



# TSB Bank Limited

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Disclosure Statement

For the six months ended 30 September 2019

# Disclosure Statement

For the six months ended 30 September 2019



## Table of Contents

<b>Name and Registered Office of Registered Bank</b>	3
<b>Disclosure Statement</b>	
Name and Registered office of Registered Bank	3
Corporate Information	3
Ownership	3
Guarantee Arrangements	3
Auditor	3
Conditions of Registration	3
Pending Proceedings or Arbitration	3
Credit Rating	3
Directorate	3
Directors' Statement	4
<b>Statement of Comprehensive Income</b>	5
<b>Statement of Financial Position</b>	6
<b>Statement of Changes in Equity</b>	7
<b>Statement of Cash Flows</b>	8
<b>Notes to the Interim Financial Statements</b>	
1. Statement of Accounting Policies	9
2. Net Interest Income	9
3. Other Operating Income	10
4. Operating Expenses	10
5. Loans and Advances to Customers	10
6. Investment Securities	11
7. Derivative Financial Instruments	11
8. Deposits	12
9. Other Liabilities	12
10. Fair Value of Financial Instruments	13
11. Share Capital, Retained Earnings and Dividend Paid	14
12. Risk Management Policies	15
13. Credit Risk Management and Asset Quality	15
14. Market Risk Management	22
15. Liquidity Risk Management	23
16. Capital Adequacy	24
17. Securitisation, Funds Management, Other Fiduciary Activities and Marketing and Distribution of Insurance Products	29
18. Commitments and Contingent Liabilities	29
19. Related Party Transactions and Balances	30
20. Subsequent Events	30
<b>Independent Review Report</b>	31
<b>Directory</b>	34

# Disclosure Statement

For the six months ended 30 September 2019



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.

## Corporate Information

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

## 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 Group Limited appoints the Board of Directors. Address for Service is 21 Dawson Street, PO Box 667, New Plymouth 4340.

## Guarantee Arrangements

No material obligations of the Bank are guaranteed.

## Auditor

KPMG, 10 Customhouse Quay, Wellington 6011

## Conditions of Registration

No changes have been made to the Bank's Conditions of Registration since the last Disclosure Statement issued for the year ended 31 March 2019.

## 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.

## Credit Rating

As at the signing date of this Disclosure Statement, the Bank's credit rating remains unchanged of A-/Stable/a- since it was assigned by Fitch Ratings on 30 June 2014. This credit rating is applicable to its long term senior unsecured obligations payable in New Zealand, in New Zealand dollars and was affirmed by Fitch Ratings on 7 August 2019.

## Directorate

There have been no changes to the composition of the Board of Directors (the "Board") since the Bank's previous full year Disclosure Statement and Annual Report for the year ended 31 March 2019.

# Disclosure Statement

For the six months ended 30 September 2019



## Director's Statements

The Directors believe, after due enquiry, that, as at the date on which this Disclosure Statement is signed, the Disclosure Statement:

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

Each of the Directors believe, after due enquiry, that over the financial period to 30 September 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) Subject to note 12. Risk Management and note 16. Capital Adequacy, 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 risk and other business risks, and that those systems were being properly applied.

J. J. Kelly  
(Chair – Board of Directors)

29 November 2019

M. I. Bain  
(Deputy - Board of Directors)

29 November 2019

M. A. Blackburn

29 November 2019

N. Pearce

29 November 2019

P. M. Schuyt

29 November 2019

D. J. Tuuta

29 November 2019

P. S. Dalziel

29 November 2019

H. F. Dunlop

29 November 2019

# Statement of Comprehensive Income

For the six months ended 30 September 2019



All in NZD \$000's

	Note	Sep 2019 6 Months Unaudited	Sep 2018 6 Months Unaudited	Mar 2019 12 Months Audited
<b>Profit or loss:</b>				
Interest income		157,310	155,340	312,614
Interest expense		86,840	87,062	174,487
Finance cost on lease liabilities		292	-	104
<b>Net interest income</b>	2	<b>70,178</b>	<b>68,278</b>	<b>138,023</b>
Other operating income	3	11,128	11,811	23,746
<b>Net operating income</b>		<b>81,306</b>	<b>80,089</b>	<b>161,769</b>
Operating expenses	4	44,150	41,884	94,955
<b>Profit before impairment and tax</b>		<b>37,156</b>	<b>38,205</b>	<b>66,814</b>
Credit impairment losses / (reversal of credit impairment losses)	13.(c)	(149)	1,249	4,236
<b>Profit before tax</b>		<b>37,305</b>	<b>36,956</b>	<b>62,578</b>
Tax expense		10,465	10,052	17,539
<b>Net profit after tax</b>		<b>26,840</b>	<b>26,904</b>	<b>45,039</b>
<b>Other comprehensive income:</b>				
Movements in the fair value of debt instruments		7,458	(533)	6,487
Movement in effective portion of changes in fair value of cash flow hedges		1,270	438	1,549
Income tax on items that may be reclassified to profit or loss		(2,444)	27	(2,250)
<b>Other comprehensive income for the period (net of tax)</b>		<b>6,284</b>	<b>(68)</b>	<b>5,786</b>
<b>Total comprehensive income for the period</b>		<b>33,124</b>	<b>26,836</b>	<b>50,825</b>

Total comprehensive income for the six months is attributable to shareholder.

From 1 April 2019, the Bank has adopted and applied NZ IFRS 16 in the preparation of the Statement of Comprehensive Income. 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 9 - 30.

# Statement of Financial Position

As at 30 September 2019

All in NZD \$000's



	Note	Sep 2019 6 Months Unaudited	Sep 2018 6 Months Unaudited	Mar 2019 12 Months Audited
<b>Assets</b>				
Cash and cash equivalents		119,117	113,839	149,065
Derivative financial instruments	7	11,662	2,145	6,519
Investment securities	6	1,717,694	1,819,448	1,827,810
Loans and advances to customers	5	6,176,931	5,553,065	5,792,049
Property, plant and equipment		33,368	21,146	28,072
Intangible assets		12,790	7,463	9,010
Deferred tax asset		929	5,991	4,319
Other assets		2,463	3,541	2,201
<b>Total assets</b>		<b>8,074,954</b>	<b>7,526,638</b>	<b>7,819,045</b>
<b>Liabilities</b>				
Deposits	8	7,323,424	6,842,121	7,093,017
Derivative financial instruments	7	15,170	9,596	12,117
Current tax liability		2,644	4,132	6,423
Other liabilities	9	49,967	34,153	54,363
<b>Total liabilities</b>		<b>7,391,205</b>	<b>6,890,002</b>	<b>7,165,920</b>
<b>Shareholder's Equity</b>				
Share capital	11	10,000	10,000	10,000
Fair value reserve		18,587	8,163	13,217
Cash flow hedge reserve		(1,258)	(2,972)	(2,172)
Retained earnings		656,420	621,445	632,080
<b>Total shareholder's equity</b>		<b>683,749</b>	<b>636,636</b>	<b>653,125</b>
<b>Total liabilities and shareholder's equity</b>		<b>8,074,954</b>	<b>7,526,638</b>	<b>7,819,045</b>
Total interest earning and discount bearing assets		7,966,010	7,447,056	7,725,277
Total interest and discount bearing liabilities		6,903,228	6,467,609	6,711,111

From 1 April 2019, the Bank has adopted and applied NZ IFRS 16 in the preparation of the Statement of Financial Position. Refer to note 1. Statement of Accounting Policies for further information.

For and on behalf of the Board of Directors:

J.J. Kelly  
(Chair - Board of Directors)

Murray Bain  
(Deputy Chair - Board of Directors)

29 November 2019

29 November 2019

These financial statements are to be read in conjunction with the notes on pages 9 - 30.

# Statement of Changes in Equity

For the six months ended 30 September 2019



All in NZD \$000's

For the six months ended September 2019 (unaudited)	Note	Share capital	Fair value reserve	Cash flow hedge reserve	Retained earnings	Total Equity
<b>Balance at 1 April 2019</b>		10,000	13,217	(2,172)	632,080	653,125
<b>Total comprehensive income for the period:</b>						
Net profit after tax		-	-	-	26,840	26,840
Other comprehensive income:						
Movement in effective portion of changes in fair value of cash flow hedges (net of tax)		-	-	1,269	-	1,269
Movement in fair value of investments securities (net of tax)		-	7,458	-	-	7,458
Related tax		-	(2,088)	(355)	-	(2,443)
<b>Total other comprehensive income</b>		-	5,370	914	-	6,284
<b>Total comprehensive income for the period</b>		-	5,370	914	26,840	33,124
Transactions with owner recorded directly in equity:						
Dividends to equity holder	11	-	-	-	(2,500)	(2,500)
<b>Total transactions with owner</b>		-	-	-	(2,500)	(2,500)
<b>Balance at 30 September 2019</b>		10,000	18,587	(1,258)	656,420	683,749
<b>For the six months ended September 2018 (unaudited)</b>						
<b>Balance at 1 April 2018</b>		10,000	8,546	(3,287)	597,756	613,015
Balance adjusted for adoption of NZ IFRS 9		-	-	-	(715)	(715)
<b>Balance at 1 April 2019 (as restated)</b>		10,000	8,546	(3,287)	597,041	612,300
<b>Total comprehensive Income for the period</b>						
Net profit after tax		-	-	-	26,904	26,904
Other comprehensive income:						
Movement in effective portion of changes in fair value of cash flow hedges (net of tax)		-	-	438	-	438
Movement in fair value of investments securities (net of tax)		-	(532)	-	-	(532)
Related tax		-	149	(123)	-	26
<b>Total other comprehensive income</b>		-	(383)	315	-	(68)
<b>Total comprehensive income for the period</b>		-	(383)	315	26,904	26,836
Transactions with owner recorded directly in equity:						
Dividends to equity holder	11	-	-	-	(2,500)	(2,500)
<b>Total transactions with owner</b>		-	-	-	(2,500)	(2,500)
<b>Balance at 30 September 2018</b>		10,000	8,163	(2,972)	621,445	636,636
<b>For the year ended March 2019 (audited)</b>						
<b>Balance at 1 April 2018</b>		10,000	8,546	(3,287)	597,756	613,015
Balance adjusted for adoption of NZ IFRS 9		-	-	-	(715)	(715)
<b>Adjusted balance at 1 April 2018</b>		10,000	8,546	(3,287)	597,041	612,300
<b>Total comprehensive Income for the period</b>						
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)
<b>Total other comprehensive income</b>		-	4,671	1,115	-	5,786
<b>Total comprehensive income for the period</b>		-	4,671	1,115	45,039	50,825
Transactions with owner recorded directly in equity:						
Dividends to equity holder	11	-	-	-	(10,000)	(10,000)
<b>Total transactions with owner</b>		-	-	-	(10,000)	(10,000)
<b>Balance at 31 March 2019</b>		10,000	13,217	(2,172)	632,080	653,125

From 1 April 2019, the Bank has adopted and applied NZ IFRS 16 in the preparation of the Statement of Changes in Equity. 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 9 - 30.

# Statement of Cash Flows

For the six months ended 30 September 2019

All in NZD \$000's



	Sep 2019 6 Months Unaudited	Sep 2018 6 Months Unaudited	Mar 2019 12 Months Audited
<b>Cash Flows from Operating Activities</b>			
Cash provided from (applied to):			
Interest income received	161,131	158,068	314,338
Other income received	10,866	9,676	22,951
Interest paid	(79,342)	(79,095)	(174,970)
Operating expenditure	(38,053)	(47,435)	(82,424)
Taxes and subvention payments	(13,295)	(13,388)	(19,189)
<b>Cash flows from operating profits before changes in operating assets and liabilities</b>	<b>41,307</b>	<b>27,826</b>	<b>60,706</b>
Net changes in operating assets and liabilities:			
Increase in loans and advances to customers	(387,611)	(246,676)	(488,173)
Derivative financial instruments	(821)	532	(211)
Increase in deposits	222,616	93,263	352,609
<b>Cash flows from operating assets and liabilities</b>	<b>(165,816)</b>	<b>(152,881)</b>	<b>(135,775)</b>
<b>Net cash flows from operating activities</b>	<b>(124,509)</b>	<b>(125,055)</b>	<b>(75,069)</b>
<b>Cash Flows from Investing Activities</b>			
Cash provided from (applied to):			
Net (purchase) / maturity of investment securities	116,631	111,482	110,671
Property, plant and equipment purchased	(8,141)	(3,061)	(11,657)
Intangible assets purchased	(5,286)	(306)	(3,097)
<b>Net cash flows from investing activities</b>	<b>103,204</b>	<b>108,115</b>	<b>95,917</b>
<b>Cash Flows from Financing Activities</b>			
Cash provided from (applied to):			
Dividends paid	(7,500)	(7,344)	(9,844)
Lease payments	(1,143)	-	(62)
<b>Net cash flows from financing activities</b>	<b>(8,643)</b>	<b>(7,344)</b>	<b>(9,906)</b>
<b>Net increase in cash and cash equivalents</b>	<b>(29,948)</b>	<b>(24,284)</b>	<b>10,942</b>
Add cash and cash equivalents at beginning of the year	149,065	138,123	138,123
<b>Cash and cash equivalents at end of year</b>	<b>119,117</b>	<b>113,839</b>	<b>149,065</b>
<b>Reconciliation of cash and cash equivalents to the statement of financial position</b>			
Cash and cash at bank	21,334	24,026	22,666
Balances with Reserve Bank	97,783	89,813	126,399
<b>Total cash and cash equivalents at end of Year</b>	<b>119,117</b>	<b>113,839</b>	<b>149,065</b>

Application of NZ IFRS 16 has had an impact on the presentation in the Statement of Cash Flows. The reduction of the lease liability is categorised as a financing activity. The interest expense paid on leases is categorised as an operating activity. 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 9 - 30.



# Notes to the Interim Financial Statements



All in NZD \$000's

## 1. Statement of Accounting Policies

### (i) Basis of preparation

The Financial Statements of the Bank incorporated in this Disclosure Statement have been prepared in accordance with the requirements of NZ IAS 34 Interim Financial Reporting and should be read in conjunction with the 31 March 2019 Annual Report. The Bank's Financial Statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP), as appropriate for profit-oriented entities.

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.

To ensure consistency with the current period, comparative figures have been restated where appropriate except for the impact of adoption of NZ IFRS 9.

### (ii) Changes in accounting policies in the current period

#### Impact of NZ IFRS 16 - classification and measurement

NZ IFRS 16 Leases became effective for TSB from 1 April 2019 and has been applied in the preparation of the financial statements. On adoption of NZ IFRS 16, TSB recognised right-of-use assets and lease liabilities in relation to leases which had previously been classified as operating leases under the principles of NZ IAS 17 Leases. The recognised right-of-use assets and lease liabilities all relate to property leases.

In adopting NZ IFRS 16, TSB has elected to use the simplified retrospective approach. Under this approach, no comparative information is restated. The lease liability is recognised at the present value of the remaining lease payments, discounted using an incremental borrowing rate. The corresponding right-of-use asset is recognised as an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised.

The change in accounting policy affected the following items in the balance sheet on 1 April 2019:

- Property, plant and equipment - increase of \$9.54m
- Other liabilities - increase by \$9.54m

Lease payments previously included in other operating expense as premises occupancy are now classified to financing and amortisation costs under NZ IFRS 16.

## 2. Net Interest Income

	Sep 2019 6 Months Unaudited	Sep 2018 6 Months Unaudited	Mar 2019 12 Months Audited
<b>Interest income</b>			
Cash and cash equivalents	676	803	1,609
Investment securities	22,308	26,431	52,064
Loans and advances to customers <sup>1</sup>	134,326	128,106	258,941
<b>Total interest income</b>	<b>157,310</b>	<b>155,340</b>	<b>312,614</b>
<b>Interest expense</b>			
Deposits from customers <sup>2</sup>	86,116	86,618	173,533
Wholesale deposits	724	444	954
Lease liability	292	-	104
<b>Total interest expense</b>	<b>87,132</b>	<b>87,062</b>	<b>174,591</b>
<b>Net interest income</b>	<b>70,178</b>	<b>68,278</b>	<b>138,023</b>

<sup>1</sup> Includes interest income earned on the commercial loan due from TSB Group Limited (refer to note 19. Related Party Transactions and Balances for further information). Interest earned on impaired assets is \$0.279m (30 September 2018: \$0.120m; 31 March 2019: \$0.245m).

<sup>2</sup> Includes interest expense on deposits from TSB Community Trust. Refer to note 19. Related Party Transactions and Balances for further information.

# Notes to the Interim Financial Statements



All in NZD \$000's

## 3. Other Operating Income

	Sep 2019 6 Months Unaudited	Sep 2018 6 Months Unaudited	Mar 2019 12 Months Audited
Lending and credit facility related income	4,727	4,010	8,329
Commission and other trading income	1,697	1,567	3,127
Cumulative gain transferred from fair value reserve	1,455	1,118	3,510
Gain on derivative financial instruments at fair value	143	86	236
Gain / (loss) on sale of fixed assets	(58)	6	(11)
Other income	3,164	5,024	8,555
<b>Total other operating income</b>	<b>11,128</b>	<b>11,811</b>	<b>23,746</b>

Comparative numbers for the half year ended 30 September 2018 have been reclassified for consistency with the current half year presentation.

## 4. Operating Expenses

	Sep 2019 6 Months Unaudited	Sep 2018 6 Months Unaudited	Mar 2019 12 Months Audited
Fees paid to auditor:			
Audit and review of financial statements <sup>1</sup>	99	74	240
Audit of TSB Realty Trust	5	5	5
Other services <sup>2</sup>	127	43	182
<b>Total fees paid to auditor</b>	<b>231</b>	<b>122</b>	<b>427</b>
Depreciation	2,844	1,565	3,235
Amortisation of intangible assets	1,506	1,142	2,386
Directors' fees	384	332	724
Personnel	20,344	19,356	40,861
Defined contribution plan	796	732	1,543
Information technology	6,294	5,512	12,228
Premises occupancy	1,168	2,342	4,615
Marketing	3,140	4,106	10,704
Debit / Credit card expenses	3,227	2,645	5,571
Other	4,216	4,030	12,661
<b>Total operating expenses</b>	<b>44,150</b>	<b>41,884</b>	<b>94,955</b>

<sup>1</sup> The audit fee includes the audit fees for both the annual audit of the financial statements and the review of the interim financial statements.

<sup>2</sup> Other services relate to risk advisory services.

## 5. Loans and Advances to Customers

	Note	Sep 2019 6 Months Unaudited	Sep 2018 6 Months Unaudited	Mar 2019 12 Months Audited
Residential	16.(d)	5,227,502	4,597,307	4,844,453
Commercial <sup>1</sup>		560,826	552,349	561,980
Community		2,180	3,261	2,382
Agricultural		338,589	323,139	317,281
Personal <sup>2</sup>		55,725	82,006	72,745
Others <sup>3</sup>		20,039	21,290	21,807
<b>Total gross loans and advances to customers</b>		<b>6,204,861</b>	<b>5,579,352</b>	<b>5,820,648</b>
Less provision for doubtful debts	13.(c)	(27,930)	(26,287)	(28,599)
<b>Total loans and advances to customers</b>		<b>6,176,931</b>	<b>5,553,065</b>	<b>5,792,049</b>

<sup>1</sup> Commercial includes a loan to TSB Group Limited (refer to note 19. Related Party Transactions and Balances for more information).

<sup>2</sup> Personal is inclusive of lending through Harmony platform, other retail lending and credit card balances.

<sup>3</sup> Others include lending accruals and deferred acquisition costs.

# Notes to the Interim Financial Statements



All in NZD \$000's

## 6. Investment Securities

	Sep 2019 6 Months Unaudited	Sep 2018 6 Months Unaudited	Mar 2019 12 Months Audited
Local authority securities	157,942	344,782	235,603
Government securities	461,525	373,364	434,233
Registered bank securities	494,530	476,601	509,525
Other investments*	603,697	624,701	648,449
<b>Total investment securities</b>	<b>1,717,694</b>	<b>1,819,448</b>	<b>1,827,810</b>

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

## 7. Derivative Financial Instruments

The Bank has the following derivative financial instruments:

	As At 30 Sep 2019 (unaudited)		
	Notional Amount	Fair Values Assets	Fair Values Liabilities
<b>Interest rate swaps</b>			
Derivatives held as economic hedges	28,600	-	543
Derivatives held as cash flow hedges	743,000	11,662	14,627
<b>Total interest rate swaps</b>	<b>771,600</b>	<b>11,662</b>	<b>15,170</b>
FX forward exchange currency assets	-	-	-
<b>Total derivative financial instruments</b>	<b>771,600</b>	<b>11,662</b>	<b>15,170</b>

	As At 31 Mar 2019		
	Notional Amount	Fair Values Assets	Fair Values Liabilities
<b>Interest rate swaps</b>			
Derivatives held as economic hedges	57,600	-	821
Derivatives held as cash flow hedges	868,000	6,519	11,296
<b>Total interest rate swaps</b>	<b>925,600</b>	<b>6,519</b>	<b>12,117</b>
FX forward exchange currency assets	-	-	-
<b>Total derivative financial instruments</b>	<b>925,600</b>	<b>6,519</b>	<b>12,117</b>

	As At 30 Sep 2018 (unaudited)		
	Notional Amount	Fair Values Assets	Fair Values Liabilities
<b>Interest rate swaps</b>			
Derivatives held as economic hedges	83,657	-	1,027
Derivatives held as cash flow hedges	1,028,000	2,145	8,569
<b>Total interest rate swaps</b>	<b>1,111,657</b>	<b>2,145</b>	<b>9,596</b>
FX forward exchange currency assets	-	-	-
<b>Total derivative financial instruments</b>	<b>1,111,657</b>	<b>2,145</b>	<b>9,596</b>

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

# Notes to the Interim Financial Statements



All in NZD \$000's

## 8. Deposits

	Sep 2019 6 Months Unaudited	Sep 2018 6 Months Unaudited	Mar 2019 12 Months Audited
Retail term deposits	4,004,618	3,727,816	3,899,785
On call deposits bearing interest	2,818,746	2,699,912	2,761,461
On call deposits not bearing interest	420,195	374,512	381,906
Wholesale deposits bearing interest	79,865	39,881	49,865
<b>Total deposits</b>	<b>7,323,424</b>	<b>6,842,121</b>	<b>7,093,017</b>

### Concentrations of funding

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

	Sep 2019 6 Months Unaudited	Sep 2018 6 Months Unaudited	Mar 2019 12 Months Audited
Taranaki	3,233,442	3,069,323	3,165,512
Rest of New Zealand	3,892,284	3,585,528	3,742,767
Outside New Zealand	197,698	187,270	184,738
<b>Total funding by geographic region</b>	<b>7,323,424</b>	<b>6,842,121</b>	<b>7,093,017</b>
Government and public authorities	36,237	11,875	7,268
Finance (wholesale deposits)	79,864	39,881	49,865
Households	7,069,942	6,656,268	6,896,426
Community	49,005	50,233	52,839
Commercial	88,376	83,864	86,619
<b>Total funding by industry sector</b>	<b>7,323,424</b>	<b>6,842,121</b>	<b>7,093,017</b>

## 9. Other Liabilities

	Sep 2019 6 Months Unaudited	Sep 2018 6 Months Unaudited	Mar 2019 12 Months Audited
Employee entitlements	8,843	7,878	9,256
Dividend payable	2,500	2,500	7,500
Trade and other payables	38,237	23,235	36,945
Other non-financial liabilities	387	540	662
<b>Total other liabilities</b>	<b>49,967</b>	<b>34,153</b>	<b>54,363</b>

All creditors and depositors are ranked equally.

All in NZD \$000's

## 10. 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 derivative assets and liabilities and investment securities 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 derivative assets and liabilities and investment securities measured in the Bank's statement of financial position at their fair value, fair value is estimated as follows:

#### *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 reporting date.

#### *Investment securities*

Estimates of fair value for investment securities 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.

# Notes to the Interim Financial Statements



All in NZD \$000's

## 10. Fair Value of Financial Instruments (continued)

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

As At 30 September 2019 (unaudited)	Note	At amortised cost	At FVTOCI	AT FVTPL	Fair value - hedging instruments	Total carrying amount	Fair value
Financial assets:							
Cash and cash equivalents		119,117	-	-	-	119,117	119,117
Derivative financial instruments	7	-	-	-	11,662	11,662	11,662
Investment securities	6	-	1,717,694	-	-	1,717,694	1,717,694
Loans and advances to customers	5	6,176,931	-	-	-	6,176,931	6,159,346
Other assets		2,463	-	-	-	2,463	2,463
<b>Total financial assets</b>		<b>6,298,511</b>	<b>1,717,694</b>	-	<b>11,662</b>	<b>8,027,867</b>	<b>8,010,282</b>
Financial liabilities:							
Deposits	8	7,323,424	-	-	-	7,323,424	7,275,305
Derivative financial instruments	7	-	-	-	15,170	15,170	15,170
Other liabilities		49,580	-	-	-	49,580	49,580
<b>Total financial liabilities</b>		<b>7,373,004</b>	-	-	<b>15,170</b>	<b>7,388,174</b>	<b>7,340,055</b>

### As At 30 September 2018 (unaudited)

Financial assets:							
Cash and cash equivalents		113,839	-	-	-	113,839	113,839
Derivative financial instruments		-	-	-	2,145	2,145	2,145
Investment securities	6	-	1,819,448	-	-	1,819,448	1,819,448
Loans and advances to customers	5	5,553,065	-	-	-	5,553,065	5,546,180
Other assets		3,541	-	-	-	3,541	3,541
<b>Total financial assets</b>		<b>5,670,445</b>	<b>1,819,448</b>	-	<b>2,145</b>	<b>7,492,038</b>	<b>7,485,153</b>
Financial liabilities:							
Deposits	8	6,842,121	-	-	-	6,842,121	6,813,830
Derivative financial instruments		-	-	-	9,596	9,596	9,596
Other liabilities		37,745	-	-	-	37,745	37,745
<b>Total financial liabilities</b>		<b>6,879,866</b>	-	-	<b>9,596</b>	<b>6,889,462</b>	<b>6,861,171</b>

### As At 31 March 2019 (audited)

Financial assets:							
Cash and cash equivalents		149,065	-	-	-	149,065	149,065
Derivative financial instruments		-	-	-	6,519	6,519	6,519
Investment securities	6	-	1,827,810	-	-	1,827,810	1,827,810
Loans and advances to customers	5	5,792,049	-	-	-	5,792,049	5,785,906
Other assets		2,201	-	-	-	2,201	2,201
<b>Total financial assets</b>		<b>5,943,315</b>	<b>1,827,810</b>	-	<b>6,519</b>	<b>7,777,644</b>	<b>7,771,501</b>
Financial liabilities:							
Deposits	8	7,093,017	-	-	-	7,093,017	7,054,997
Derivative financial instruments		-	-	-	12,117	12,117	12,117
Other liabilities		53,701	-	-	-	53,701	53,701
<b>Total financial liabilities</b>		<b>7,146,718</b>	-	-	<b>12,117</b>	<b>7,158,835</b>	<b>7,120,815</b>

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.

#### Abbreviations used

FVTOCI: Fair value through other comprehensive income

FVTPL: Fair value through profit or loss

# Notes to the Interim Financial Statements



All in NZD \$000's

## 11. 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.

	Sep 2019 6 Months Unaudited	Sep 2018 6 Months Unaudited	Mar 2019 12 Months Audited
<b>Share capital:</b>			
Issued and fully paid up capital:			
20,000,000 ordinary shares	10,000	10,000	10,000
<b>Total share capital</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>

	Sep 2019 6 Months Unaudited	Sep 2018 6 Months Unaudited	Mar 2019 12 Months Audited
<b>Retained earnings:</b>			
Opening balance	632,080	597,756	597,756
Balance adjusted for adoption of NZ IFRS 9	-	(715)	(715)
Net profit after taxation (NPAT)	26,840	26,904	45,039
Retained earnings after NPAT	658,920	623,945	642,080
Dividends	(2,500)	(2,500)	(10,000)
<b>Retained earnings at end of period</b>	<b>656,420</b>	<b>621,445</b>	<b>632,080</b>

	30 Sep 2019 Unaudited		30 Sep 2018 Unaudited		31 Mar 2019 Audited	
Dividend	\$000	\$ per share	\$000	\$ per share	\$000	\$ per share
Interim	2,500	0.125	2,500	0.125	2,500	0.125
Final	-	-	-	-	7,500	0.375
<b>Total</b>	<b>2,500</b>	<b>0.125</b>	<b>2,500</b>	<b>0.125</b>	<b>10,000</b>	<b>0.500</b>

# Notes to the Interim Financial Statements



All in NZD \$000's

## 12. Risk Management

The Board of Directors has overall responsibility for ensuring that management establishes a framework for assessing the various risks and sets up a method for monitoring compliance with internal risk management policies. 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.

Whilst there have been no material changes to the risk management policies, or material exposures to any new types of risk since publication of the previous Disclosure Statement, the Bank has identified a need for improved risk management policies and processes, including the control environment, monitoring, and assurance around material risks. The Bank is committed to taking appropriate steps to mature the risk environment as soon as practicable.

During the six months to 30 September 2019, reviews of the Bank's Anti-Money Laundering and Countering Financing of Terrorism Programme identified areas requiring improvement. Accordingly, a dedicated programme of work was established to commence remediation of these areas.

## 13. Credit Risk Management and Asset Quality

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 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 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.

The Bank has following groups of financial assets that are subject to impairment requirements of NZ IFRS 9.

Types of financial assets	Measured at	Estimated gross carrying amount at reporting date
Cash and cash equivalent	amortised cost	119,117
Investment securities	FVTOCI	1,717,694
Loans and advances to customers	amortised cost	6,176,931
Other assets	amortised cost	2,463

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 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 macroeconomic 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.



# Notes to the Interim Financial Statements



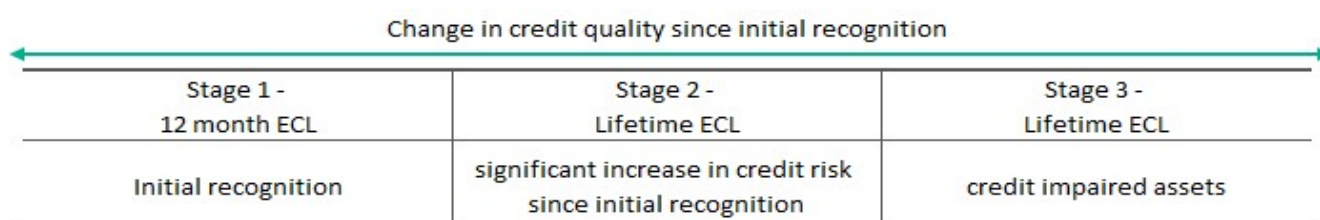
All in NZD \$000's

## 13. Credit Risk Management and Asset Quality (continued)

### 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.

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



### Significant increase in credit risk

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:

### Qualitative 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:

Category	Basis	Description	Recognition of interest revenue
Stage 1 - 12month 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 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 a increase in the risk of a default occurring on the asset as at the reporting date.	Effective interest rate 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 to the amortised cost (net of collective provision)
Impaired	Specific (individual)	Loans and advances are deemed 'impaired' when the Bank exhausted all options to rehabilitate a mortgage debt and expects to incur a loss. Impaired assets are specifically provided for on an individual basis.	Effective interest rate to 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.	None

### Significant estimates and judgements

The provision for doubtful debts 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.

## Notes to the Interim Financial Statements



All in NZD \$000's

### 13. Credit Risk Management and Asset Quality (continued)

#### (a) Expected credit loss rate

As at 30 September 2019 (unaudited)	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Specific Lifetime ECL	Total
Residential mortgage loans (Gross)	5,191,047	23,536	7,342	5,577	5,227,502
Residential mortgage loans (net of provision)	5,176,845	23,259	6,698	4,159	5,210,961
Expected credit loss rate	0.3%	1.2%	8.8%	25.4%	0.3%
Commercial mortgage loans (Gross)	556,700	6,306	-	-	563,006
Commercial mortgage loans (net of provision)	552,668	6,170	-	-	558,838
Expected credit loss rate	0.7%	2.2%	0.0%	0.0%	0.7%
Agricultural exposures (Gross)	298,790	35,418	1,115	3,266	338,589
Agricultural exposures (net of provision)	297,098	34,862	665	3,166	335,791
Expected credit loss rate	0.6%	1.6%	40.4%	3.1%	0.8%
Other exposures (Gross)	72,491	2,061	1,213	-	75,764
Other (net of provision)	69,515	1,740	86	-	71,341
Expected credit loss rate	4.1%	15.6%	92.9%	0.0%	5.8%

#### (b) Provision for doubtful debts

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

	Stage 1 collective provision 12 month ECL	Stage 2 collective provision Lifetime ECL	Stage 3 collective provision Lifetime ECL	Specific provision Lifetime ECL	Total provision
<b>Movements in provisions for doubtful debts</b>					
Opening provision balance	21,075	2,290	4,829	405	28,599
Transfers with no impact on profit or loss:					
Transferred to Stage 1	147	(28)	(119)	-	-
Transferred to Stage 2	(104)	1,702	(1,598)	-	-
Transferred to Stage 3	-	-	-	-	-
Charged / (credited) to profit or loss	1,764	(2,687)	(921)	1,106	(738)
Amounts written off	18	14	30	7	69
Recovery	-	-	-	-	-
<b>Closing provision balance (unaudited)</b>	<b>22,900</b>	<b>1,291</b>	<b>2,221</b>	<b>1,518</b>	<b>27,930</b>

## Notes to the Interim Financial Statements



All in NZD \$000's

### 13. Credit Risk Management and Asset Quality (continued)

#### (c) Movement in balances of credit impairment allowances

<b>As at 30 September 2019 (unaudited)</b>	<b>Residential mortgage loans</b>	<b>Commercial exposures</b>	<b>Agricultural exposures</b>	<b>Other exposures</b>	<b>Total Credit exposures</b>
<b>Specific provision for doubtful debts</b>					
Balance at beginning of period	305	-	100	-	405
Add new provisions	1,124	-	-	-	1,124
Current year amounts written off	(11)	-	-	-	(11)
<b>Specific provision balance at end of period</b>	<b>1,418</b>	<b>-</b>	<b>100</b>	<b>-</b>	<b>1,518</b>
<b>Collective provision for doubtful debts</b>					
Balance at beginning of period	10,514	3,960	4,445	9,275	28,194
Recognised in profit or loss	4,608	208	(1,746)	(4,852)	(1,782)
<b>Collective provision balance at end of period</b>	<b>15,123</b>	<b>4,168</b>	<b>2,699</b>	<b>4,423</b>	<b>26,412</b>
<b>Total provision for impairment loss</b>	<b>16,541</b>	<b>4,168</b>	<b>2,799</b>	<b>4,423</b>	<b>27,930</b>

#### Impairment losses recognised in profit or loss

	<b>Sep 2019 6 Months Unaudited</b>	<b>Sep 2018 6 Months Unaudited</b>	<b>Mar 2019 12 Months Audited</b>
Individual impairment expenses	520	1,012	1,687
Movement in specific provision	1,113	(125)	100
Movement in collective provision	(1,782)	362	2,449
<b>Impairment losses – loans and advances</b>	<b>(149)</b>	<b>1,249</b>	<b>4,236</b>

The estimated fair value of collateral and other charges related to financial assets that are individually impaired is \$9.549m (30 September 2018: \$3.935m; 31 March 2019: \$4.018m).

#### (d) 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.

## Notes to the Interim Financial Statements



All in NZD \$000's

### 13. Credit Risk Management and Asset Quality (continued)

#### (e) Credit quality information

The majority of the Bank's provisions for impairment are made on a collective basis. The lending portfolio is predominantly residential mortgages secured by a first mortgage over freehold dwellings. For overdrafts and credit card balances, some are unsecured as well as secured by obligation mortgages, which cover all undertakings with the Bank.

The table below shows the credit quality information for loans and advances to customers.

As at 30 September 2019 (unaudited)	Note	Residential mortgage loans	Commercial exposures	Agricultural exposures	Other exposures	Total credit exposures
<b>Neither past due or impaired</b>		<b>5,157,348</b>	<b>559,614</b>	<b>334,201</b>	<b>73,124</b>	<b>6,124,287</b>
<b>Past due assets not impaired:</b>						
Less than 30 days		52,244	245	-	1,573	54,062
30 to 59 days		6,320	967	-	1,288	8,575
60 to 89 days		4,131	-	-	747	4,878
90 days and over		1,883	-	1,121	1,212	4,216
<b>Balance of past due but not impaired assets at end of period</b>		<b>64,578</b>	<b>1,212</b>	<b>1,121</b>	<b>4,820</b>	<b>71,731</b>
<b>Movements in individually impaired assets:</b>						
Balance at beginning of period		482	-	3,332	-	3,814
Additions		7,040	-	-	-	7,040
Amounts written off / loans closed out		(4)	-	-	-	(4)
Transfer back to loans and advances to customers		(1,942)	-	(65)	-	(2,007)
<b>Balance of impaired assets at end of period</b>		<b>5,576</b>	<b>-</b>	<b>3,267</b>	<b>-</b>	<b>8,843</b>
<b>Total gross loans and advances to customers</b>	5	<b>5,227,502</b>	<b>560,826</b>	<b>338,589</b>	<b>77,944</b>	<b>6,204,861</b>
<b>Less provision for doubtful debts</b>	13.(c)	<b>16,541</b>	<b>4,168</b>	<b>2,799</b>	<b>4,423</b>	<b>27,930</b>
<b>Total loans and advances to customers</b>		<b>5,210,961</b>	<b>556,658</b>	<b>335,790</b>	<b>73,521</b>	<b>6,176,931</b>

#### Undrawn balances on lending commitments to counterparties

Undrawn balances on lending commitments to counterparties for whom drawn balances are classified as individually impaired total \$13k at reporting date (30 September 2018: \$9k; 31 March 2019: \$1k).

#### Restructured asset

At 30 September 2019, the Bank had lending restructured assets of \$518k (30 September 2018: \$nil; 31 March 2019: \$532k).

#### 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 (30 September 2018: \$nil; 31 March 2019: \$nil).

#### (f) Concentrations of credit exposures

Concentrations of credit exposures arise where the Bank is exposed to risk in activities or industries of a similar nature. Credit exposure is calculated on the basis of selected items on and off-balance sheet.

(i) On and off- balance sheet	Note	Sep 2019 6 Months Unaudited	Sep 2018 6 Months Unaudited	Mar 2019 12 Months Audited
On balance sheet:				
Cash and cash equivalents		119,117	113,839	149,065
Investment securities	6	1,717,694	1,819,448	1,827,810
Loans and advances to customers	5	6,176,931	5,553,065	5,792,049
Off balance sheet:				
Lending commitments	18	785,992	730,198	748,759
<b>Total Credit Exposures</b>		<b>8,799,734</b>	<b>8,216,550</b>	<b>8,517,683</b>

# Notes to the Interim Financial Statements



All in NZD \$000's

## 13. Credit Risk Management and Asset Quality (continued)

### (f) Concentrations of credit exposures (continued)

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 30 September 2019 (unaudited)	Note	Cash and cash equivalent	Investment securities	Loans and advances to customers	off-balance sheet	Total credit exposure
New Zealand total		119,117	1,242,482	6,204,861	785,992	8,352,452
Outside New Zealand		-	475,212	-	-	475,212
Provision for impairment	13.(c)	-	-	(27,930)	-	(27,930)
<b>Total credit exposure</b>		<b>119,117</b>	<b>1,717,694</b>	<b>6,176,931</b>	<b>785,992</b>	<b>8,799,734</b>

#### As at 30 September 2018 (unaudited)

New Zealand total	113,839	1,428,100	5,579,352	730,198	7,851,489
Outside New Zealand	-	391,348	-	-	391,348
Provision for impairment	-	-	(26,287)	-	(26,287)
<b>Total credit exposure</b>	<b>113,839</b>	<b>1,819,448</b>	<b>5,553,065</b>	<b>730,198</b>	<b>8,216,550</b>

#### As at 31 March 2019 (audited)

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	-	-	(28,599)	-	(28,599)
<b>Total credit exposure</b>	<b>149,065</b>	<b>1,827,810</b>	<b>5,792,049</b>	<b>748,759</b>	<b>8,517,683</b>

#### (iii) Concentration of credit exposure by industry sector

	Note	Sep 2019 6 Months Unaudited	Sep 2018 6 Months Unaudited	Mar 2019 12 Months Audited
Cash on hand		21,334	24,026	22,666
Local government lending and investments		292,891	394,782	366,590
New Zealand registered banks		494,530	476,601	509,525
Multilateral development banks and other international institutions		354,746	329,574	321,404
Other financial institutions		75,723	58,634	38,921
Sovereigns and Central Bank		559,308	463,177	560,632
Food product and beverages		-	18,677	18,484
Utilities		102,624	157,503	140,786
Transport, postal and warehousing		4,092	32,198	31,983
Information media and telecommunications		-	28,115	30,291
Agricultural lending		350,216	339,367	338,343
Residential lending		5,729,108	5,075,702	5,334,932
Personal and other lending		198,580	217,834	217,190
Community lending		4,985	5,856	5,131
Commercial lending		639,528	620,791	609,404
Provision for impairment loss	13.(c)	(27,930)	(26,287)	(28,599)
<b>Total credit exposure</b>		<b>8,799,735</b>	<b>8,216,550</b>	<b>8,517,683</b>

# Notes to the Interim Financial Statements



All in NZD \$000's

## 13. Credit Risk Management and Asset Quality (continued)

### (g) Concentration of credit exposures to individual counterparties

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

% of Shareholder's equity	Six months ended 30 September 2019 (unaudited)							
	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	-	-	-	-
16% - 20%	1	-	-	1	1	-	-	1
<b>Total</b>	<b>4</b>	<b>-</b>	<b>-</b>	<b>4</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>1</b>
Peak exposure								
11% - 15%	2	-	-	2	1	-	-	1
16% - 20%	2	-	-	2	1	-	-	1
21% - 25%	-	-	-	-	-	-	-	-
<b>Total</b>	<b>4</b>	<b>-</b>	<b>-</b>	<b>4</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>2</b>

% of Shareholder's equity	Six month ended 30 September 2018 (unaudited)							
	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%	1	-	-	1	1	-	-	1
16% - 20%	2	-	-	2	-	-	-	-
<b>Total</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>3</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>1</b>
Peak exposure								
11% - 15%	1	-	-	1	2	-	-	2
16% - 20%	2	-	-	2	-	-	-	-
21% - 25%	-	-	-	-	-	-	-	-
26% - 30%	-	-	-	-	-	-	-	-
<b>Total</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>3</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>2</b>

% of Shareholder's equity	Year ended 31 March 2019 (audited)							
	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	-	-	-	-
<b>Total</b>	<b>4</b>	<b>-</b>	<b>-</b>	<b>4</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>1</b>
Peak exposure								
11% - 15%	2	-	-	2	3	-	-	3
16% - 20%	2	-	-	2	1	-	-	1
21% - 25%	-	-	-	-	-	-	-	-
<b>Total</b>	<b>4</b>	<b>-</b>	<b>-</b>	<b>4</b>	<b>4</b>	<b>-</b>	<b>-</b>	<b>4</b>

"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.

## Notes to the Interim Financial Statements



All in NZD \$000's

### 13. Credit Risk Management and Asset Quality (continued)

#### (h) 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 is as set out in note 18. Commitments and Contingent Liabilities represent the Bank's maximum exposure to credit risk for on and off-balance sheet financial instruments.

### 14. Market Risk Management

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

#### (a) Interest rate repricing schedule

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

As at 30 September 2019 (unaudited)	0-3 Months	3-6 Months	6-12 Months	1-2 Years	Over 2 Years	Non-Interest sensitive	Total
<b>Assets</b>							
Cash and cash equivalents	97,783	-	-	-	-	21,334	119,117
Investment securities	823,717	112,082	195,147	153,950	390,150	42,648	1,717,694
Loans and advances to customers	1,851,518	647,644	1,128,195	1,969,595	586,870	(6,891)	6,176,931
Other financial assets <sup>1</sup>	-	-	-	-	-	14,125	14,125
<b>Total financial assets</b>	<b>2,773,018</b>	<b>759,726</b>	<b>1,323,342</b>	<b>2,123,545</b>	<b>977,020</b>	<b>71,216</b>	<b>8,027,867</b>
<b>Liabilities</b>							
Deposits	4,100,888	1,002,349	1,043,958	504,676	251,358	420,195	7,323,424
Other financial liabilities <sup>2</sup>	-	-	-	-	-	64,750	64,750
<b>Total financial liabilities</b>	<b>4,100,888</b>	<b>1,002,349</b>	<b>1,043,958</b>	<b>504,676</b>	<b>251,358</b>	<b>484,945</b>	<b>7,388,174</b>
<b>Lending commitments</b>	<b>785,992</b>	-	-	-	-	-	<b>785,992</b>
<b>Derivative notional principals (net)</b>	<b>592,305</b>	<b>(124,305)</b>	<b>(195,000)</b>	<b>(400,000)</b>	<b>127,000</b>	-	-
<b>Interest sensitivity gap</b>	<b>50,427</b>	<b>(366,928)</b>	<b>84,384</b>	<b>1,218,869</b>	<b>852,662</b>	<b>(413,729)</b>	<b>1,425,685</b>

<sup>1</sup> Other financial assets include receivables and derivative financial instruments.

<sup>2</sup> Other financial liabilities include accounts payable, provision for dividend, and derivative financial instruments.

## Notes to the Interim Financial Statements



All in NZD \$000's

### 14. 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)		
	Sep 2019 Unaudited	Sep 2018 Unaudited	Mar 2019 Audited
-2.0%	2.2	(3.3)	5.3
-1.0%	2.0	(1.9)	2.6
1.0%	(3.0)	0.9	(3.6)
2.0%	(6.4)	1.8	(7.5)

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

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

#### Economic value of shareholder's equity (EVE)

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

Scenarios	Change in EVE (\$m)		
	Sep 2019 Unaudited	Sep 2018 Unaudited	Mar 2019 Audited
-2.0%	21.4	22.1	29.8
-1.0%	17.5	10.5	15.3
1.0%	(18.1)	(12.4)	(17.2)
2.0%	(35.7)	(24.8)	(34.7)

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.

### 15. Liquidity 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.

	Sep 2019 6 Months Unaudited	Sep 2018 6 Months Unaudited	Mar 2019 12 Months Audited
<b>Cash and cash equivalents</b>	<b>119,117</b>	<b>113,839</b>	<b>149,065</b>
<i>Liquid investment securities:</i>			
Local authority securities	157,942	344,085	235,602
Government securities	461,525	373,364	434,233
Registered bank securities	494,530	476,601	509,525
Registered bank term investments	-	-	-
Other investments	603,697	413,610	489,002
<b>Total investment securities</b>	<b>1,717,694</b>	<b>1,607,660</b>	<b>1,668,362</b>
<b>Total core liquid assets</b>	<b>1,836,811</b>	<b>1,721,499</b>	<b>1,817,427</b>



# Notes to the Interim Financial Statements



All in NZD \$000's

## 15. Liquidity 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 30 September 2019 (unaudited)	On demand	0-1 Months	1-3 Months	3-12 Months	1-5 Year	Over 5 Years	Total
<b>Liabilities:</b>							
Deposits	3,318,805	579,802	805,704	1,955,065	785,278	-	7,444,654
Other financial liabilities*	-	37,748	14,332	3,759	8,109	802	64,750
<b>Total financial liabilities</b>	<b>3,318,805</b>	<b>617,550</b>	<b>820,036</b>	<b>1,958,824</b>	<b>793,387</b>	<b>802</b>	<b>7,509,404</b>
<b>Lending commitments (off-balance sheet)</b>	<b>785,992</b>	-	-	-	-	-	<b>785,992</b>

\* Other financial liabilities include accounts payable, provision for dividend and derivative financial instruments.

### (c) Regulatory liquidity ratios

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

	Three month period ending on 30 September 2019 Unaudited	Three month period ending on 30 June 2019 Unaudited
One-week mismatch ratio	11.8%	12.3%
One-month mismatch ratio	19.2%	20.7%
Core funding ratio	118.9%	122.0%

## 16. 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 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.

In November 2019, the Bank identified that it had incorrectly applied "Capital Adequacy Framework (Standardised Approach (BS2A))" when calculating its risk weighted assets and regulatory capital. The incorrect application of BS2A did not result in non-compliance with condition of registration 1 after 31 December 2018, as a new version of that condition took effect from 1 January 2019. The details of the incorrect application are as follows:

1. The Bank used loan-to-value ratios calculated at origination, as opposed to recalculating them for each reporting period.
2. The Bank also identified several credit data classification discrepancies.

Due to the size and complexity involved in implementing fixes for the identified issues, calculations are yet to be reperformed. It is anticipated the impact of these corrections will result in an increase to the Bank's minimum capital requirement of up to \$6 million. The Bank currently holds \$304 million of capital in excess of the minimum capital requirement. The impact equates to a reduction in the Banks regulatory capital ratios of up to 25 basis points.

A project has been established to resolve these issues and the Bank expects to be able to provide updated numbers using the revised methodology in 2020.

The Capital Adequacy tables set out on the following pages summarise the composition of regulatory capital and the Capital Adequacy ratios for the Bank for the period ended 30 September 2019.

## Notes to the Interim Financial Statements



All in NZD \$000's

### 16. Capital Adequacy (continued)

#### (a) Capital Adequacy Ratios

	RBNZ Minimum ratio requirement	2019 30 Sep Unaudited Basel III	2018 30 Sep Unaudited Basel III	2019 31 Mar Unaudited Basel III
Common Equity Tier 1 capital ratio	4.50%	14.60%	14.50%	14.57%
Tier 1 capital ratio	6.00%	14.60%	14.50%	14.57%
Total capital ratio	8.00%	14.60%	14.50%	14.57%
Buffer ratio	2.50%	6.60%	6.50%	6.57%

#### (b) Regulatory Capital

	Sep 2019 6 Months Unaudited	Sep 2018 6 Months Unaudited	Mar 2019 12 Months Audited
<b>Tier 1 capital</b>			
<b>Common Equity Tier 1 ("CET1") capital</b>			
Issued and fully paid up share capital	10,000	10,000	10,000
Retained earnings previously reported	632,080	597,756	597,756
Balance adjusted for adoption of NZ IFRS 9	-	(715)	(715)
Current period's retained earnings	24,340	24,404	35,039
Fair value reserve	18,587	8,163	13,217
Cash flow hedge reserve	(1,258)	(2,972)	(2,172)
	<b>683,749</b>	<b>636,636</b>	<b>653,125</b>
<b>Less Deductions from CET1 Capital</b>			
Intangible assets	12,790	7,463	9,010
Cash flow hedge reserve	(1,258)	(2,972)	(2,172)
Deferred tax assets	929	5,991	4,319
	<b>12,461</b>	<b>10,482</b>	<b>11,157</b>
<b>Total CET 1 capital</b>	<b>671,288</b>	<b>626,154</b>	<b>641,968</b>
Additional Tier 1 ("AT1") Capital	-	-	-
<b>Total Tier 1 capital</b>	<b>671,288</b>	<b>626,154</b>	<b>641,968</b>
Tier 2 capital	-	-	-
<b>Total capital</b>	<b>671,288</b>	<b>626,154</b>	<b>641,968</b>

# Notes to the Interim Financial Statements



All in NZD \$000's

## 16. Capital Adequacy (continued)

### (c) Credit risk

#### (i) On-balance sheet exposures

As at 30 September 2019 (unaudited)	Risk weighting	Total exposure	Risk weighted exposure	Minimum Pillar one capital requirement
Cash	0%	6,201	-	-
Sovereigns & RBNZ	0%	559,308	-	-
Multilateral development banks	0%	333,836	-	-
Multilateral development banks	20%	20,910	4,182	335
Public sector entities	20%	159,280	31,856	2,548
Banks	20%	172,810	34,562	2,765
Banks	50%	336,853	168,427	13,474
Corporate	20%	174,824	34,965	2,797
Corporate	50%	4,092	2,046	164
Corporate	100%	962,189	962,189	76,975
Residential mortgages not past due:				
Non-property investment <80% LVR *	35%	3,464,685	1,212,640	97,011
Non-property investment 80%<90% LVR *	50%	337,698	168,849	13,508
Non-property investment 90%<100% LVR *	75%	44,023	33,017	2,641
Non-property investment >100% LVR *	100%	1,019	1,019	82
Property investment <80% LVR *	40%	1,245,855	498,341	39,867
Property investment 80%<90% LVR *	70%	10,390	7,273	582
Property investment 90%<100% LVR *	90%	948	853	68
Property investment >100% LVR *	100%	531	531	42
Welcome home <80% LVR *	35%	2,753	964	77
Welcome home 80%<90% LVR *	35%	51,266	17,943	1,435
Welcome home 90%<100% LVR *	50%	35,133	17,567	1,405
Welcome home >100% LVR *	100%	3,008	3,008	241
Reverse mortgages <60% LVR *	50%	8,927	4,464	357
Reverse mortgages 60%<80% LVR *	80%	125	100	8
Reverse mortgages >80% LVR *	100%	11	11	1
Past due residential mortgages *	100%	4,589	4,589	367
Other past due assets	100%	86	86	7
Other past due assets	150%	1,099	1,649	132
Other lending	100%	71,293	71,293	5,703
Other assets	100%	47,493	47,493	3,800
Non-risk weighted assets	0%	13,719	-	-
<b>Total on-balance sheet exposures</b>		<b>8,074,954</b>	<b>3,329,917</b>	<b>266,392</b>

\* Total exposure of residential mortgages is \$5,210,961.

#### (ii) Off-balance sheet exposures

As at 30 September 2019 (unaudited)	Total exposure	Credit conversion factor	Credit equivalent amount	Average risk weight	Risk weighted exposure	Minimum Pillar one capital requirement
Commitments that can be cancelled unconditionally	647,586	0%	-	N/A	-	-
Commitment with certain drawdown	135,290	100%	135,291	43%	57,705	4,616
Performance related contingency	3,117	50%	1,558	100%	1,558	125
Market related contracts:						
Foreign exchange contracts	-	Various	-	50%	-	-
interest rate contracts*	946,600	Various	15,357	34%	5,224	418
Credit valuation adjustment (CVA)	-		-	-	4,806	384
<b>Total off-balance sheet exposures</b>	<b>1,732,593</b>		<b>152,206</b>		<b>69,293</b>	<b>5,543</b>

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

All in NZD \$000's

**16. Capital Adequacy (continued)****(d) Residential mortgages by loan-to-valuation (LVR) ratio**

As at 30 September 2019 (unaudited)	Note	0%-80%	80% - 90%	90% - 100%	> 100%	Total
<b>On-balance sheet exposures</b>		4,736,881	400,633	80,325	4,573	5,222,412
Past due and impaired		4,957	-	133	-	5,090
<b>Total value of on-balance sheet exposures</b>	5,13	<b>4,741,838</b>	<b>400,633</b>	<b>80,458</b>	<b>4,573</b>	<b>5,227,502</b>
Less provisions:						
Collective		13,796	1,091	221	14	15,123
Specific		1,248	170	-	-	1,418
<b>Total residential mortgages</b>		<b>4,726,794</b>	<b>399,372</b>	<b>80,237</b>	<b>4,559</b>	<b>5,210,961</b>
Off-balance sheet exposures		502,825	8,465	3,860	75	515,225
<b>Total residential mortgages</b>		<b>5,229,619</b>	<b>407,837</b>	<b>84,097</b>	<b>4,634</b>	<b>5,726,186</b>

**(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 30 September 2019 (unaudited)		Implied risk weighted exposure	Aggregate capital charge	Aggregate capital charge as % of Bank's equity	Banks equity
End of period capital charges	Interest risk	321,689	25,735	3.83%	671,288
Peak end of day capital charges	Interest risk	332,632	26,611	3.96%	671,288

**(f) Risk weighted exposure and total capital requirements**

As at 30 September 2019 (unaudited)	Total Exposure after credit risk mitigation	Risk weighted exposure or Implied RWE	Capital requirement
Total credit risk	8,227,160	3,399,263	271,941
Operational risk	N/A	493,347	39,468
Implicit risk*	N/A	385,019	30,802
Market risk	N/A	321,689	25,735
<b>Total</b>	<b>8,227,160</b>	<b>4,599,318</b>	<b>367,946</b>

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

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

Pillar 2 of Basel III is intended to ensure that banks have adequate capital to support all risks in their business, and includes the requirement on banks to have an "Internal Capital Adequacy Assessment Process (ICAAP)" for assessing their overall Capital Adequacy in relation to risk profile and a strategy for maintaining adequate capital to support risk. The Bank's ICAAP has identified other areas of risk not covered by Pillar I (credit risk, market risk, and operational risk) and assigned a level of capital to them. These risks include but are not limited to strategic risk, reputational risk, environmental risk, liquidity risk, 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 (30 September 2018: \$171m; 31 March 2019: \$62m) to cover these identified risks.

## Notes to the Interim Financial Statements



All in NZD \$000's

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

The Bank has no involvement with any securitisation, custodial, or other fiduciary activities. The Bank does not conduct any insurance business, however general insurance, life insurance, and KiwiSaver products are marketed through the Bank's branch network. These have been provided at arm's length terms and conditions and measured at fair value. The Bank provides no funding to the entities on whose behalf the insurance products are marketed. External third party insurance companies underwrite these. The Bank markets Fisher Funds KiwiSaver products through the Bank's branch network. Refer to note 19. 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 30 September 2019, the TSB Bank PIE Unit Trust had \$12.9m (30 September 2018: \$17.5m; 31 March 2019: \$15.4m) invested with the Bank.

### 18. Commitments and Contingent Liabilities

	Sep 2019 6 Months Unaudited	Sep 2018 6 Months Unaudited	Mar 2019 12 Months Audited
<b>Lending commitments:</b>			
Commitments approved to advance less than one year	106,058	107,782	107,137
Commitments approved to advance greater than one year *	679,934	622,416	641,622
<b>Total lending commitments</b>	<b>785,992</b>	<b>730,198</b>	<b>748,759</b>
<b>Other commitments:</b>			
Rental / lease commitments less than one year	-	2,804	2,472
Rental / lease commitments greater than one year	-	17,633	8,266
Capital commitments	1,293	2,001	3,035
<b>Total other commitments</b>	<b>1,293</b>	<b>22,438</b>	<b>13,773</b>
<b>Total commitments</b>	<b>787,285</b>	<b>752,636</b>	<b>762,532</b>

\* Includes \$30.98m (30 September 2018: \$9.13m ; 31 March 2019:\$10.44m) 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 30 September 2019 that would impact on the financial statements.

From 1 April 2019, TSB has adopted and applied NZ IFRS 16 in the preparation of its financial statements. Right-of-use assets and corresponding lease liabilities are now disclosed on TSB's Balance Sheet.

# Notes to the Interim Financial Statements



All in NZD \$000's

## 19. 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 holds 66% (30 September 2018: 66%; 31 March 2019: 66%) shareholding of Fisher Funds Management Limited via its wholly owned subsidiaries, TSB Group Investments Limited and TSB Group Capital Limited.

Recognised in	Note	Sep 2019 Unaudited			Sep 2018 Unaudited			Mar 2019 Audited		
		TSB Community Trust	TSB Group Limited	Fisher Funds	TSB Community Trust	TSB Group Limited	Fisher Funds	TSB Community Trust	TSB Group Limited	Fisher Funds
<b>Statement of Financial Position</b>										
Loan balance		-	52,616	-	-	74,466	-	-	73,161	-
Deposit balance		11,055	-	-	19,862	-	-	21,203	-	-
<b>Statement of Changes in Equity</b>										
Dividends	11	-	2,500	-	-	2,500	-	-	10,000	-
<b>Statement of Profit or Loss</b>										
Interest income		-	211	-	-	1,512	-	-	3,103	-
Interest expense		337	-	-	268	-	-	671	-	-
Commission income		-	-	344	-	-	260	-	-	559

During the reporting period, subvention payments were made to TSB Group Limited of \$1.375m (30 September 2018: \$1.377m), TSB Group Capital Limited of \$0.014m (30 September 2018: \$0.164m) and TSB Group Investments Limited of \$0.893m (30 September 2017: \$1.328m). No other material payments were made to related parties.

### Transactions with directors and key management personnel

Key management personnel are defined as the directors, trustees and senior management of TSB Bank, TSB Group Ltd and the TSB Community Trust – 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.

	Sep 2019 6 Months Unaudited	Sep 2018 6 Months Unaudited	Mar 2019 12 Months Audited
<b>Key management compensation:</b>			
Short-term employee benefits	1,301	2,135	3,937
Other long-term benefits	(48)	(45)	(19)
Termination benefits	147	-	881
Retirement benefits	-	-	-
<b>Total key management compensation</b>	<b>1,400</b>	<b>2,090</b>	<b>4,799</b>
<b>Loans to directors and key management personnel:</b>			
Balance at beginning of period	3,476	2,914	2,914
Net loans / (repaid) during the period	(884)	739	562
<b>Balance at end of period</b>	<b>2,592</b>	<b>3,653</b>	<b>3,476</b>
<b>Deposits from directors and key management personnel:</b>			
Balance at beginning of period	825	528	528
Net deposits received / (repaid) during the period	2,049	(18)	297
<b>Balance at end of period</b>	<b>2,874</b>	<b>510</b>	<b>825</b>

## 20. Subsequent Events

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



# Independent Review Report

To the shareholder of TSB Bank Limited

## Report on the half year disclosure statement

### Conclusion

Based on our review of the interim financial statements and supplementary information of the TSB Bank Limited (the "Registered Bank") on pages 5 to 30, nothing has come to our attention that causes us to believe that:

- i. the interim financial statements do not present fairly in all material respects the Registered Bank's financial position as at 30 September 2019 and its financial performance and cash flows for the 6 month period ended on that date;
- ii. the interim financial statements (excluding the supplementary information disclosed in accordance with Schedules 5, 7, 9, 13, 16 and 18 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order")), have not been prepared, in all material respects, with NZ IAS 34 Interim Financial Reporting ("NZ IAS 34");
- iii. the supplementary information, does not fairly state, in all material respects, the matters to which it relates in accordance with Schedules 5, 7, 9, 13, 16 and 18 of the Order; and
- iv. the supplementary information relating to capital adequacy and regulatory liquidity requirements, has not been prepared, in all material respects, in accordance with the Registered Banks conditions of registration, Capital Adequacy Framework (Standardised Approach) (BS2A) and disclose it in accordance with Schedule 9 of the Order.

We have completed a review of the accompanying half year disclosure statement which comprises:

- the interim financial statements formed of:
  - the statement of financial position as at 30 September 2019;
  - the statements of comprehensive income, changes in equity and cash flows for the 6 month period then ended; and
  - notes, including a summary of significant accounting policies and other explanatory information.
- the supplementary information prescribed in Schedules 5, 7, 9, 13, 16 and 18 of the Order.

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## Basis for conclusion

A review of the half year disclosure statement 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, consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

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.

Our firm has also provided other services to the Bank in relation to risk 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 reviewer of the Bank. The firm has no other relationship with, or interest in, the Bank.

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## Use of this independent review report

This independent review report is made solely to the shareholder as a body. Our review work has been undertaken so that we might state to the shareholder those matters we are required to state to them in the independent review 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 review work, this independent review report, or any of the opinions we have formed.

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## Responsibilities of the Directors for the half year disclosure statement

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

- the preparation and fair presentation of the half year disclosure statement in accordance with NZ IAS 34 and Schedules 3, 5, 7, 13, 16 and 18 of the Order;
- the preparation and fair presentation of the supplementary information in regards to capital adequacy and regulatory liquidity requirements in accordance with the Registered Banks conditions of registration, Capital Adequacy Framework (Standardised Approach) (BS2A) and Schedule 9 of the Order;
- implementing necessary internal control to enable the preparation of a half year disclosure statement that is 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.

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## Auditor's responsibilities for the review of the half year disclosure statement

Our responsibility is to express a conclusion on the half year disclosure statement based on our review. We conducted our review in accordance with NZ SRE 2410. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the:

- the interim financial statements do not present fairly in all material respects the Registered Bank's financial position as at 30 September 2019 and its financial performance and cash flows for the 6 month period ended on that date;





- the interim financial statements do not, in all material respects, comply with NZ IAS 34;
- the supplementary information does not, fairly state, in all material respects, the matters to which it relates in accordance with Schedules 5, 7, 13, 16 and 18 of the Order; and
- the supplementary information relating to capital adequacy and regulatory liquidity requirements is not, prepared in all material respects, in accordance with the Registered Banks Conditions of Registration, Capital Adequacy Framework (Standardised Approach) (BS2A) and disclosed in accordance with Schedule 9 of the Order.

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 half year disclosure statement.

A handwritten signature of the KPMG firm, written in black ink. The letters are stylized and cursive.

KPMG  
Wellington  
29 November 2019

### 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  
J.S. (Justine) St John, BCom, GM Marketing  
H. (Hamish) Archer, BE (E&E), GM Technology  
C. (Chris) Boggs, BCom, MBM, GM People & Culture  
T.R. (Teresa) Betty, LLB, Chief Risk Officer  
T. (Tracey) Berry, PGDPFP, GM Customer Solutions & Service

### Registered Office

Level 5, TSB Centre, 120 Devon St East, New Plymouth, 4310

### Principal Solicitors to the Company

Auld Brewer Mazengarb & McEwen  
9 Vivian Street, New Plymouth

### Auditor

KPMG  
10 Customhouse Quay, Wellington

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