS which became relevant for the Bank for the first time during the year ended 31 March 2019 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.

Financial Performance

2. Net Interest Income

Under both NZ IAS 39 and NZ IFRS 9, interest income is measured using the effective interest rate (EIR) method for all financial instruments measured at amortised cost. Interest income on interest earning financial assets measured at fair value through other comprehensive income (FVOCI) under NZ IFRS 9 is also recorded by using the EIR method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of a financial asset, except for the financial assets that are not purchased or originated credit-impaired but have subsequently become credit-impaired (refer to note 16.(b) for further information), or to the amortised cost of a financial liability.

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

Interest income	**Financial assets measured at**	**2019**	**2018**
Cash and cash equivalents	Amortised cost	1,609	1,530
Loans and advances to customers [1]	Amortised cost	258,941	234,501
Investment securities	FVOCI	52,064	60,239
Total interest income		**312,614**	**296,270**
Interest expense	**Financial liabilities measured at**		
Deposits from customers [2]	Amortised cost	173,533	168,780
Wholesale deposits	Amortised cost	954	685
Lease liability	Amortised cost	104	-
Total interest expense		**174,591**	**169,465**
Net interest income		**138,023**	**126,805**

[1] Includes interest income earned on the commercial loan due from TSB Group Limited (refer to note 23. Related Party Transactions and Balances for further information). Interest earned on impaired assets is $0.245m (2018: $0.538m).

[2] Includes interest expense on deposits from TSB Community Trust (refer to note 23. Related Party Transactions and Balances for further information).

3. Other Operating Income

Revenue is recognised to the extent that is probable that economic benefits will flow to the Bank and that revenue can be reliably measured. Included in other operating income are fee and commission income, gains or losses on financial instruments and other income.

Fee and commission

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Bank recognises revenue when it transfers control over a service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers for fee and commission income.

All in $000's

3. Other Operating Income (continued)

Type of service / products	Nature and timing of satisfaction of performance obligations	Revenue recogntion under NZ IFRS 15 (applicable from 1 April 2018)
Account and card services	The Bank provides account and card services including account management, provision of overdraft facilities and debit/credit cards. Fee and commission income from account and card services represents the income arising from financial assets that are not at FVPL. It excludes amounts incorporated in determining the effective interest rate on such financial assets and financial liabilities. Fees for ongoing account management are charged to the customer's account on a monthly basis. Card fees are charged on a six-monthly or annual basis. Transaction-based fees for interchange, and overdrafts are charged to the customer's account when the transaction takes place.	Revenue from account and card service fees is recognised when received given the short-term duration of the related performance obligations. Revenue related to transactions is recognised at the point in time when the transaction takes place.
Foreign exchange services	The Bank provides foreign currency transactions services. Transaction-based fees for foreign currency transactions are charged to the customer's account when the transaction takes place.	Revenue related to transactions is recognised at the point in time when the transaction takes place.
Fund and insurance products distribution	The Bank markets different products through its network, namely through the sale of asset management services provided by Fisher Funds (refer to note 23. Related Party Transactions and Balances for more information) and insurance products. The Bank receives commission income in return.	Ongoing marketing and promotional activities performed by the Bank means that there are ongoing performance obligations and the revenue should be recognised across the relevant period.
Real estate services	The Banks provides real estate services to its customers. Real-estate commissions are charged to the customers when the transaction takes place.	Revenue related to transactions is recognised at the point in time when the transaction takes place.

Gains or losses on financial instruments
Included are net gains or losses from the movements in fair value of derivative financial instruments and cumulative gains or lossses reclassified from accumulated other comprehensive income in the fair value reserve to profit or loss upon derecognition of investments securities (debt instruments) designated at fair value through other comprehensive income (FVOCI). Interest income and expense on these financial instruments are recognised within net interest income and do not form part of the fair value movements of the financial instruments.

Other income
Included are gains or losses on sale of fixed assets and sundry income that includes the recoverable proportion of goods and services tax (GST) on expenses incurred. Refer to note 5. Taxation for more information on GST.

The receivables and contract liabilities from contracts with customers are deemed immaterial and have not been disclosed separately.

	2019	2018
Fee and commission income		
Account and card services	8,329	7,439
Foreign exchange services	2,351	2,326
Fund and insurance products distribution	3,127	3,011
Real estate services	1,606	1,769
Total fee and commission income	15,413	14,545
Gains / losses on financial instruments		
Gain / (loss) on derivative financial instruments (measured at FVPL)	236	235
Cumulative gains / (losses) transferred from fair value reserve (designated at FVOCI)*	3,510	18,480
Total other gains / losses	3,746	18,715
Other income		
Gain / (loss) on sale of fixed assets	(11)	25
Sundry income	4,598	3,233
Total other operating income	**23,746**	**36,518**

* Includes recovery of $2.1m (2018: $15.5m) from Solid Energy (SENZ).

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
Leased Asset	Up to 30 years

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

The Bank has recognised a new leased asset and corresponding lease liability of $6.2m during the reporting period and recorded them within property, plant and equipment and other liabilities, respectively.

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.

	2019	2018
Fees paid to auditor:		
Audit and review of financial statements [1]	240	145
Audit of TSB Realty Trust	5	5
Other services [2]	182	156
Total fees paid to auditor	427	306
Depreciation	3,235	3,003
Amortisation of intangible assets	2,386	1,618
Directors' fees	724	595
Personnel	40,861	40,261
Defined contribution plan	1,543	1,735
Information technology	12,228	9,619
Premises occupancy	4,615	5,345
Marketing	10,704	10,956
Debit / Credit card expenses [3]	5,571	4,639
Other	12,661	9,263
Total operating expenses	**94,955**	**87,340**

[1] Included are fees for the audit of annual financial statements and review of interim financial statements.
[2] Other services relate to regulatory and risk advisory services $182k (2018: $59k) and technical accounting services $nil (2018: $97k).
[3] Debit / Credit card expenses are fee expenses arising from financial liabilities that are not at FVPL.

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	2019	2018
Net profit before tax	62,578	72,065
Tax at 28%	17,522	20,178
Adjustments to prima facie tax	17	14
Tax expense	**17,539**	**20,192**
Income tax recognised in profit or loss		
Current tax expense:		
Current year	18,246	19,305
Prior period adjustments	447	61
Deferred tax expense:		
Current year	(710)	826
Prior period adjustments	(444)	-
Income tax expense	**17,539**	**20,192**
Deferred tax recognised in profit or loss		
Depreciation	(77)	(37)
Amortisation of intangibles	(331)	(257)
Provision for impairment losses	714	506
Derivative financial instruments	115	(409)
Other temporary differences*	733	(629)
Total deferred tax recognised in profit or loss	**1,154**	**(826)**
Income tax recognised in other comprehensive income		
Deferred tax expense:		
Cash flow hedge reserve	(434)	562
Fair value reserve	(1,816)	2,153
Total deferred tax recognised in other comprehensive income	**(2,250)**	**2,715**

* Other temporary differences reflect adjustments for employee benefits.

5. Taxation (continued)

	2019	2018
Deferred tax:		
Balance at beginning of year	5,137	3,248
Balance adjusted for adoption of NZ IFRS 9	278	-
Adjusted balance at beginning of year	5,415	3,248
Deferred tax recognised in profit or loss	1,154	(826)
Deferred tax recognised in equity	(2,250)	2,715
Balance at end of year	**4,319**	**5,137**
Deferred tax relates to:		
Property, plant, and equipment	(1,084)	(1,007)
Amortisation of intangibles	(755)	(424)
Provision for impairment losses	8,007	7,015
Fair value adjustments for derivative financial instruments	1,074	1,393
Fair value movements on investment securities	(5,140)	(3,324)
Other temporary differences *	2,217	1,484
Total deferred tax asset	**4,319**	**5,137**

* Other temporary differences reflect adjustments for employee benefits.

The imputation credits available to carry forward and utilise in future periods are $267.55m (31 March 2018: $255.12m).

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.

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	2019	2018
Net profit after tax	**45,039**	**51,873**
Add movements in statement of financial position items:		
Accounts payable	6,951	4,488
Current tax	(496)	4,467
Deposits from customers	352,129	579,323
Deferred tax asset	(1,154)	825
Accounts receivable	928	(1,877)
Lease liability	61	-
Derivative financial instruments	(211)	(2,585)
Loans and advances to customers	(488,173)	(651,956)
	(129,965)	**(67,315)**
Add non - cash items:		
Amortisation of intangible assets	2,386	1,618
Depreciation	3,235	3,003
Impairment losses / (gains)	4,236	3,918
	9,857	**8,539**
Net cash flows from operating activities	**(75,069)**	**(6,903)**

All in $000's

Financial Position

7. Loans and Advances to Customers

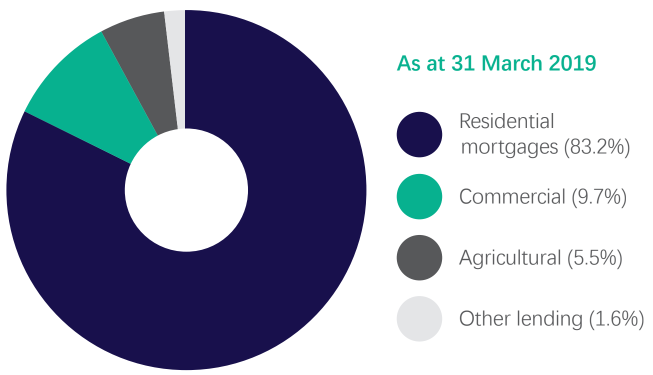
This covers all forms of lending to customers, and include mortgages, overdrafts, personal loans and credit card balances. Loans and advances to customers are recognised in the statement of financial position when cash is advanced to the customer and subsequently measured at amortised cost less allowance for impairment to reflect the estimated recoverable amounts. Refer to note 16. Credit Risk Management and Asset Quality for further information on provision for credit impairment.

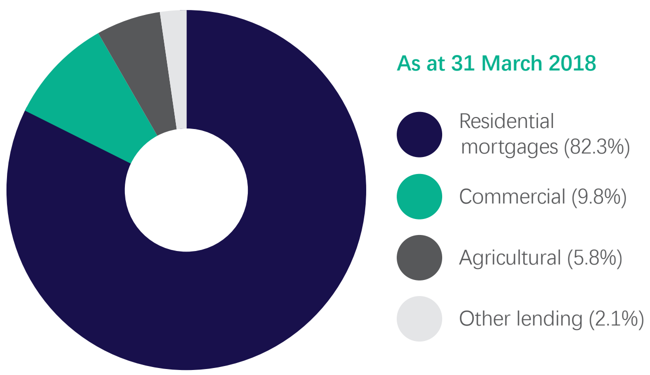
Residential mortgages comprise 83.2% (31 March 2018: 82.3%) of the total loan portfolio and they are secured by a first mortgage over freehold dwellings. For overdrafts and credit card balances, some are unsecured as well as secured by obligation mortgages, which cover all undertakings with the Bank.

	Note	2019	2018
Residential mortgages	20.(d)	4,844,453	4,389,811
Commercial [1]		561,980	522,012
Community		2,382	3,472
Agricultural		317,281	307,538
Personal [2]		72,745	89,335
Others [3]		21,807	22,246
Total gross loans and advances to customers		**5,820,648**	**5,334,414**
Less provision for impairment	16.(f)	(28,599)	(25,057)
Total loans and advances to customers		**5,792,049**	**5,309,357**

[1] Commercial includes a loan to TSB Group Limited (refer to note 23. 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

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. 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.

	2019	2018
Local authority securities	235,603	366,733
Government securities	434,233	437,744
Registered bank securities	509,525	520,650
Other investments *	648,449	608,339
Total investment securities	**1,827,810**	**1,933,466**

* Other investments relate to investments in utility companies, SOE's and commercial paper, and Bonds of New Zealand corporates.

Notes to the Financial Statements
For the year ended 31 March 2019

All in $000's

9. Derivative Financial Instruments

The Bank uses derivatives for 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 IFRS 9, either fair value or cash flow hedge accounting can be applied. Hedge accounting is applied to remove the accounting mismatch between the hedging instrument and the hedged item.

For derivatives, any accrued interest is recognised and measured as part of the derivative's fair value. Derivatives are only used for economic hedging purposes and not as speculative investments. However, where derivatives do not meet the hedging criteria, they are classified as 'held for trading' for accounting purposes below. 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. The group has the following derivative financial instruments:

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 NZ IFRS 9 hedge accounting criteria.

Cash flow hedge
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. The group manages its cash flow interest rate risk by using:

(i) floating-to-fixed interest rate swaps to fix the income of a pool of floating rate assets (including loans and advances to customers and investment securities);

(ii) fixed-to-floating interest rate swaps to fix the cost of floating interest rate deposits.

During 2019, both the hedging derivatives and hedged items were all denominated in New Zealand dollars.

Under these swaps, the Bank agrees with other parties to exchange, at specified intervals (mainly quarterly or semi-annually), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

The Bank's loans and advances to customers and the deposits are carried at amortised cost, whilst the investment securities are accounted for at FVOCI. These balance sheet items are periodically contractually repriced and to that extent are also exposed to the risk of future changes in market interest rates.

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.

Method used to test hedge effectiveness and determine the hedge ratio is primarily based on regression analysis.

Hedge ineffectiveness may occur due to:
- the credit value/debit value adjustment on the interest rate swaps which is not matched by the hedged item; and
- differences in critical terms between the interest rate swaps and hedge items.

There was no ineffectiveness during 2019 in relation to the interest rate swaps (2018: nil).

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.

All in $000's

9. Derivative Financial Instruments (continued)

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.

As at reporting date, there were no material fair value hedge relationships.

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 17. Market Risk Management.

	As at 31 March 2019			As at 31 March 2018		
	Notional Amount	Fair Values Assets	Fair Values Liabilities	Notional Amount	Fair Values Assets	Fair Values Liabilities
Interest rate swaps						
Derivatives held as economic hedges	57,600	-	821	54,657	-	1,108
Derivatives held as cash flow hedges	868,000	6,519	11,296	1,058,000	839	6,948
Derivatives held as fair value hedges	-	-	-	29,000	-	140
Total interest rate swaps	**925,600**	**6,519**	**12,117**	**1,141,657**	**839**	**8,196**
FX forward exchange currency assets	-	-	-	-	-	-
Total derivative financial instruments	**925,600**	**6,519**	**12,117**	**1,141,657**	**839**	**8,196**

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

The effects of the interest rate swaps related hedging instruments on the Bank's financial position and performance are as follows:

	2019	2018
Derivative financial instruments – interest rate swaps		
Change in fair value of outstanding hedging instruments	(5,598)	(7,357)
Change in value of hedged item used to determine hedge effectiveness	5,598	7,357
Hedge ratio	1:1	1:1

The profile of the timing of the notional amount and average price of derivatives designated in cash flow hedge relationships is outlined in the following table:

As at 31 March 2019	3 months or less	3-12 months	1-5 years	Over 5 years	Total
Interest rate swaps					
Pay fixed	125,000	100,000	375,000	48,000	**648,000**
Average fixed interest rate paid	2.28%	2.22%	2.11%	3.79%	2.28%
Receive fixed	-	-	220,000	-	**220,000**
Average fixed interest rate received	0.00%	0.00%	2.46%	0.00%	2.49%
Total notional amount	**125,000**	**100,000**	**595,000**	**48,000**	**868,000**

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). Deposits including the amounts due to related entities are measured at amortised cost using the effective interest method.

	2019	2018
Retail term deposits *	3,899,785	3,599,488
On call deposits bearing interest	2,761,461	2,748,779
On call deposits not bearing interest	381,906	358,201
Wholesale deposits bearing interest	49,865	34,422
Total deposits	**7,093,017**	**6,740,890**

* Includes term deposits from TSB Community Trust. Refer to note 23. 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:

	2019	2018
Retail deposits		
Taranaki	3,165,512	3,004,941
Rest of New Zealand	3,742,767	3,558,219
Outside New Zealand	184,738	177,730
Total funding by geographic region	**7,093,017**	**6,740,890**
Government and public authorities	7,268	4,984
Finance (wholesale deposits)	49,865	34,422
Households	6,896,426	6,573,197
Community	52,839	43,755
Commercial	86,619	84,532
Total funding by industry sector	**7,093,017**	**6,740,890**

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.

	2019	2018
Employee entitlements	9,256	9,150
Dividend payable	7,500	7,344
Trade and other payables	36,945	30,099
Other non-financial liabilities	662	664
Total other liabilities	**54,363**	**47,257**

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 liabilities;
- 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 17. 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.

All in $000's

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 2019	Note	At amortised cost	At FVOCI	At FVPL	Fair value - hedging instruments	Total carrying amount	Fair value
Financial assets:							
Cash and cash equivalents		149,065	-	-	-	149,065	149,065
Derivative financial instruments	9	-	-	-	6,519	6,519	6,519
Investment securities	8	-	1,827,810	-	-	1,827,810	1,827,810
Loans and advances to customers	7	5,792,049	-	-	-	5,792,049	5,785,906
Other assets		2,201	-	-	-	2,201	2,201
Total financial assets		**5,943,315**	**1,827,810**	**-**	**6,519**	**7,777,644**	**7,771,501**
Financial liabilities:							
Deposits	10	7,093,017	-	-	-	7,093,017	7,054,997
Derivative financial instruments	9	-	-	-	12,117	12,117	12,117
Other liabilities		-	-	53,701	-	53,701	53,701
Total financial liabilities		**7,093,017**	**-**	**53,701**	**12,117**	**7,158,835**	**7,120,815**
As at 31 March 2018							
Financial assets:							
Cash and cash equivalents		131,303	-	6,820	-	138,123	138,123
Derivative financial instruments	9	-	-	-	839	839	839
Investment securities	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		**5,442,066**	**1,933,466**	**6,820**	**839**	**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		-	-	46,593	-	46,593	46,593
Total financial liabilities		**6,740,890**	**-**	**46,593**	**8,196**	**6,795,679**	**6,760,092**

All in $000's

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:	2019	2018
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	597,756	565,883
Balance adjusted for adoption of NZ IFRS 9	(715)	-
Net profit after taxation (NPAT)	45,039	51,873
Retained earnings after NPAT	642,080	617,756
Dividends	(10,000)	(20,000)
Retained earnings at end of period	**632,080**	**597,756**

	31 March 2019		31 March 2018	
Dividend	$000	$ per share	$000	$ per share
Interim	2,500	0.125	2,657	0.133
Special	-	-	10,000	0.500
Final	7,500	0.375	7,343	0.367
Total	**10,000**	**0.500**	**20,000**	**1.000**

14. Reserves

The cash flow hedge reserve is used to recognise the effective portion of gains or losses on derivatives that are designated and qualify as cash flow hedges (refer to note 9. Derivative Financial Instruments for more details). The cumulative gain or loss relating to the ineffective portion is recognised immediately in profit or loss, within other operating income.

The Bank has investment securities measured at FVOCI (2018: available-for-sale investment securities) and the changes in fair value of which are accumulated within the fair value reserve (2018: available-for-sale investment revaluation reserve) until the assets are derecognised or reclassified. As at the reporting date, the Bank has no investments in equity instruments designated as at FVOCI.

The following table shows a breakdown of the Bank's reserves and the movements in these reserves during the reporting period.

	Note	2019	2018
Cash flow hedge reserve			
Opening balance		(3,287)	(1,842)
Change in fair value of hedging instrument recognised in OCI for the year (effective portion)		1,785	(1,772)
Cumulative gain / (loss) transferred to the profit or loss	3	(236)	(235)
Related tax		(434)	562
Movement in cash flow hedge reserve		1,115	(1,445)
Closing balance		**(2,172)**	**(3,287)**
Fair value reserve (previously recorded as available-for-sale investment revaluation reserves)			
Opening balance		8,546	14,083
Gross changes in fair value		9,997	10,790
Cumulative gain / (loss) transferred to the profit or loss	3	(3,510)	(18,480)
Related tax		(1,816)	2,153
Movement in fair value reserve		4,671	(5,537)
Closing balance		**13,217**	**8,546**

Risk Management and Capital Adequacy

15. Risk Governance

The Bank is committed to the appropriate management of all risks arising from its activities, in accordance with the stated risk appetite approved by 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.

People, Culture and Capability Committee (Board Committee)
The role of the People, Culture and Capability 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.

15. 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 and 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 of 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 portfolios. 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 on a regular basis for appropriateness.

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 the 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 16. 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 17. 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 18. 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.

15. 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 industry standards 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 co-sourced 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 co-sourced with 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.

16. 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. The CEO delegates to the Chief Credit Officer (CCO). 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 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 credit scoring system is used to support and inform retail credit decisions. The Bank refers to external consumer scores from credit bureaus where these are available, but are not the only input used to determine retail risk grades. Lower 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 applicable to the borrower; validation of this information; hindsight 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 distress are managed by the Credit Solutions management function, which is responsible for taking action to minimise losses in the event of default or to realise securities where appropriate. All defaults are reported to credit bureaus via the Bank's recoveries partners.

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 who delegates to the Chief Credit Officer (CCO). The CCO has 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 framework 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.

16. Credit Risk Management and Asset Quality (continued)

(b) Credit risk assessment and measurement

Credit risk is the risk that a customer or counterparty will default on its contractual obligations resulting in financial losses to the Bank.

The Bank is exposed to credit risks arising from the following groups of financial assets that are subject to impairment requirements of NZ IFRS 9.

Types of financial assets	Measured at	Estimated gross carrying
Cash and cash equivalent	amortised cost	149,065
Investment securities	FVOCI	1,827,810
Loans and advances to customers	amortised cost	5,792,049
Other assets	amortised cost	2,201

The Bank has assessed the impairment requirements for cash and cash equivalents, investment securities and other assets. However, the identified impairment loss for the groups of assets was immaterial.

Investment securities carried at FVOCI
The Bank has reviewed its holdings of investment securities in terms of its counterparty credit policy and based on this review, and other information on hand, does not believe there is any evidence to indicate material impairment in this portfolio. The collective provision against this portfolio is assessed at each reporting date and whenever there is a significant change in the portfolio mix or change in the macro-economic factors and credit ratings. Furthermore, no specific provisions are being held against possible non-performance by any investment in this portfolio.

Loans and advances to customers carried at amortised cost
The majority of the Bank's provisions for impairment for lending assets are made on a collective basis. The credit quality of loans and advances to customers are continuously monitored since initial recognition and those that are neither past due or impaired can be assessed by reference to the Bank's internal credit risk rating system. At the origination of loans and advances to customers, loans are risk graded based on a number of characteristics that indicate Probability of Default (PD) and/or Loss Given Default (LGD). These risk grades are reviewed periodically for adverse changes during the life of the loan.

(c) Expected credit loss measurement

The Bank measures credit risk of a portfolio of assets using its internal credit risk model whose key inputs are probability of default (PD), loss given default (LGD), and exposure at default (ED). This is supplemented with forward-looking information on macroeconomic factors (refer to section C.4 below for further information).

The following diagram summarises the impairment requirements under NZ IFRS 9:

Change in credit quality since initial recognition

Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL
Initial recognition	Significant increase in credit risk since initial recognition	Credit impaired assets

The key judgments and assumptions adopted by the Bank in addressing the requirements of the standard are discussed below:

C.1. Significant increase in credit risk (SICR)
The Bank considers that a loan or advance to customers to have experienced a significant increase in credit risk when one or more of the quantitative, qualitative or backstop criteria have been met:

Quantitative and qualitative criteria:
Over the term of the loans and advances to customers, the Bank accounts for its credit risk by appropriately providing for ECL on a timely basis. In calculating the expected credit loss rates, the Bank considers historical loss rates for each category of customers that share similar risk characteristics, and adjusts for forward looking macroeconomic data. The Bank provides for credit losses against loans and advances to customers on both an individual and collective basis as follows:

16. Credit Risk Management and Asset Quality (continued)

(c) Expected credit loss measurement (continued)

Category	Basis	Description and quantitative criteria for SICR	Recognition of interest revenue
Stage 1 12 month ECL	Collective	Customers with a low risk of default that have a strong capacity to meet contractual cash flows (interest and/or principal repayments).	Effective interest rate applied to the gross carrying amount
Stage 2 Lifetime ECL	Collective	Significant increase in credit risk is presumed if the loans and advances are more than 30 days past due in making a contractual payment or when there is reasonable and/or supportable information that there is an increase in the risk of a default occurring on the asset as at the reporting date.	Effective interest rate applied to the gross carrying amount
Stage 3 Lifetime ECL	Collective	Loans and advances are deemed credit impaired when they are over 90 days past due in making a contractual payment and/or when there is objective evidence of the events that indicate the borrower is in significant financial difficulty.	Effective interest rate applied to the amortised cost (net of collective provision)*
	Specific (Individual)	Loans and advances are deemed 'impaired' when the Bank has exhausted all options to rehabilitate a mortgage debt and/or expects to incur a loss. Impaired assets are specifically provided for on an individual basis.	Effective interest rate applied to the amortised cost (net of specific provision)*
Write-off		Financial assets are written off when there is no reasonable expectation of recovery and customers fail to engage in a repayment plan with the Bank. Those financial assets that are written-off are still subject to enforcement activity.	None

* When a financial asset becomes credit-impaired, the Bank calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset., The Bank reverts to calculating interest income on a gross basis if the credit risk of the financial asset improves and deemed no longer credit-impaired.

A significant increase in credit risk is also considered when the borrower meets one or more of the following criteria:
- In short-term forbearance
- Direct debit cancellation
- Extension of the terms granted
- Previous arrears within the last 12 months

Additionally, for the Commercial and Agricultural portfolios, a significant increase in credit risk is also considered if the borrower is under watch and/or the instrument meets one or more of the following criteria:
- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates.
- Early signs of cashflow/liquidity problems such as delay in servicing of trade creditors/loans.

The assessment of SICR incorporates forward-looking information (refer to section C.4 below for further information) and is performed on a monthly basis at a portfolio level for all loans and receivables to customers held by the Bank.

Backstop

A backstop is applied and the financial instrument considered to have a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payment.

The Bank has not used the low credit risk exemption for any financial instrument in the year ended 31 March 2019.

C.2. Definition of default and credit-impaired assets

The Bank has defined a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets or more of the following criteria:

Quantitative and qualitative criteria:
- The borrowers are over 90 days past due in making a contractual payment
- There is objective evidence of the events that indicate the borrower is in significant financial difficulty
- The borrower is in long-term forbearance
- The borrower is insolvent
- The borrower is in breach of financial covenant(s)
- Concessions have been made by the lender relating to the borrower's financial difficulty
- It is becoming probable that the borrower will enter bankruptcy

16. Credit Risk Management and Asset Quality (continued)

(c) Expected credit loss measurement (continued)

The 90 days past due default definition used for the loans and advances to customers is consistent with the past due presumption under NZ IFRS 9 for the mortgage portfolio. However, this is a mismatch with the definition of impaired assets used for the regulatory purposes as disclosed in section h. Asset quality information. This adoption of this presumption will be monitored and reviewed by the Credit Risk department on an annual basis to ensure it remains appropriate.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer exhibits arrears for a minimum period of four months.

C.3. Measuring ECL - Explanation of inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month (12M) or lifetime basis depending on whether a significant increase in credit risk has occurred since the initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (ED) and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above).
- EAD is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months (12M ED) or over the remaining lifetime (Lifetime ED).
- LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD is expressed as a percentage of loss per unit of exposure (ED). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future period. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure was not prepaid or defaulted in an earlier period). This effectively calculates an ECL for each future period, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The PD is developed by performing a linear regression based on the 12 months prior performance of the loans classified as impaired or 90 days or more in arrears. The regression is based on historical observed data and is performed separately for each product type. The Bank has used internal arrears information to regress against a list of macroeconomic factors to determine the PD. The following is the list of factors that have been considered during the analysis: gross domestic product, unemployment rate, dairy price, residential investment, 90-day interest rate, household debt and consumer price index.

The EAD is primarily derived from the available balances at reporting date.

The LGD is determined using historical losses by observing the actual write-offs that have occurred over the past few years. For the unsecured portfolio, the Bank has decided to use a 100% LGD which aligns to their expectation of recoverability in the event of a default event.

The maximum period considered when estimating ECLs has been determined as the maximum between four years and the remaining contractual life. The ECL is probability-weighted and is discounted at the effective interest rate. The Bank has considered its historical loss experience for the last three years.

The following assumptions have been introduced in the ECL computation during the period:
- cooling-off period: the determination of the days in arrears has been modified to mitigate the volatility of the transfers between the different impairment stages.
- geographical and portfolio factors: whilst determining the PD, additional scalars have been incorporated, based on geographic and portfolio segmentation.

C.4. Forward-looking information incorporated in the ECL models

The calculation of ECL incorporates forward-looking information. The Bank has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio. The forward-looking information on macroeconomic factors such as forecast gross domestic product (GDP), interest rate and unemployment rate in measuring the provisions for expected credit losses (ECL) on groups of financial assets that share similar credit risk characteristics.

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political change, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors.

All in $000's

16. Credit Risk Management and Asset Quality (continued)

(c) Expected credit loss measurement (continued)

Significant estimates and judgements

The provision for impairment are based on assumptions about risk of default and expected loss rates. The Bank uses judgement in making these assumptions and selecting the inputs to the calculation of impairment, based on the Bank's past history, existing market conditions and forward-looking estimates at each reporting date.

Accounting policies for comparative period under NZ IAS 39 effective prior to 1 April 2018

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 impairment is adjusted accordingly. If in a subsequent period the amount of impairment loss decreases, the writedown 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.

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 for information about how impairment losses are calculated.

The Bank has a policy of providing a provision for impairment 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 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 risk exposure

D.1. Maximum exposure to credit risk - Financial instruments subject to impairment

The following table contains an analysis of the credit exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the Bank's maximum exposure to credit risk on these assets.

16. Credit Risk Management and Asset Quality (continued)

(d) Credit risk exposure (continued)

As at 31 March 2019	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Specific loans Stage 3 Lifetime ECL	Total
Residential mortgage loans (gross)	4,812,019	24,757	7,194	483	**4,844,453**
Residential mortgage loans (net of provision)	4,804,768	24,635	4,053	178	**4,833,634**
Expected credit loss rate	0.2%	0.5%	43.7%	63.1%	0.2%
Commercial mortgage loans (gross)	551,680	12,682	-	-	**564,362**
Commercial mortgage loans (net of provision)	548,003	12,399	-	-	**560,402**
Expected credit loss rate	0.7%	2.2%	0.0%	0.0%	0.7%
Agricultural exposures (gross)	275,884	38,066	-	3,331	**317,281**
Agricultural exposures (net of provision)	272,727	36,778	-	3,231	**312,736**
Expected credit loss rate	1.1%	3.4%	0.0%	3.0%	1.4%
Other exposures (gross)	90,871	2,324	1,357	-	**94,552**
Other (net of provision)	83,881	1,727	(331)	-	**85,277**
Expected credit loss rate	7.7%	25.7%	124.4%	0.0%	9.8%
Cash and cash equivalent	149,065	-	-	-	**149,065**
Investment securities (gross)	1,827,810	-	-	-	**1,827,810**
Other assets	2,201	-	-	-	**2,201**
Expected credit loss rate	0.0%	0.0%	0.0%	0.0%	0.0%

D.2. Maximum exposure to credit risk - Financial instruments not subject to impairment

The following table contains an analysis of the maximum credit risk exposure from financial assets not subject to impairment (i.e. hedging instrument):

As at 31 March 2019	Maximum exposure to risk
Derivative financial instruments	**6,518,930**

D.3 Collateral and other credit enhancements

The Bank employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Bank has internal policies on the acceptability of specific classes of collateral or credit risk mitigation.

The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since the prior period.

The Bank closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Bank will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

Credit-impaired assets	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
Residential mortgage loans	7,677	3,446	4,231	**17,405**
Commercial	-	-	-	**-**
Agricultural	3,331	100	3,231	**4,000**
Other	1,357	1,688	(331)	**-**
Total credit-impaired assets	**12,365**	**5,234**	**7,131**	**21,405**

(e) Loss allowance

The following table provides a reconciliation from the opening balance to the closing balance of provision for impairment and show movement between stages during the reporting period. Opening balances have been restated for the adoption of NZ IFRS 9.

All in $000's

16. Credit Risk Management and Asset Quality (continued)

(e) Loss allowance (continued)

Movements for credit impairment allowances	Collective provision	Stage 1 - Collective provision 12 month ECL	Stage 2 - Collective provision Lifetime ECL	Stage 3 - Collective provision Lifetime ECL	Stage 3 - Specific provision Lifetime ECL	Total provision
Residential mortgage loans						
Opening balance	19,570	-	-	-	205	19,775
Restated for adoption of NZ IFRS 9	(19,570)	4,581	101	2,141	-	(12,747)
Transfers with no impact on profit or loss:	-	-	-	-	-	
Transferred to Stage 1	-	523	(26)	(497)	-	-
Transferred to Stage 2	-	(15)	15	-	-	-
Transferred to Stage 3	-	(4)	(3)	7	-	-
Charged / (credited) to profit or loss	-	2,166	35	1,490	-	3,691
Amounts written off	-	-	-	-	101	101
Recovery	-	-	-	-	(1)	(1)
Closing provision balance for residential mortgage loans	**-**	**7,251**	**122**	**3,141**	**305**	**10,819**
Commercial exposures						
Opening balance	2,995	-	-	-	-	2,995
Restated for adoption of NZ IFRS 9	(2,995)	3,468	234	3,897	-	4,604
Transfers with no impact on profit or loss:	-	-	-	-	-	-
Transferred to Stage 1	-	3,238	(47)	(3,191)	-	-
Transferred to Stage 2	-	(41)	41	-	-	-
Transferred to Stage 3	-	-	-	-	-	-
Charged / (credited) to profit or loss	-	(2,988)	55	(706)	-	(3,639)
Amounts written off	-	-	-	-	-	-
Recovery	-	-	-	-	-	-
Closing provision balance for commercial exposures	**-**	**3,677**	**283**	**-**	**-**	**3,960**
Agricultural exposures						
Opening balance	1,847	-	-	-	100	1,947
Restated for adoption of NZ IFRS 9	(1,847)	3,092	1,832	-	-	3,077
Transfers with no impact on profit or loss:	-	-	-	-	-	-
Transferred to Stage 1	-	38	(38)	-	-	-
Transferred to Stage 2	-	(20)	20	-	-	-
Transferred to Stage 3	-	-	-	-	-	-
Charged / (credited) to profit or loss	-	47	(526)	-	-	(479)
Amounts written off	-	-	-	-	-	-
Recovery	-	-	-	-	-	-
Closing provision balance for agricultural exposures	**-**	**3,157**	**1,288**	**-**	**100**	**4,545**
Other exposures						
Opening balance	340	-	-	-	-	340
Restated for adoption of NZ IFRS 9	(340)	5,173	4	1,222	-	6,059
Transfers with no impact on profit or loss:	-	-	-	-	-	
Transferred to Stage 1	-	1	(1)	-	-	-
Transferred to Stage 2	-	(190)	190	-	-	-
Transferred to Stage 3	-	-	-	-	-	-
Charged / (credited) to profit or loss	-	2,006	404	466	-	2,876
Amounts written off	-	-	-	-	-	-
Recovery	-	-	-	-	-	-
Closing provision balance for other exposures	**-**	**6,990**	**597**	**1,688**	**-**	**9,275**
Total provision	**-**	**21,075**	**2,290**	**4,829**	**405**	**28,599**

16. Credit Risk Management and Asset Quality (continued)

(e) Loss allowance (continued)

The following explains how significant changes in the gross carrying amount of financial assets during the year have contributed to the changes in the provision for credit impairment. Provision for credit impairment reflects ECL measured using the three-stage approach under NZ IFRS 9.

The overall increase in the provision for credit impairment for the year was $2.55m. The main contributing driver is the increase in the collective provision for credit impairment associated with lending book growth, as well as changes to model assumptions partially offset by successful resolution of long-standing problematic accounts including discontinuation of banking relationships. The increase includes a $3.90m increase in provision for loans in the residential lending portfolio and $2.88m provision in the personal lending space, partially offset by a $4.12m provision decrease for loans in the Agri and Commercial segment.

Detailed information regarding the changes are as follows:

- Collective Provision 12 month ECL (Stage 1) increased by $4.76m due to the $486.23m growth in the lending book and updated management assumptions to reflect the changing nature of the underlying portfolio.
- Collective Provision Lifetime ECL not credit impaired (Stage 2) increased by $0.12m. This was primarily due to a $0.59m collective provision increase in the personal lending portfolio driven by a transfer of loan balances from Stage 1 and an update in management assumption to reflect changes in portfolio composition. This was offset by $0.56m decrease in collective provision balance for the Agri portfolio which occurred despite an increase in loan balances in Stage 2 of $2.19m and driven by a change in average loan profile within this group.
- Collective Provision Lifetime ECL credit impaired (Stage 3) decreased by $2.4m, mainly driven by a decrease in loan balances of this stage of $2.5m. The biggest driver behind the decrease was the Commercial loan portfolio which saw a reduction in the collective provision of $3.9m to a decrease in loan balances of $4.96m. The decrease is attributed to TSB exiting business relationships with a number of customers who were deep in arrears without incurring any losses. This was offset by an increase in collective provisions of $1.00m for the Residential Lending Portfolio driven by a $2.38m increase in underlying balances and an increase in collective provisions of $0.48m for the Personal loan portfolio driven by a balance increase in this stage of $0.07m and an update to management assumptions to reflect a changing profile of the portfolio.
- Specific provision lifetime ECL credit impairment increased by $0.2m driven by an increase in balances of $0.06m and a change in the quality of collateral for accounts that are individually assessed for specific provision purposes.

Note: Personal lending includes both Personal and Harmoney segments.

(f) Movement in balances of credit impairment allowances

As at 31 March 2019	Residential mortgage loans	Commercial exposures	Agricultural exposures	Other exposures	Total Credit exposures
Specific provision for impairment					
Balance at beginning of period	205	-	100	-	305
Add new provisions	322	-	-	-	322
Current year amounts written off	(221)	-	-	-	(221)
Reversal of previously recognised provision	(1)	-	-	-	(1)
Specific provision balance at end of period	**305**	**-**	**100**	**-**	**405**
Collective provision for impairment					
Balance at beginning of period	19,570	2,995	1,847	340	24,752
Balance adjusted for adoption of NZ IFRS 9	(12,747)	4,604	3,077	6,059	993
Recognised in profit or loss	3,691	(3,639)	(479)	2,876	2,449
Collective provision balance at end of period	**10,514**	**3,960**	**4,445**	**9,275**	**28,194**
Total provision for impairment loss	**10,819**	**3,960**	**4,545**	**9,275**	**28,599**
As at 31 March 2018					
Specific provision for impairment					
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)
Balance of specific provision at end of period	**205**	**-**	**100**	**-**	**305**
Collective provision for impairment					
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**

The Bank's total provision for credit impairment was $28.6m (2018: $25.1m) at balance date representing 0.49% (2018: 0.47%) of the total loans and advances to customers.

All in $000's

16. Credit Risk Management and Asset Quality (continued)

(f) Movement in balances of credit impairment allowances (continued)

Impairment losses recognised in profit or loss	2019	2018
Individual impairment expenses	1,687	2,109
Movement in specific provision	100	(833)
Movement in collective provision	2,449	2,642
Impairment losses – loans and advances	**4,236**	**3,918**

The estimated fair value of collateral and other charges related to financial assets that are individually impaired is $4.018m (2018: $4.627m).

(g) Lending commitments and guarantees

For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. The Bank however cannot separately identify the ECL on the undrawn commitment component from those on the loan component and thus they are recognised together with the loss allowance for the loan.

(h) Asset quality information

The Bank has disclosed certain components of its loan portfolio as impaired assets according to the classifications below:

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 IFRS 9.

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 a financial asset which has not been operated by the counterparty within its contractual payment 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.

16. Credit Risk Management and Asset Quality (continued)

(h) Asset quality information (continued)

The majority of the Bank's provisions for impairment are made on a collective basis. The table below shows the credit quality information for loans and advances to customers.

As at 31 March 2019	Note	Residential mortgage loans	Commercial exposures	Agricultural exposures	Other exposures	Total Credit exposures
Neither past due or impaired		**4,768,631**	**558,896**	**311,393**	**90,737**	**5,729,657**
Past due assets not impaired:						
Less than 30 days		58,334	3,084	1,456	2,557	65,431
30 to 59 days		10,385	-	1,100	1,835	13,320
60 to 89 days		1,660	-	-	448	2,108
90 days and over		4,961	-	-	1,357	6,318
Balance of past due but not impaired assets at end of period		**75,340**	**3,084**	**2,556**	**6,197**	**87,177**
Movements in individually impaired assets:						
Balance at beginning of period		968	-	3,432	-	4,400
Additions		487	-	-	-	487
Amounts written off / loans closed out		(129)	-	-	-	(129)
Transfer back to loans and advances to customers		(844)	-	(100)	-	(944)
Balance of impaired assets at end of period		**482**	**-**	**3,332**	**-**	**3,814**
Total gross loans and advances to customers	7	**4,844,453**	**561,980**	**317,281**	**96,934**	**5,820,648**
Less provision for impairment	16.(f)	10,819	3,960	4,545	9,275	28,599
Total loans and advances to customers		**4,833,634**	**558,020**	**312,736**	**87,659**	**5,792,049**

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 impairment	16.(f)	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

16. Credit Risk Management and Asset Quality (continued)

(h) Asset quality information (continued)

Undrawn balances on lending commitments to counterparties
Undrawn balances on lending commitments to counterparties for whom drawn balances are classified as individually impaired total $1k at reporting date (2018: $8k).

Restructured asset
At 31 March 2019, the Bank had lending restructured assets totalling $532k (2018: $553k). Interest foregone on lending restructured assets throughout the year was nil (2018: $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 (2018: $nil).

(i) 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 22. Commitments and Contingent Liabilities for more information on commitments.

(i) On and off-balance sheet	Note	2019	2018
On balance sheet:			
Cash and cash equivalents		149,065	138,123
Investment securities	8	1,827,810	1,933,466
Loans and advances to customers	7	5,792,049	5,309,357
Off balance sheet:			
Lending commitments	22	748,759	735,991
Total Credit Exposures		**8,517,683**	**8,116,937**

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:

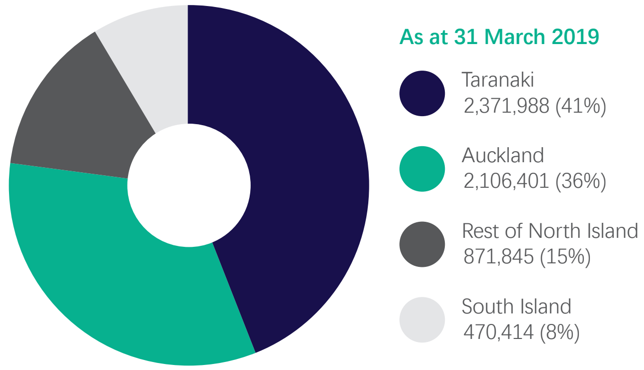
(ii) Concentration of credit exposure by geographic region

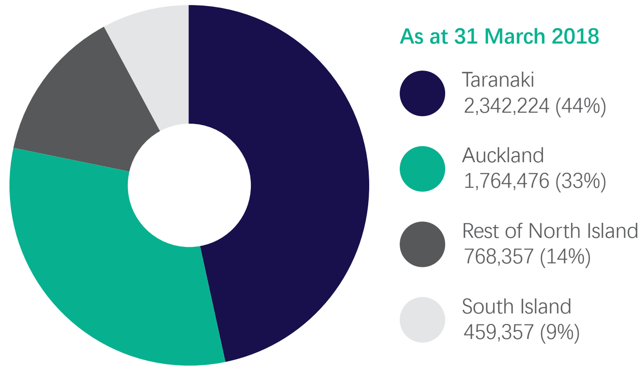
As at 31 March 2019	Note	Cash and cash equivalent	Investment securities	Loans and advances to customers	Off-balance sheet	Total credit exposures
New Zealand total		149,065	1,425,974	5,820,648	748,759	8,144,446
Outside New Zealand		-	401,836	-	-	401,836
Provision for impairment	16.(f)	-	-	(28,599)	-	(28,599)
Total credit exposure		**149,065**	**1,827,810**	**5,792,049**	**748,759**	**8,517,683**
As at 31 March 2018						
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	16.(f)	-	-	(25,057)	-	(25,057)
Total credit exposure		**138,123**	**1,933,466**	**5,309,357**	**735,991**	**8,116,937**

16. Credit Risk Management and Asset Quality (continued)

(i) Concentrations of credit exposures (continued)

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





(iii) Concentration of credit exposure by industry sector

	Note	2019	2018
Cash on hand		22,666	22,858
Local government lending and investments		366,590	425,292
New Zealand registered banks		509,525	520,650
Multilateral development banks and other international institutions		321,404	322,097
Other financial institutions		38,921	44,099
Sovereigns and Central Bank		560,632	553,009
Food product and beverages		18,484	19,422
Utilities		140,786	162,016
Transport, postal and warehousing		31,983	32,339
Information media and telecommunications		30,291	28,367
Agricultural lending		338,343	323,994
Residential lending		5,334,932	4,888,434
Personal and other lending		217,190	222,076
Community lending		5,131	5,964
Commercial lending		609,404	571,377
Provision for impairment loss	16.(f)	(28,599)	(25,057)
Total credit exposure		**8,517,683**	**8,116,937**

All in $000's

16. Credit Risk Management and Asset Quality (continued)

(j) 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 2019							
	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	1	-	-	1
16% - 20%	1	-	-	1	-	-	-	-
21% - 25%	-	-	-	-	-	-	-	-
Total	**4**	**-**	**-**	**4**	**1**	**-**	**-**	**1**
Peak exposure								
11% - 15%	2	-	-	2	3	-	-	3
16% - 20%	2	-	-	2	1	-	-	1
21% - 25%	-	-	-	-	-	-	-	-
Total	**4**	**-**	**-**	**4**	**4**	**-**	**-**	**4**

% 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**

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.

(k) 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 year. 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 2019 (31 March 2018: $nil).

16. Credit Risk Management and Asset Quality (continued)

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

	2019	2018
Credit exposures to non-bank connected persons at period end	83,600	83,600
Credit exposures to non-bank connected persons at period end (expressed as % of total tier one capital)	13.02%	13.87%
Peak credit exposures to non-bank connected persons during the period	83,600	83,600
Peak credit exposures to non-bank connected persons during the period (expressed as % of total tier one capital)	13.02%	13.87%

(l) 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 are as set out in note 22. Commitments and Contingent Liabilities represent the Bank's maximum exposure to credit risk for on and off-balance sheet financial instruments.

(m) 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 2019			As at 31 March 2018		
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	149,065	149,065	-	138,123	138,123	-
Derivative financial instruments	6,519	-	6,519	839	-	839
Investment securities	1,827,810	302,183	1,525,627	1,933,466	366,732	1,566,734
Loans and advances to customers	5,792,049	5,719,304	72,745	5,309,357	5,220,022	89,335
Other financial assets	2,201	2,201	-	1,406	1,406	-
Total exposure to credit risk	**7,777,644**	**6,172,753**	**1,604,891**	**7,383,191**	**5,726,283**	**1,656,908**

17. 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

17. 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 2019	0-3 months	3-6 months	6-12 months	1-2 years	Over 2 years	Non-Interest sensitive	Total
Assets							
Cash and cash equivalents	126,399	-	-	-	-	22,666	149,065
Investment securities	899,909	100,680	176,750	238,547	384,150	27,774	1,827,810
Loans and advances to customers	1,765,208	577,251	1,373,205	1,698,761	384,416	(6,792)	5,792,049
Other financial assets [1]	-	-	-	-	-	8,720	8,720
Total financial assets	**2,791,516**	**677,931**	**1,549,955**	**1,937,308**	**768,566**	**52,368**	**7,777,644**
Liabilities							
Deposits	4,139,471	913,679	957,556	402,959	297,446	381,906	7,093,017
Other financial liabilities [2]	-	-	-	-	-	65,818	65,818
Total financial liabilities	**4,139,471**	**913,679**	**957,556**	**402,959**	**297,446**	**447,724**	**7,158,835**
Lending commitments	**748,759**	**-**	**-**	**-**	**-**	**-**	**748,759**
Derivative notional principals (net)	**421,905**	**(20,305)**	**(108,600)**	**(420,000)**	**127,000**	**-**	**-**
Interest sensitivity gap	**(177,291)**	**(256,053)**	**483,799**	**1,114,349**	**598,120**	**(395,356)**	**1,367,568**
As at 31 March 2018							
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]	-	-	-	-	-	54,789	54,789
Total financial liabilities	**3,927,913**	**915,207**	**569,778**	**768,627**	**201,163**	**412,991**	**6,795,679**
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**	**(368,248)**	**1,323,503**

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

17. 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 2019	31 Mar 2018
-2.0%	5.3	3.6
-1.0%	2.6	1.7
1.0%	(3.6)	(2.4)
2.0%	(7.5)	(4.7)

The earnings at risk measure looks at the sensitivity of net interest earnings over the next 12 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 2019	31 Mar 2018
-2.0%	29.8	33.2
-1.0%	15.3	15.8
1.0%	(17.2)	(17.3)
2.0%	(34.7)	(34.4)

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.

18. 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.

	2019	2018
Cash and cash equivalents	**149,065**	**138,123**
Investment securities:		
Local authority securities	235,602	366,024
Government securities	434,233	437,744
Registered bank securities	509,525	492,979
Other investments	489,002	367,953
Total investment securities	**1,668,362**	**1,664,700**
Total core liquid assets	**1,817,427**	**1,802,823**

All in $000's

18. 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 2019	On demand	0-1 months	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities:							
Deposits	3,193,232	625,114	859,114	1,806,432	733,173	-	7,217,065
Other financial liabilities *	-	38,412	16,861	3,412	6,217	916	65,818
Total financial liabilities	**3,193,232**	**663,526**	**875,975**	**1,809,844**	**739,390**	**916**	**7,282,883**
Lending commitments (off-balance sheet)	**748,759**	**-**	**-**	**-**	**-**	**-**	**748,759**
As at 31 March 2018							
Liabilities:							
Deposits	3,141,403	533,984	776,856	1,402,945	1,010,536	37	6,865,761
Other financial liabilities *	-	31,114	11,082	4,540	7,561	492	54,789
Total financial liabilities	**3,141,403**	**565,098**	**787,938**	**1,407,485**	**1,018,097**	**529**	**6,920,550**
Lending commitments (off-balance sheet)	**735,991**	**-**	**-**	**-**	**-**	**-**	**735,991**

* Other financial liabilities include accounts payable, 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.

	As at 31 March 2019			As at 31 March 2018		
	Current	Non-current	Total	Current	Non-current	Total
Assets						
Cash and cash equivalents	149,065	-	149,065	138,123	-	138,123
Derivative financial instruments	6,519	-	6,519	839	-	839
Investment securities	733,996	1,093,814	1,827,810	840,219	1,093,247	1,933,466
Loans and advances to customers	2,566,377	3,225,672	5,792,049	2,109,969	3,199,388	5,309,357
Deferred tax asset	-	4,319	4,319	-	5,137	5,137
Property, plant and equipment	-	28,072	28,072	-	19,650	19,650
Intangible assets	-	9,010	9,010	-	8,299	8,299
Other assets *	2,201	-	2,201	1,406	-	1,406
Total assets	**3,458,158**	**4,360,887**	**7,819,045**	**3,090,556**	**4,325,721**	**7,416,277**
Liabilities						
Deposits	6,390,425	702,592	7,093,017	5,763,505	977,385	6,740,890
Derivative financial instruments	12,117	-	12,117	8,196	-	8,196
Current tax liability	6,423	-	6,423	6,919	-	6,919
Other liabilities	48,763	5,600	54,363	42,004	5,253	47,257
Total liabilities	**6,457,728**	**708,192**	**7,165,920**	**5,820,624**	**982,638**	**6,803,262**

* Other assets include receivables, prepayments and sundry debtors.

18. Liquidity and Funding Risk Management (continued)

(d) Regulatory liquidity ratios

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.

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 2019	Three month period ending on 31 December 2018
One-week mismatch ratio	13.4%	13.1%
One-month mismatch ratio	22.2%	22.1%
Core funding ratio	123.1%	123.8%

19. 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 Board.
- 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 – Anti-Money Laundering (AML) – an update of existing policies and processes to reflect changes identified through the updated AML risk assessment processes.
- Operational risk - Outsourcing - an update of existing policies and processes to reflect material regulatory changes in this area.
- Operational risk - Operational Risk Policy - an update of existing policies and processes to reflect material regulatory changes in this area and reflect current risk appetite of the Board.
- Operational risk - Business Continuity Plan - an update of existing policies and processes to reflect the current risk appetite of the Board.
- Health and Safety - an update of existing policies and processes to reflect material regulatory changes in this area.

20. 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 2019. 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 minimum levels of regulatory capital have been increased from 13.75% to 14.00% during the year.

All in $000's

20. Capital Adequacy (continued)

(a) Capital Adequacy Ratios

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

	RBNZ Minimum ratio requirement	2019 31 Mar unaudited Basel III	2018 31 Mar unaudited Basel III
Common Equity Tier 1 capital ratio	4.50%	14.57%	14.28%
Tier 1 capital ratio	6.00%	14.57%	14.28%
Total capital ratio	8.00%	14.57%	14.28%
Buffer ratio	2.50%	6.57%	6.28%

(b) Regulatory Capital

	2019 Basel III unaudited	2018 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	597,756	565,883
Balance adjusted for adoption of NZ IFRS 9	(715)	-
Current period's audited retained earnings	35,039	31,873
Fiar value reserve	13,217	8,546
Cash flow hedge reserve	(2,172)	(3,287)
	653,125	**613,015**
Less Deductions from CET1 capital		
Intangible assets	9,010	8,299
Cash flow hedge reserve	(2,172)	(3,287)
Deferred tax assets	4,319	5,137
	11,157	**10,149**
Total CET 1 capital	**641,968**	**602,866**
Additional Tier 1 ("AT1") Capital	-	-
Total Tier 1 capital	**641,968**	**602,866**
Tier 2 capital		
Unrealised revaluation on security holdings at 45%	-	-
Total capital	**641,968**	**602,866**

All in $000's

20. Capital Adequacy (continued)

(c) Credit risk

(i) On-balance sheet exposures

As at 31 March 2019	Total exposure after risk mitigation	Risk weighting	Risk weighted exposure	Minimum Pillar I capital requirement
Cash	6,780	0%	-	-
Sovereigns & RBNZ	560,632	0%	-	-
Multilateral development banks	300,447	0%	-	-
Multilateral development banks	20,957	20%	4,191	335
Public sector entities	242,693	20%	48,539	3,883
Banks	157,138	20%	31,428	2,514
Banks	368,273	50%	184,137	14,731
Corporate	167,598	20%	33,520	2,682
Corporate	50,425	50%	25,213	2,017
Corporate	969,502	100%	969,502	77,560
Residential mortgages not past due:				
Non-property investment <80% LVR *	3,167,800	35%	1,108,730	88,698
Non-property investment 80%<90% LVR *	287,032	50%	143,516	11,481
Non-property investment 90%<100% LVR *	33,900	75%	25,425	2,034
Non-property investment >100% LVR *	616	100%	616	49
Property investment <80% LVR *	1,213,643	40%	485,457	38,837
Property investment 80%<90% LVR *	12,229	70%	8,560	685
Property investment 90%<100% LVR *	928	90%	835	67
Property investment >100% LVR *	529	100%	529	42
Welcome home <80% LVR *	3,370	35%	1,180	94
Welcome home 80%<90% LVR *	56,243	35%	19,685	1,575
Welcome home 90%<100% LVR *	41,843	50%	20,922	1,674
Welcome home >100% LVR *	3,539	100%	3,539	283
Reverse mortgages <60% LVR *	9,258	50%	4,629	370
Reverse mortgages 60%<80% LVR *	122	80%	98	8
Reverse mortgages >80% LVR *	18	100%	18	1
Past due residential mortgages *	2,564	100%	2,564	205
Other past due assets	-	100%	-	-
Other past due assets	2,899	150%	4,349	348
Other lending	87,946	100%	87,946	7,036
Other assets	30,726	100%	30,726	2,458
Non-risk weighted assets	19,395	0%	-	-
Total on-balance sheet exposures	**7,819,045**		**3,245,854**	**259,667**

* Total exposure of residential mortgages is $4,833,634.

20. Capital Adequacy (continued)

(c) Credit risk (continued)

(ii) Off-balance sheet exposures

As at 31 March 2019	Total exposure	Credit conversion factor	Credit equivalent amount	Average risk weight	Risk weighted exposure	Minimum Pillar I capital requirement
Commitments that can be cancelled unconditionally	614,390	0%	-	N/A	-	-
Commitment with certain drawdown	134,369	100%	134,369	49%	62,450	4,996
Market related contracts:						
Foreign exchange contracts	-	Various	-	50%	-	-
Interest rate contracts*	925,600	Various	10,314	36%	3,693	295
Credit valuation adjustment (CVA)	-			-	3,294	264
Total off-balance sheet exposures	**1,674,359**		**144,683**		**69,437**	**5,555**

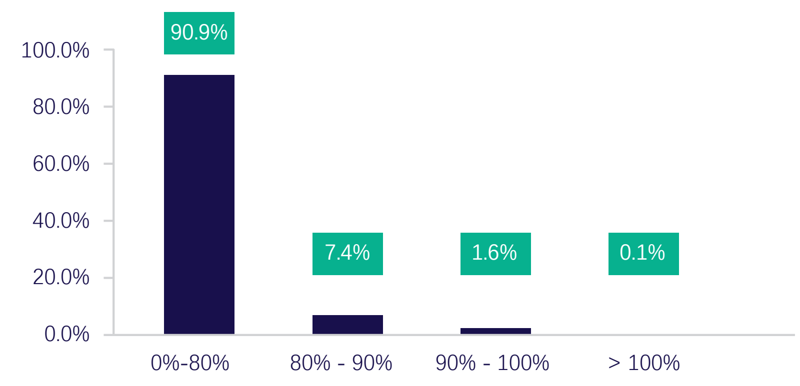
* The credit equivalent amount for market related contracts (which are all interest rate contracts) were calculated using the current exposure method.

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

As at 31 March 2019

LVR Range	Note	0%-80%	80% - 90%	90% - 100%	> 100%	Total
On-balance sheet exposures		4,401,864	356,050	76,783	4,692	4,839,389
Past due and impaired		4,803	38	223	-	5,064
Total value of on-balance sheet exposures	7,16	**4,406,667**	**356,088**	**77,006**	**4,692**	**4,844,453**
Less provisions:						
Collective		9,867	527	112	8	10,514
Specific		305	-	-	-	305
Total residential mortgages		**4,396,495**	**355,561**	**76,894**	**4,684**	**4,833,634**
Off-balance sheet exposures		481,710	6,828	1,925	17	490,480
Total residential mortgages		**4,878,205**	**362,389**	**78,819**	**4,701**	**5,324,114**

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



All in $000's

20. 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 2019		Implied risk weighted exposure	Aggregate capital charge
End of period capital charges	Interest risk	280,039	22,403
Peak end of day capital charges	Interest risk	280,039	22,403

(f) Risk weighted exposure and total capital requirements

As at 31 March 2019	Total exposure after credit risk mitigation	Risk weighted exposure or Implied RWE	Capital requirement
Total credit risk plus equity	7,957,059	3,315,290	265,223
Operational risk	N/A	481,835	38,547
Implicit risk *	N/A	329,251	26,340
Market risk	N/A	280,039	22,403
Total	**7,957,059**	**4,406,415**	**352,513**

* 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 II is intended to ensure that Banks have adequate capital to support all risks in their business, and includes the requirement on Banks to have an "Internal Capital Adequacy Assessment Process (ICAAP)" for assessing their overall Capital Adequacy in relation to risk profile and a strategy for maintaining adequate capital to support risk. The Bank's ICAAP has identified other areas of risk not covered by Pillar I (credit risk, market risk, and operational risk) and assigned a level of capital to them. These risks include but are not limited to strategic risk, reputational risk, environmental risk, liquidity risk, 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 $62m (2018: $171m) to cover these identified risks.

(h) Credit Risk Mitigation

The Bank determines whether it requires security to mitigate credit risk associated with the loans and investments that it makes in the course of its business.

The Bank's loan portfolio comprises predominantly of residential mortgages (83%) which are secured by first-ranking registered mortgages over residential property. As at 31 March 2019, $105m of these loans are underwritten by Housing New Zealand Corporation, a Statutory Crown Corporation, as part of its Welcome Home Loan programme.

Other lending, in the form of overdrafts and credit cards, is unsecured.

As at 31 Mar 2019, the Bank has total securities of $1.8 billion for the liquidity management purpose. These securities have been issued by the New Zealand Government and other Crown entities, domestic banks, multilateral development banks, supranational organisations and domestic corporate entities on the basis of their high financial standing and credit ratings. The Bank holds no guarantees or credit derivatives against them.

The Bank does not hold collateral in the form of cash or other securities to mitigate credit risk relating to the derivatives it has entered into for the purpose of interest rate risk management.

Other Disclosures

21. 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. The Bank provides no funding to the entities on whose behalf the insurance products are marketed. External third party insurance companies underwrite these. The Bank markets Fisher Funds KiwiSaver products through the Bank's branch network. Refer to note 23. 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 2019, the TSB Bank PIE Unit Trust had $15.4m (31 March 2018: $19.2m) invested with the Bank.

22. 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.

	2019	2018
Lending commitments:		
Commitments approved to advance less than one year	107,137	107,178
Commitments approved to advance greater than one year *	641,622	628,813
Total lending commitments	**748,759**	**735,991**
Other commitments:		
Rental / lease commitments less than one year	2,472	3,058
Rental / lease commitments greater than one year	8,266	21,000
Capital commitments	3,035	707
Total other commitments	**13,773**	**24,765**
Total commitments	**762,532**	**760,756**

* Includes $10.44m (31 March 2018: $12.56m) 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 2019 that would impact on the financial statements.

All in $000's

Other Disclosures

23. 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 subsidiaries, TSB Capital Limited and TSB Group Investment Limited, hold 66.01% (2018: 75.01%) shareholding of Fisher Funds Management Limited.

		2019			2018		
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	-	73,161	-	-	71,045	-
Deposit balance	10	21,203	-	-	14,269	-	-
Statement of Changes in Equity							
Dividends	13	-	10,000	-	-	20,000	-
Statement of Profit or Loss							
Interest income	2	-	3,103	-	-	2,563	-
Interest expense	2	671	-	-	682	-	-
Commission income		-	-	559	-	-	476

During the reporting period, subvention payments were made to TSB Group Limited of $ 1.377m (2018: $1.122m), TSB Group Capital Limited of $0.164m (2018: $0.104m) and TSB Group Investments Limited of $1.328m (2018: $0.022m)

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.

	2019	2018
Key management compensation:		
Short-term employee benefits	3,937	3,618
Other long-term benefits	(19)	(39)
Termination benefits	881	-
Retirement benefits	-	1,020
Total key management compensation	**4,799**	**4,599**
Loans to directors and key management personnel:		
Balance at beginning of period	2,914	2,952
Net loans / (repaid) during the period	562	(38)
Balance at end of period	**3,476**	**2,914**
Deposits from directors and key management personnel:		
Balance at beginning of period	528	3,201
Net deposits received / (repaid) during the period	297	(2,673)
Balance at end of period	**825**	**528**

24. Subsequent Events

Fitch Ratings announced on 8 May 2019 that the Short-Term Issuer Default Rating (IDR) of TSB Bank Limited has been placed Under Criteria Observation ('UCO') due to a methodology change for Fitch short-term ratings. Whilst there has been no underlying change to TSB financial metrics, due to this change in methodology, Fitch has stated that unless there is an upward revision to existing funding and liquidity scores, TSB Bank Limited's Short-Term IDR will be downgraded by one notch. Fitch has indicated that the UCO is expected to be resolved, and any resulting change of Short-Term IDR will be announced, at the completion of the review process which is to be within six months.

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 2019.

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, "Total capital ratio", "Tier 1 capital ratio", "Common Equity Tier 1 capital ratio" and "Total capital" 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;

   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 October 2018.

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 70%, 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 20% 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 2019:

"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 2019.

Changes in Conditions of Registration

The following changes have been made to the Bank's Conditions of Registration since 31 December 2018 and are effective on and after 1 January 2019 pursuant to section 74(2) of the Reserve Bank of New Zealand Act 1989:

- Condition 9(e) has been added;
- Condition 11 has been modified to reflect the issue date of revised Liquidity Policy (BS13A); 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 5% of the Bank's new mortgage lending to residential property investors can be at LVRs of more than 70% (previously 65%); and
    - No more than 20% (previously 15%) of the Bank's new mortgage lending to owner occupiers can be at LVRs of more than 80%.

There have been no other changes to the Bank's Conditions of Registration.

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 26 to 74:

i. give a true and fair view of the Bank's financial position as at 31 March 2019 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 15, 16, 19 and 21 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 2019;

— 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 risk and regulatory advisory 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.

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. The materiality for the financial statements as a whole was set at $4.15 million determined with reference to a benchmark of the Bank's Profit before tax. We chose the benchmark because, in our view, this is a key measure of the Bank's performance.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholder as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements

The key audit matter

Provision for credit impairment

Refer to Note 16 to the Disclosure Statement.

The collective and specific expected credit loss ("ECL") provision is a key audit matter owing to the financial significance of loans and advances and the high level of judgement and complexity involved in estimating impairment provisions against these loans.

For loans that have been identified as impaired, judgement is involved primarily with estimating the timing and proceeds from the future sale of assets securing the loans.

For loans not currently impaired, judgement is required as the collective impairment provision is forward-looking and involves estimating the likelihood that these loans will default in the future and the amount of loss if they do default.

How the matter was addressed in our audit

Our audit procedures for the specific and collective provision for credit impairment included:

Provisions against specific individual loans (specific provision)

— Testing of lending related controls, including testing the approval of new lending facilities and monitoring of loans in arrears.

— Re-performing the specific impairment provision calculations for a sample of individual loans. We challenged the Bank's assessment of loan recoverability and the impact on the provision. To do this, we reviewed the information on the Bank's loan file including third party valuations, discussed the case with management and performed our own assessment of recoverability;

— Performed credit assessments of a sample of loans, focusing on larger exposures, areas of emerging risk and loans in arrears, to determine whether the loans have been appropriately monitored and provided for if necessary.

Provisions estimated for the loan portfolio as a whole (collective provision)

— Assessing the Bank's methodology used in the Expected Credit Loss (ECL) model to calculate the collective provision against the requirements of NZ IFRS 9: *Financial Instruments* ("NZ IFRS 9") and industry practice;

— Testing the accuracy of key inputs into the ECL model by checking a sample of balances to source systems and historic data (both internal and external data sources);

— Assessing forward-looking economic assumptions and the development of economic scenarios against external economic information and the application into the ECL model;

— Testing the accuracy of the model calculations;

— Assessing the Bank's significant accounting policies and disclosures in the financial statements against the requirements of NZ IFRS 9;

— Benchmarking the Bank's collective provision against other relevant competitor banks.

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 Highlights, Messages from Chair and CEO 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 25, 75 to 79 and 84 to 85. 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 performance report 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 Bank, 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/assurance-standards/auditors-responsibilities/audit-report-2/

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 notes18(d) and 20 to the disclosure statement, is not, in all material respects:

i. prepared in accordance with the Bank's conditions of registration; and

ii. 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 18(d) and 20 of the disclosure statement for the year ended 31 March 2019. 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 TSB Bank Limited, 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 is required to be disclosed under Schedule 9 of the Order and prepared in accordance with the Capital Adequacy Framework (Standardised Approach) (BS2A) and described in notes 18(d) and 20 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 TSB Bank Limited, 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 Regulatory Liquidity Requirements is, in all material respects:

— prepared in accordance with the Bank's conditions of registration; and

— 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 Requirements 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 and on behalf of

KPMG

KPMG
Wellington

28 May 2019

Abbreviations

The following abbreviations are used throughout the report.

AT1	Additional Tier 1
CET1	Common Equity Tier 1
ECL	Expected credit loss
ED	Exposure at default
FVOCI	Fair value through other comprehensive income
FVPL	Fair value through profit or loss
IRR	Interest rate risk
IDR	Issuer default rating
LVR	Loan-to-valuation ratio
LGD	Loss given default
NII	Net Interest Income
NZ IAS	New Zealand equivalent to International Accounting Standards
NZ IFRS	New Zealand equivalents to International Financial Reporting Standards
PD	Probability of default
RBNZ	Reserve Bank of New Zealand
RCD	Registered Certificate of Deposits
SICR	Significant increase in credit risk (SICR)
SPPI	Solely payments of principal and interest on the principal amount outstanding
UCO	Under criteria observation

Directory

TSB

Directors

J.J. (John) Kelly, Chair
M.I. (Murray) Bain, MCom (Hons), BSc, C.F.Inst.D, Deputy Chair
M.A. (Anne) Blackburn, MA, BA
N. (Natalie) Pearce, BCom
P.M. (Peter) Schuyt, BCom, C.F.Inst.D
D.J. (Dion) Tuuta
H.F. (Harvey) Dunlop, BCom (Ag)
P.S. (Peter) Dalziel, MBA

Executive Management

D. (Donna) Cooper, BCom, MA, MIntBus, CEO
R.G. (Roddy) Bennett, BSc, CA, GM Finance
H. (Herman) Visagie, BCom, LLB, Chief of Staff and General Counsel
J.S. (Justine) St John, BCom, GM Marketing
H. (Hamish) Archer, BE (E&E), GM Technology
C. (Chris) Boggs, BCom, MBM, GM People & Culture
M.D. (Marie) Collins, GM Strategy & Innovation
A.T. (Andrew) Downie, BSc (Hons), MBA, Acting GM Customer Solutions and Service

Registered Office

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Principal Solicitors to the Company

Auld Brewer Mazengarb & McEwen
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Auditor

KPMG
10 Customhouse Quay, Wellington

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