

TSB Annual Report 2022



2022 Capture Taranaki Photo Competition Winner
Anna Hughes "Exploring Lake Rotokare"



Unleashing our
unparalleled
customer care for
community good



Highlights

01



PEOPLE'S CHOICE

We were awarded Consumer New Zealand People's Choice for banking for the seventh year in a row, scoring 78% in the annual survey.

02



FINANCIAL

We almost doubled our total lending growth from 3% to 5% in FY22, boosting our net profit before tax to \$53.5m. A \$12.5m dividend was paid to our shareholder Toi Foundation to support its philanthropic work in the community.

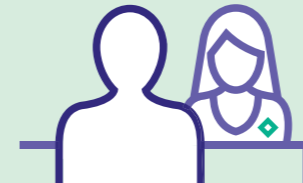
03



LENDING HUB

We opened our flagship Customer Lending Hub in the heart of New Plymouth to provide specialist lending services to residential and commercial customers, all under one roof.

07



CUSTOMER SERVICE

We achieved an Annual Net Promoter Score of 57*, which reflects how likely our customers are to recommend TSB. Any score over 50 is considered excellent.

08



OUR PEOPLE

In another challenging COVID-19 year we launched our partnership with Clearhead, a comprehensive wellbeing programme to support TSB whānau, alongside our new Summit Awards, designed to recognise our people's success and achievements.

09



CONTACT US

We supported 388,000 digital and phone customer contacts through our Customer Engagement Centre (CEC) – a 7% increase over the previous year.

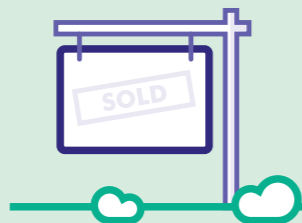
04



TSB DEBIT MASTERCARD®

We launched our new TSB Debit Mastercard in September 2021, laying the groundwork to deliver mobile contactless payments through Google Pay™ in April 2022.

05



HOME LOANS

Residential lending grew by 7% to \$5.9b during FY22, reflecting the buoyant conditions in the housing market.

06



BUSINESS BANKING

Our new Online Banking platform was launched for business customers, delivering new features and technology and providing a more modern, streamlined banking experience.

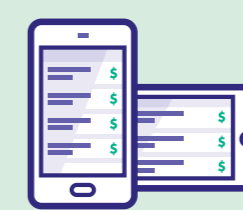
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FRAUD STOPPER

Nearly 5 million authorisations have been scanned with our world class fraud detection system, keeping our customers safe and preventing thousands of dollars in fraudulent transactions.

11



TECHNOLOGY

Our investment in technology transformation is ready to take us into the future combining digital, web and mobile developments with core compliance and foundational improvements. It's already delivering benefits to customers with features like self-service password resets.

12



COMMUNITY

\$250,000 was granted to kickstart nine TSB Good Stuff community initiatives; \$100,000 in grants were provided to Surf Life Saving NZ to help keep people safe at the beach, and 45 members of our TSB whānau helped transport 100 kiwi eggs and 20 birds for Save the Kiwi.

*TSB Voice of Customer Research March 2022.

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Donna Cooper, CEO

Mark Darrow, Chair

Chair Report



Tēnā koutou katoa,
Ko Ruapehu te maunga
Ko Whanganui me Ōngarue ngā awa
Ko Ionic te waka
I tipu ake au i Taumarunui
Nō Airangi ōku tūpuna
Ko Darrow tōku whānau
Ko Mark Darrow tōku ingoa

It is a pleasure and a privilege to take over the role of TSB Chair. I grew up close-by in provincial New Zealand and I'm deeply passionate about helping local communities thrive.

TSB's regional roots and community ownership are an obvious attraction for me, along with its ambition as we grow our national footprint. TSB supports customers across Aotearoa New Zealand, but it retains its local heart, whānau-feel and ongoing commitment to unparalleled customer care for community good.

I have greatly appreciated TSB's warm welcome and my first impressions are extremely positive.

TSB offers a world of opportunity for its people, customers and community, as well as to our Taranaki-based shareholder, Toi Foundation Holdings.

We operate within a sector that is seeing significant regulatory, market, competitor and technology change. If we position ourselves appropriately, we will be well placed to leverage these changes to create immense opportunities.

While TSB is looking ahead to an exciting, innovative future that delivers for everyday New Zealanders, there is no doubt that the hard work done in recent years (and particularly in the past 12 months) has played a key role in getting the bank to this solid position.

Change, COVID-19 and compliance have continued to be consistent themes relating to TSB's performance in the past financial year.

Despite the global pandemic continuing to present challenges, the team has delivered solid growth, with a profit before tax increase of 8%, lending assets increasing a further 5% during the year, and growth in residential lending of \$371 million.

It needs to be noted that these results have been achieved against the backdrop of a significant regulatory change in the banking industry – the implementation of changes to CCCFA.

The Board is happy with these results given the significant increase in operating costs to meet new regulatory compliance obligations, combined with

much-needed investment to put TSB in good stead for future growth and innovation.

This expenditure was necessary to set the platform for us to reach new heights in the coming years. The impact of CCCFA – and the immense work required within the bank to strengthen its foundations and meet the new regulations – cannot be underestimated.

It is a credit to the TSB team that they have been able to deliver these results, while continuing to navigate CCCFA, COVID-19 and wider regulatory changes, alongside delivering the customer outcomes that TSB is well known for.

There will always be work to do in the evolving regulatory space. Striving for continuous improvement will not only ensure we are compliant – just as importantly, it will help keep our people and customers safe.

Through this compliance uplift process, our Executive and Board have worked diligently to strengthen the relationship with our regulators. Their willingness to engage and guide has been invaluable as TSB has navigated various challenges. We are looking forward to fostering this productive relationship.

Equally, I would like to acknowledge the ongoing support we receive from Toi Foundation. We are extremely proud of our community ownership and the contribution we make to our local communities through them.

It is with great pleasure that we have provided a \$12.5 million fully imputed dividend to Toi Foundation as a result of our recent financial performance.

While the 2021/22 year continued to see transformation and change for TSB, it also saw the retirement of longstanding Board Chair, John Kelly, in March 2022.

I would like to acknowledge John's invaluable contribution in his seven years as Chair, after an original six years on the Board. In the past few years

in particular, John has overseen extensive change in our external operating environment, which has required significant transformation within the business. John has worked tirelessly for TSB and we are grateful for his huge contribution.

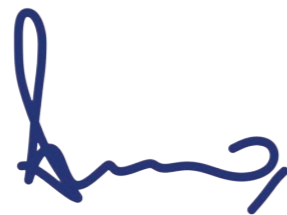
Meanwhile, our Deputy Chairman – Murray Bain – is also set to retire in June after nearly nine years on the Board, including serving as Interim Managing Director for a six-month period prior to our current CEO's arrival. As with John, Murray has equally played a huge role in TSB's history and success. We wish him well in retirement and express our deepest thanks for his work.

Both their contributions have been immeasurable – they have been anchors in what has undeniably been a turbulent time. Their respective retirements follow some key governance and executive appointments in recent months, so they leave with the knowledge that TSB in the best possible position to move forward.

Finally, I would like to acknowledge and thank our Chief Executive, Donna Cooper, her Executive Team and the rest of the TSB whānau for their commitment and effort during another challenging year.

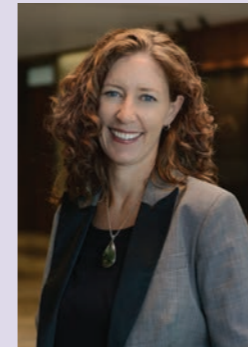
We have big aspirations and I'm proud to play a role in helping harness these opportunities and support TSB in its next phase of growth and development. I'm genuinely excited about what the future holds and working alongside our shareholder, my Board colleagues and the leadership team to achieve that.

Nāku noa, nā



Mark Darrow
TSB Chair

CEO Report



Tēnā koutou,
When we look back on the 2021/22 financial year, we will be able to say that it marked a significant turning point for TSB.

After three years of hard work to strengthen our foundations, we are entering an exciting new era that will see us turn up the dial on customer service, compelling products and offerings, maintain our focus on continuous improvement, and deliver increasing, sustainable growth.

This turning point is only possible thanks to our dedicated TSB whānau who strive to make a positive difference in the lives of our customers, communities and each other – every day.

This commitment has been even more impressive in the past year, in the face of another challenging 12 months on multiple fronts, not least of which has been the ongoing COVID-19 response and implementation of the latest CCCFA changes.

These headwinds have required some brave decisions about our priorities and resources, and now we're ready to springboard into an exciting new era of growth and innovation.

Cementing the Foundations

Our key priority in 2021/22 continued to be strengthening our foundations, including achieving a significant regulatory compliance uplift, ensuring ongoing advances in this space, and improving our internal platforms.

This has meant critical investment in systems, technology and product development to meet our rapidly changing operating environment, keep pace in the future and deliver what our customers are asking for.

This investment was required to set TSB up for future, and we have seen a significant escalation in costs as a result, with a 19% increase in operating expenses.

There is still more work to be done, however we have taken decisive steps forward to reach the level that we, our regulators, and customers expect us to be.

To therefore deliver a profit before tax this year of \$53.5 million – an increase of 8% over last year – is an important result that is a credit to everyone at TSB.

At the same time, TSB's lending asset growth increased by 5% to \$6.7 billion and residential lending increased by 7% to \$5.9 billion.

In addition, we are delighted to report \$12.5 million in dividends were paid during the year to our shareholder, Toi Foundation.

Profit for Purpose

We are proud to be owned by Toi Foundation. Our profit contributes to their mahi supporting critical community kaupapa, events and organisations across the Taranaki rohe.

Our community support doesn't end there, and we are pleased to support other communities across Aotearoa New Zealand through our sponsorship of Surf Life Saving NZ, Save the Kiwi and our own TSB Good Stuff programme. This year we also launched a local campaign to support Taranaki businesses following the cancellation of two key local events over summer due to COVID-19 restrictions. You can read more about these kaupapa later in this report.

Our team come to work every day to deliver positive financial outcomes for our customers, and because our unique community ownership model supports profit for purpose. Unleashing our unparalleled customer care for community good is our reason for being and I have never been more proud to be part of it than in this past financial year.

Customer First Focus

Despite our rightful focus on strengthening our foundations, we have launched a number of key products, initiatives and developments this year – all designed to meet customer needs and support their goals now and into the future.

These include our Mastercard partnership and Google Pay.

Our TSB Debit Mastercard has a modern contactless design – an important customer “want” in our COVID-19 times. By the end of March, 75% of cardholders had been migrated to the new platform, which also set us up for the launch of Google Pay in April 2022, another popular customer request.

A key development has been the opening of our new Customer Lending Hub in the New Plymouth CBD. This \$2 million development reinforces our physical footprint and ongoing commitment to our Taranaki home base.

The fit-for-purpose hub brings together our lending centre of excellence, home lending kaimahi, customer engagement centre and our commercial team to support customers nationwide with more complex lending requirements in a private and welcoming environment – both physical and virtual.

We have spent time listening to what our customers want and need, and the progress we’ve made this year is just the start.

Now that we have created a stronger underlying capability, a number of product innovations are on the cusp of launch, and we look forward to implementing these for customers.

People Power

Despite COVID-19 requiring most of our TSB whānau to work from home for nearly six months, and with many of our branches only open in a limited capacity, we continued to deliver the award-winning customer care we are known for.

For the seventh consecutive year, TSB was awarded Consumer New Zealand People’s Choice for banking – the only bank in Aotearoa to achieve this seven times in a row.

Customer service awards are not based on data and algorithms. They are earned because of people and a genuine commitment to helping others. This is what our whānau bring to the table every single day.

Our team have done us proud over the past 12 months. Our compliance uplift required an unwavering focus, and the understandable COVID-19 restrictions added a new layer of uncertainty about day-to-day life. But this mahi has paid off and our achievements this year are a huge credit to every member of the team.

An important factor in this success has been the leadership and expertise in our executive team. In the past two years we have welcomed five new members to our Executive Team – a significant transformation for a total team of eight.

This is a team that has been thoughtfully and deliberately put together to provide the required expertise, strong leadership, the ability to deliver the necessary uplift and to move us into the future.

Our belief in TSB’s potential remains firm and I am extremely excited and honoured to work alongside them as we face into a new era.

At the same time, we have had some big changes around the board table, including the retirement of long-standing Chairman John Kelly, and the pending retirement of Deputy Chairman Murray Bain.

The transformation that they have overseen cannot

be underestimated. I have immensely valued their guidance during this challenging period of change and uplift. Both have made lasting contributions to TSB and will be missed.

In turn, it is my pleasure to warmly welcome our new Board Chair, Mark Darrow, whose passion, knowledge, and vision will be a huge asset in helping TSB achieve its full potential. His, and some other key board appointments, enhance our governance board and bring valuable expertise and insights to guide us into the future.

We have a clear plan that allows us to imagine and deliver the bank we want to be for ourselves, our shareholder, customers, and community, and it strikes the right balance between all the things that are important to us.

It would be fair to say that we are hugely excited about this next phase. There will continue to be challenges to overcome, but we’re in the best possible position to move this very special bank forward. It’s a fantastic place to be.

Ngā mihi nui,

Donna

Donna Cooper



Board farewells

With a combined total of 21 years of TSB service between them, the retirement of long-standing Chairman John Kelly in March, and the pending retirement of Deputy Chairman Murray Bain in June, signifies a changing of the guard around the governance table.

Born and bred in Taranaki, John joined TSB's board in May 2009, serving as Chairman between January 2016 and March 2022.

With an extensive farming, agriculture and business background, John's firm, fair and calm leadership has proven invaluable as he helped steer TSB through a tumultuous period of environmental change and internal transformation.

Well-regarded across Taranaki and with banking and government regulators, he has provided a steady hand through unsettling times, and successfully overseen some of the most important developments in TSB's history.

After decades in public and private business, education and government roles across New Zealand, and now residing in Northland, Murray joined TSB's board in October 2013. He was appointed Deputy Chair three years later and was awarded the New Zealand Order of Merit in 2021.

Murray has headed up TSB's Risk Committee for a number of years, and also took on the role of Managing Director for six months in early 2018, prior to the appointment and arrival of current Chief Executive, Donna Cooper.

With specific banking experience and senior roles at the Reserve Bank of New Zealand and Trust Bank, Murray has been a solid anchor for the Board and Chairman, while successfully leading the bank through a critical period of executive transition.

TSB, Taranaki, and people and communities across Aotearoa are all the better for their leadership. They will be sorely missed at TSB, but their valuable contribution and legacy will never be forgotten.



John Kelly



Murray Bain

Our values

At TSB we put **people first**, by working as **one team**, with **integrity**. We **keep it simple** and continuously look for **innovation**.

Despite all of the associated challenges, by living to our values, and following our Purpose as our guiding light, we have supported our customers and each other to get through. Our values will continue to be our foundation as we face into an exciting new phase of development that will see us deliver even better outcomes for our customers and our community.



People first	One team	Integrity	Keep it simple	Innovation
I care for others, our customers and communities	We collaborate with trust and transparency	I do what's right over what's nice, fast or comfortable	I communicate in a clear and effective way	I'm open and curious
We're self aware, mindful of others and embrace our differences	We are all responsible for good customer outcomes	I take accountability for delivering on commitments	I'm focussed on creating simplicity	I'm dedicated to continuous improvement
I enable my own wellbeing and that of others	We celebrate our successes	I'm thoughtful, direct and honest	I always have the user front of mind	I take the initiative to get things done

Our customers

The past few years have seen a priority focus on strengthening our foundations to set us up to move into an exciting new phase of growth.

This has seen a commitment to continuous improvement and embedding innovation across everything we do in order to deliver tangible benefits for our customers.

Phenomenal progress has been made under the hood of our digital and online experiences – progress that our TSB whānau can be very proud of. The dedication of the teams working to lift our technology infrastructure and mindset has been outstanding, resulting in some stand-out highlights across the board.

“The hub is the perfect place for us to provide personalised service for our customer’s banking needs in the moments that really matter.”

Campbell Third, Head of Lending Centre of Excellence



Customer Lending Hub

In late 2021 we celebrated a significant milestone with the completion of our much-anticipated Customer Lending Hub in Taranaki, underlining our ongoing commitment in the region. This isn't just an office – it marks a new chapter for TSB, underpinning our lending growth strategy and centred on getting closer to our customers to better support them, especially those with complex lending needs.

We engaged with our customers to truly listen to what they want and need when it comes to banking. Their feedback and comments have helped shape the development of this modern and fit-for-purpose space to ensure it meets our customer needs, both now and long into the future.

Customers told us they want access to experienced lenders for more complex loans, to primarily deal with one person, and to have a private but welcoming environment. To accommodate this, the Hub has a range of meeting areas for in-person catch ups, as well as state of the art technology enabling online appointments with customers from across Aotearoa.

The centralised Hub has also enabled greater collaboration across a number of our teams. Having our residential lending specialists, third party and commercial teams all in the same physical space has brought numerous benefits to the way we work. Teams can collaborate and work together to get the best outcomes for customers, while the different Hub work spaces cater for focused, private customer conversations, right through to collaborative team sessions and even community events.

For our customers, the Hub experience means they receive proactive, consistent and quality support for all their different lending needs – and their feedback is already overwhelmingly positive. Being able to offer customers access

to our specialist lending teams in a welcoming and professional environment provides us with a great footing to expand and grow into the future.

Introducing our new TSB Debit Mastercard

In September, we proudly launched our TSB Debit Mastercard, featuring a modern and slick vertical layout making it more suited to contactless payments.

Based on extensive customer research, the card delivers critical customer outcomes, including no annual fee, reduced foreign currency fees and better functionality. Customers can request the TSB Debit Mastercard online, and it's tightly integrated with our new world-class fraud detection platform which monitors transactions in real-time, keeping customers and their money safe.

In turn, our TSB Debit Mastercard – and the technology that sits behind it – has laid the foundations for a suite of new customer benefits, starting with Google Pay which was launched in April 2022.

We know customers want the convenience of mobile devices for contactless payments, especially during a pandemic, and we're thrilled that we've been able to deliver this for them. Google Pay is a fast, simple way for customers to pay instore, online and within apps – all using the TSB Debit Mastercard. With multiple layers of security, it's easy to make payments using a compatible Android device or online.

Within six months, we've already migrated 75 per cent of cardholders to our new TSB Debit Mastercard, enabling access to our new digital capability and card features. There's plenty more to come over the next year, building on this momentum and reinforcing the value of the focus on strengthening our foundations over the past few years.



The new TSB Debit Mastercard



Our new spaces allow TSB teams to collaborate together



Inside the Customer Lending Hub in Taranaki

New Online Banking for business customers

The culmination of three years' work uplifting our base technology also bore fruit this year with the launch of our new Online Banking, a modern banking experience for business customers.

The rollout began by collaborating closely with a pilot group of customers, listening to their valuable insights and allowing us to make improvements to fine tune the platform and experience. We've included a suite of new features such as self-service password resets, streamlined approvals, new authentication options, one login, a handy search feature and a fresh online interface.

Groups of business customers were invited to progressively transition to the new system, and now more than 70 percent of our business customers are onboard.

But the work is far from done. Our digital foundations are now helping us forge our path forward by embedding innovation into the way customers bank and interact with us, coupled with delivering the features they want and need. Our tech teams are working in an agile environment, and we're rolling out regular improvements and deliverables in small, frequent releases to customers.

Keeping It Simple

Keeping It Simple for TSB means focusing on making things as easy as possible and keeping customers front of mind at all times.

The simpler we make the banking experience, the more time customers will have for the things they enjoy. Simplicity also makes information easier to understand, supports decision making and provides clarity about choices – all extremely important when it comes to helping people manage their finances.

In order to achieve this, the past 12 months have seen a significant investment in updating, upgrading and reimagining our systems, processes and technology in order to keep it simple for our people and our customers.

When customers are looking at applying for a home loan, they want to be able to understand any extra fees that might come as part of this process. We know extra fees can take the shine off an exciting time when someone is buying a home. We listened and have removed most of these charges. It's simpler, more transparent, and better for our customers.

In the past year we also implemented a new, world class fraud detection system using IBM Safer Payments – a system which is already benefiting TSB and our customers.

The system manages transactions in real time and, in many cases, allows us to get ahead of fraudsters. In the first week it went live, we were able to prevent an

When we keep it simple, we free our TSB whānau to spend more time doing what they do best - helping our customers achieve better financial outcomes. It's a win-win, which is why it's one of our values, and why it's been such a big priority over the past 12 months.

One example is some foundational technology improvements that allow customers to take more control of their banking. Being able to quickly reset internet banking passwords, without needing to call our Customer Engagement Centre, has turned what was once a frustrating experience into a quick and simple process customers can complete themselves.

We've also simplified our fee structure so it's clearer and easy to understand.

elderly customer losing \$22,000 in a cryptocurrency scam — before he'd even finished entering his details.

Nearly 5 million authorisations have been scanned so far, successfully preventing thousands of dollars in fraud. We know scams and fraud are an increasing concern, particularly during COVID-19 lockdowns and especially for our older customers, so this tool will help us look after them even better.



At TSB we put people first by working as one team, with integrity. We keep it simple, and continuously look for innovation.

Our people

Whether it is for ourselves, our customers or their communities, TSB's value of People First is interwoven through everything we do at TSB.

During a year punctuated by COVID-19 disruption, TSB people continued to support customers and each other from their home offices, spare rooms or garages. Made possible by smart technology, they continued to deliver banking support and outstanding customer outcomes.

Above
Reebekaa Robinson, TSB Property Operations Specialist

Supporting our people

During these ongoing lockdowns, supporting our collective wellbeing from a distance became even more important. As part of our workplace wellbeing programme, TSB partnered with Clearhead, a comprehensive, online wellbeing platform designed by Kiwi doctors. Initially the recipient of a TSB Good Stuff grant in 2020, Clearhead provides holistic, proactive, and cost-effective mental health and wellbeing support for workplaces. Clearhead is available 24/7, providing access to numerous resources and the option to choose a therapist (if desired) that best suits people's needs.

The feedback so far has been hugely positive, with 95 per cent of TSB whānau who accessed Clearhead's counselling sessions finding they were of value to their needs.

Being One Team at TSB manifests in numerous different ways, and the past year has seen us take it to a whole new level – despite working away from the office and with branches opening for restricted hours for nearly six months due to COVID-19 restrictions.

Alongside ensuring our TSB whānau had the technology they needed to support customers and operate effectively at home, support around engagement, wellbeing and all things COVID-19 was just as much a priority.

And while TSB and its people already had a proven track record of supporting customers after the first year of the pandemic, the Delta and Omicron outbreaks brought a range of new challenges – not least of which was the extended period of time away from the office combined with branch restrictions in place.

“It has been a pleasure so far working with highly motivated and engaged people at TSB, but we are only just beginning!”

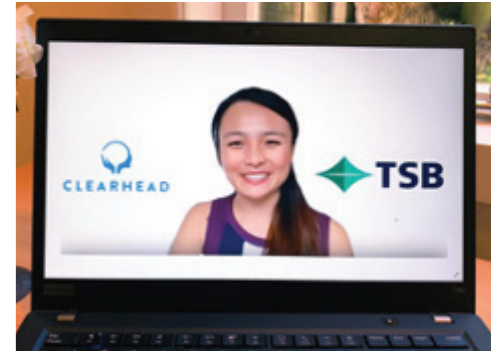
- Dr Angela Lim, CEO Clearhead

Wider COVID-19 support was also provided to TSB whānau to cover health concerns, looking after tamariki while working, caring for others in (and outside) their household, being isolated from loved ones, and around financial or wellbeing concerns.

Physical safety of our people is a top priority, in particular for those in customer facing roles. As part of our health, safety and wellbeing programme, we have implemented over 200 safety and security measures in our workplace this year. Physical and digital security for our people and customers remains a key focus in the FY23 Business Plan.

Despite all of this, our team continued to go above and beyond for each other and our customers, continuing to deliver outstanding customer outcomes – and the overall business objectives we have achieved this year.

As we've moved towards a more hybrid working model, with Aotearoa New Zealand's changing response to COVID-19, our teams have flexibility and support to accommodate individual preferences and needs, and we are helping our people continue to feel safe as we all learn to live with COVID-19.



Clearhead's Dr Angela Lim held a wellbeing seminar for TSB team members during lockdown.



Our Customer Engagement Centre were winners of the first Team award at the inaugural Summit Awards ceremony.



TSB waiata group brings together team members diverse in experience, roles and capabilities to come and sing together.

Recognising our people

This past year saw the launch of Summit, our new TSB whānau recognition programme, designed and developed through listening to feedback from our team. Summit gives everyone at TSB the opportunity to celebrate and recognise other's achievements in a meaningful, visible way. We're nurturing and building on our culture of recognition, honest feedback and high performance, and the Summit programme is an important pillar supporting this growth.

Embraced by our people, we've seen nominations consistently grow each quarter, becoming part of everyday communication and helping foster a culture of recognition.

Summit has three key categories: our customers, business focus areas and TSB values.

“Our people have responded to the launch of Summit with huge levels of enthusiasm. They're excited to be able to quickly and easily recognise each other using the Summit app, and have taken time to nominate and appreciate their team members through the Summit Awards.”

- Marcus Wadds, Organisational Development Advisor:

Exceptional actions, behaviours and outcomes in these areas (no matter how big or small) are recognised by an immediate High Five, or nominated for the quarterly awards. By empowering our team members to recognise achievements and success, the programme has been adopted quickly throughout the business and at all levels – peer to peer, within teams, and across projects and collaborative groups.

The quarterly Summit Awards celebrate teams and individuals at a prize-giving surrounded by team mates and leaders, either physically or virtually depending on restrictions. So far, 20 people and two teams have received Summit Awards, recognising stellar achievements during a challenging year.

The Customer Engagement Centre won the Team award at the inaugural Summit Awards ceremony. This team were nominated for showing strong resilience and 'one team' spirit while facing

unprecedented call volumes during lockdown and maintaining their high customer service standards. Customers said: “Extremely helpful and polite with me on the phone, call back service was faster than estimated.” “The phone-in line is like speaking plainly as though the lady is your sister. The problem can be expressed in your own terms and the resolution is simple”

Spotlight on Integrity

Integrity underpins everything we do. Integrity is vital to who we are and how we operate and it guides us during the challenging times. No matter whether team members are on our front line supporting customers every day, or in the back office, integrity is always visible through our actions and behaviours.

Rebecca Sergent, Customer Service Support in our Customer Engagement Centre sums it up:

“I think it's fair to say if I didn't have integrity myself, I wouldn't be a good fit for my team and TSB. Integrity is a big part of the day-to-day culture here in the Customer Engagement Centre, so it is only natural to demonstrate this myself in my own interactions with customers.

“We are the front line for customer contact. Sometimes things don't go right for our customers, and as a team we are excellent at responding, adapting and taking responsibility and ownership to ensure best customer outcomes.

“In my opinion, integrity is the most important value a person or organisation can hold. Building of reciprocal trust is fundamental to any relationship. We need our customers to have trust in us and the belief that we will act with integrity in all dealings.”

Archie Skipworth, Customer Service Support also from the Customer Engagement Centre, agrees.

“Good customer outcomes are a key focus for the Bank and shapes everything we do in the CEC. Therefore, in order to provide good customer outcomes, we have to act with integrity.

“Integrity sets the culture for the business – people often work for organisations where their personal values closely align. If integrity is key for the organisation, then it will also be key for the individuals employed.”



“I do what's right, I take accountability, I'm thoughtful, direct and honest.”

- Archie Skipworth, Customer Service Support



“In my opinion, integrity is the most important value a person or organisation can hold.”

- Rebecca Sergent, Customer Service Support

Our communities



“I care for others, our customers and communities.”

Paige Mackay, Banking Support Specialist

In 2021, we continued to support our wider community in a number of ways, far beyond banking.

Despite COVID-19 restrictions, TSB people volunteered 460 hours to help charities and support hapori (communities) right across the motu. Using their paid TSB community leave day and observing COVID-19 protocols, our teams worked on local kaupapa and initiatives in their own areas, including at the Waitara community gardens, the Student Volunteer Army and Plunket.

Save the Kiwi

While our partnership with Save the Kiwi supports the protection of our national bird, the benefits extend much further than that. For our people, there is a huge amount of excitement and pride knowing TSB is a key sponsor of this national organisation. It offers an immense morale booster, as well as supporting collaboration and teamwork across our business. Spending the day helping Save the Kiwi is one of the most popular community leave options for TSB whānau.

Since August 2020, 48 members of our TSB whānau have transported 100 kiwi eggs and 20 chicks from Taranaki to Taupō. Kiwi eggs and chicks discovered in the wild often require urgent delivery to an incubator several hours away.

Our whānau are a key part of this process, making the critical (but careful) trip, usually at short notice, with the precious taonga nestled in a chilly bin and buckled into the back seat of the TSB jeep.

Surf Life Saving New Zealand

In 2021, we marked five years of our national partnership with Surf Life Saving New Zealand. In that time we have invested more than half a million dollars to help local clubs, which not only helps keep Kiwi safe on our beaches, but raises a wider national awareness of TSB and everything it has to offer from the top of Aotearoa, right down to the bottom.

In the last financial year, our annual \$100,000 grants programme helped purchase equipment such as beach surveillance and VHF radio tracking technology, rescue boards and tubes, All Terrain Vehicles, patrol towers, storage solutions and sunshades.



Kiwi eggs safely buckled into the TSB jeep while being transported to the Save the Kiwi incubator



TSB grant programme funded a new sun shade for the Orewa Surf lifeguards while on patrol



New mobile patrol trailer in use at the southern end of the beach by Whangamata Surf Life Saving Club, funded by TSB grant programme



Good Stuff!

We're extremely proud to use our profit for purpose to support organisations, kaupapa and people across the country.

Instigated after the first COVID-19 lockdown, our TSB Good Stuff programme was held again in 2021. The programme supports initiatives from around Aotearoa New Zealand that are designed to solve problems in local communities.

Hundreds of amazing entries were submitted, all vying for a share of the kick starter fund.

After a great deal of deliberation, nine projects were selected for a share of \$250,000 funding including an innovative water conservation device, a community parenting hub and an intelligent kiwi tracking conservation drone.



Wellingtonian Pera Barrett was voted this year's TSB Good Stuff People's Choice winner.

Using his \$30,000 TSB Good Stuff grant, Pera is set to expand the reach of his charity, Shoebox Christmas, as well as support his coaching and mentoring programme in Porirua.

The programme is focused on up-skilling and enabling development opportunities for Porirua rangatahi, which in turn will support better futures.

Shoebbox Christmas connects members of the community with tamariki to provide Christmas presents – a kaupapa that brought smiles to the faces of more than 15,000 tamariki in 2020.



Joanna Wallace – Listen LaunchPad

Listen LaunchPad is a pilot programme focused on improving access to hearing services and resources for children with suspected listening difficulties in the Counties Manukau rohe.

Auditory Processing Disorder (APD) is a condition that affects how the brain processes sound and it has been reported to be over-represented in Pacific Island children in New Zealand. APD makes learning in challenging situations, such as a busy classroom, more difficult. The condition is treatable and funding is available, but public service to get a diagnosis is not provided Counties Manukau.

The \$30,000 TSB Good Stuff grant will help get this project off the ground and assist children who are most in need to access appropriate support for their challenging listening difficulties.

Executive Leadership Team



DONNA COOPER

CEO



JOE BISHOP

GM PRODUCT & MARKETING



CHRIS BOGGS

GM PEOPLE & STRATEGY



GORDON DAVIDSON

CHIEF FINANCIAL OFFICER



JULIAN DOWNS

GM TECHNOLOGY



SEAN EDWARDS

GM CUSTOMER SOLUTIONS & SERVICE



GRAEME SCRIVENER

CHIEF RISK OFFICER



LARISSA VAUGHAN

GM REGULATORY AFFAIRS & GENERAL COUNSEL

Board of Directors



MARK DARROW
CHAIR



MURRAY BAIN
DEPUTY CHAIR



ANNE BLACKBURN
DIRECTOR



PETER DALZIEL
DIRECTOR



HARVEY DUNLOP
DIRECTOR



KEVIN MCDONALD
DIRECTOR



NATALIE PEARCE
DIRECTOR



MICHAEL SCHUBERT
DIRECTOR



DION TUUTA
DIRECTOR



JOHN KELLY
RETIRED
(DIRECTOR & CHAIR)

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Board Information

All Directors of the Bank reside in New Zealand.

M.C. (Mark) Darrow , FCA, B Bus, CFInstD, JP Independent and non-executive Director (Chair — Board of Directors) Primary occupation: Company Director	External Directorship: Armstrong No 3 Trustee Limited, Armstrong No 4 Trustee Limited, Armstrong No 5 Trustee Limited, Auckland Transport, BG & LM Stratford Limited, Inland Revenue Department, Invivo & Co Limited, Leighs Construction Holdings Limited, Leighs Construction Limited, MCD Capital Limited, Motor Trade Finance Limited, MTF Direct Limited, MTF Finance Limited, MTF Leasing Limited, MTF Limited, MTF Securities Limited, MTF Treasury Limited, MTFS Holdings Limited, Riverton Farm Limited, Stratford Dairies Limited, Tiverton Farm 2002 Limited, Tudor Park Trustees Limited.
M. I. (Murray) Bain , MCom (Hons), BSc, CFInstD, ONZM Independent and non-executive Director (Deputy Chair — Board of Directors) Primary occupation: Company Director	External Directorship: Ara Institute Of Canterbury Limited, Central Region's Technical Advisory Services Limited, Designer Jewellery New Zealand Limited, ESA Publications (NZ) Limited, M.I. Bain & Associates Limited, Northern Institute of Technology, Northland Polytechnic Limited, Optimum Services Limited, Oryx Technologies Limited, Southern Institute Of Technology Limited, Kerikeri Retirement Village Trust.
M. A. (Anne) Blackburn , MA, BA, CFInstD Independent and non-executive Director Primary occupation: Company Director	External Directorship: Annuitas Management Limited, Fisher Funds Management Limited, Government Superannuation Fund Authority, Ponga Silva Limited, Resolution Life New Zealand Limited, Ten Gracie Square Limited.
P.S. (Peter) Dalziel , MBA, CMInstD Non-executive Director Primary occupation: Company Director	External Directorship: Barberry Hill Farm Ltd, Dolly's Milk Limited, PS & ME Dalziel Partnership, Raw Drinking Milk Association NZ, Stratford District Council, Toi Foundation.
H. F. (Harvey) Dunlop , BCom (Ag) Non-executive Director Primary occupation: Company Director	External Directorship: Green School New Zealand Advisory Board, H & K Dunlop Family Trust, Renaissance Holdings Limited, Taradise Holdings 2004 Limited, Taradise Holdings 2006 Limited, Taradise Property Management Limited, Toi Foundation, Toi Foundation Holdings Limited.
K.C. (Kevin) McDonald , MBA Independent and non-executive Director Primary occupation: Company Director	External Directorship: Macca's Fam Bam Family Trust, Power Group Holdings Limited.
N. (Natalie) Pearce , BCom Independent and non-executive Director Primary occupation: Company Director	External Directorship: Home of the Brave, Tax Management New Zealand Limited, The Sutherland Paget Family Trust, onethousandblooms.co.nz.
M. (Michael) Schubert , BCom Independent and non-executive Director Primary occupation: Company Director	External Directorship: Auditor Oversight Committee of the FMA, Mimomax Wireless Limited, Procure Health Trust, Procure Network Limited, Silver Fern Farms Holdings Limited, Silver Fern Farms Joint Ventures Limited, Silver Fern Farms Limited, Whakarongorau Aotearoa New Zealand Telehealth Services (GP) Limited.
D. J. (Dion) Tuuta Independent and non-executive Director Primary occupation: Company Director	External Directorship: Brougham Court Apartments Limited, Parininihi ki Waitōtara Incorporation, Parininihi ki Waitōtara Trust, Te Kotahitanga o Te Atiawa Trust, Tuuta Waetford Tapui Limited.

Changes in Board of Directors

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 2021.

- Michael Schubert was appointed as a Director of the Bank effective 6 August 2021, and became Chair of the Audit Committee on 31 August 2021.
- Peter Schuyt resigned as a Director and Chair of Audit Committee on 31 August 2021.
- John Kelly retired as a Director and Chair of the Board on 18 March 2022.
- Mark Darrow was appointed as a Director on 1 February 2022 and became Chair of the Board on 18 March 2022.

The Address to which any communication to the Directors may be sent is: TSB Bank Limited, PO Box 240, New Plymouth 4310.

Board Information (continued)

Policy on Directors' Conflicts of Interest

Directors maintain personal banking relationships with the Bank and these are undertaken fulfilling normal bank criteria. Pursuant to the Bank's Board Charter, 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 unless the other Directors have passed a resolution approving the Director's presence and/or vote because they are satisfied that the interest should not disqualify the Director. The Bank complies with all the requirements of the Companies Act in terms of registers and notices for Directors' conflict of interest.

There were no entries in the interests register made during the year ended 31 March 2022. This includes 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.

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.

	2022 \$000's	2021 \$000's
Fees paid to auditor:		
Audit and review of financial statements	380	426
Other assurance services	181	18
Other services	230	89
Total fees paid to auditor	791	533

Donations

The Bank has made donations of \$6.8k (2021: \$0.6k) during the reporting period.

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 ("CA") except where the Shareholder has resolved to exclude certain information consistent with the reporting concessions available under section 211 (3) CA.

For the accounting period, the Shareholder has resolved to exclude:

- Director remuneration and benefits information disclosed under section 211(1)(f) CA; and
- employee remuneration disclosed by band under section 211 (1)(g) CA.

Historical Summary of Financial Statements

For the year ended 31 March 2022
All in \$'000's

Financial performance	2022	2021	2020	2019	2018
Total interest income	229,678	255,961	307,137	312,614	296,270
Interest expense	67,885	112,328	164,549	174,591	169,465
Net interest income	161,793	143,633	142,588	138,023	126,805
Other income	19,778	18,269	21,909	23,746	36,518
Net operating income	181,571	161,902	164,497	161,769	163,323
Operating expenses *	136,181	114,554	102,678	94,955	87,340
Impairment losses / (reversal of impairment losses)	(8,123)	(2,202)	20,362	4,236	3,918
Profit before tax	53,513	49,550	41,457	62,578	72,065
Tax expense *	15,427	13,914	10,640	17,539	20,192
Net profit attributable to shareholder	38,086	35,636	30,817	45,039	51,873
Dividend	12,500	-	2,500	10,000	20,000
Retained profit for the year	25,586	35,636	28,317	35,039	31,873
Financial Position					
Total assets	8,960,480	8,778,474	8,179,275	7,819,045	7,416,277
Total impaired assets - loans and advances	16,728	23,312	17,637	3,814	4,400
Deposits	8,180,220	7,998,505	7,420,524	7,093,017	6,740,890
Total liabilities	8,237,220	8,067,566	7,499,323	7,165,920	6,803,262
Shareholder's Equity					
Retained profit for the year *	25,586	35,636	28,317	35,039	31,873
Total shareholder's equity	723,260	710,908	679,952	653,125	613,015
Performance					
Return on average shareholder's equity	5.3%	5.1%	4.6%	7.1%	8.6%
Return on average total assets	0.4%	0.4%	0.4%	0.6%	0.7%
Growth in total assets	2.1%	7.3%	4.6%	5.4%	9.0%
Growth in depositors' funds	2.3%	7.8%	4.6%	5.2%	9.5%
Residential lending	5,852,327	5,481,169	5,222,565	4,844,453	4,389,811
Total lending	6,667,219	6,338,291	6,126,597	5,792,049	5,309,357
Operating expenses to net operating income	75%	71%	62%	59%	53%
Prudential					
Shareholder's equity as a % of total assets	8.07%	8.10%	8.31%	8.35%	8.27%
Common equity Tier 1 capital ratio*	13.54%	14.47%	13.88%	14.57%	14.28%
Total capital*	13.54%	14.47%	13.88%	14.57%	14.28%

The amounts set out in the financial summary have been prepared from audited financial statements of the Bank. The Bank has no non-controlling interest.

*Comparative information and performance indicators for the year ended 31 March 2021 have been restated to reflect the change in accounting policy applied retrospectively. Refer to note 1. Statement of Compliance for further information.

Summary Statement of Comprehensive Income

For the year ended 31 March 2022
All in \$'000's

	Note	2022	2021
Interest income calculated using the effective interest method		229,678	255,961
Interest expense		67,885	112,328
Net interest income		161,793	143,633
Other operating income		19,778	18,269
Net operating income		181,571	161,902
Operating expenses *	1	136,181	114,554
Profit before credit impairment and tax		45,390	57,427
Credit impairment losses / (reversal of credit impairment losses)		(8,123)	(2,202)
Profit before tax		53,513	59,629
Tax expense *	1	15,427	13,914
Net profit after tax		38,086	35,636
Other comprehensive income:			
Net profit after tax		38,086	35,636
Items that may be reclassified subsequently to profit or loss:			
Movement in fair value reserve (debt instruments)		(79,099)	371
Movement in effective portion of changes in fair value of cash flow hedges		60,717	3,545
Income tax on items that may be reclassified to profit or loss		5,148	(1,097)
Other comprehensive income for the year (net of tax)		(13,234)	2,819
Total comprehensive income for the year		24,852	38,455

Summary Statement of Changes in Equity

	Note	2022	2021
Opening balance		710,908	679,952
Balance adjusted for SaaS write-off *	1	-	(7,499)
Adjusted opening balance		710,908	672,453
Net profit after tax		38,086	35,636
Other comprehensive income:		(13,234)	2,819
Total comprehensive income for the period:		24,852	38,455
Dividends to equity holder		(12,500)	-
Closing balance		723,260	710,908
Equity represented by:			
Share capital		10,000	10,000
Fair value reserve		(45,810)	11,141
Cash flow hedge reserve		44,950	1,233
Retained earnings		714,120	688,534
Closing balance		723,260	710,908

* Comparative information have been restated to reflect the change in accounting policy applied retrospectively. Refer to note 1. Statement of Compliance for further information.

Summary Statement of Financial Position

For the year ended 31 March 2022
All in \$000's

Assets	Note	2022	2021
Cash and cash equivalents		714,196	438,240
Derivative financial instruments		65,477	10,724
Investment securities	4	1,459,342	1,938,774
Loans and advances to customers	5	6,667,219	6,333,719
Property, plant and equipment		32,386	33,484
Intangible assets *	1	1,310	1,444
Deferred tax asset *	1	18,306	15,281
Other assets		2,244	2,236
Total assets		8,960,480	8,778,474
Liabilities			
Deposits	7	8,180,220	7,998,505
Derivative financial instruments		5,970	9,605
Current tax liability		1,510	2,696
Other liabilities		49,520	56,760
Total liabilities		8,237,220	8,067,566
Equity			
Total shareholder's equity		723,260	710,908
Total liabilities and shareholder's equity		8,960,480	8,778,474

Summary Statement of Cash Flows

	2022	2021
Net cash flows from operating activities *	(104,240)	405,022
Net cash flows from investing activities *	395,745	(196,429)
Net cash flows from financing activities	(15,549)	(2,941)
Net increase in cash and cash equivalents	275,956	205,652
Add cash and cash equivalents at beginning of the year	438,240	232,588
Cash and cash equivalents at end of year	714,196	438,240

* Comparative information have been restated to reflect the change in accounting policy applied retrospectively. Refer to note 1.Statement of Compliance for further information.

For and on behalf of the Board of Directors:



M.C. Darrow
(Chair — Board of Directors)
09 June 2022



M.I. Bain
(Deputy Chair — Board of Directors)
09 June 2022

Notes to the Summary Financial Statements

For the year ended 31 March 2022
All in \$000's

1. Statement of Compliance

TSB Bank Limited 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 summary financial statements have been prepared in compliance with FRS-43: Summary Financial Statements and comply with New Zealand Generally Accepted Accounting Practice ("NZ GAAP") as it relates to summary financial statements. The specific disclosures included in the summary financial statements have been extracted from the full financial statements for the year ended 31 March 2022. The full financial statements from which the summary financial statements have been produced have been audited by KPMG, who expressed an unmodified opinion in relation to those statements at 9 June 2022. These summary financial statements have been reviewed by KPMG for consistency with the full financial statements.

Users should note that reading the summary financial statements is not a substitute for reading the full financial statements and the auditor's report thereon. A copy of the full financial statements can be obtained on the Bank's website at tsbbank.co.nz.

The full financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 2013 and 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; as well as with the requirements of the Financial Markets Conduct Act 2013 and the Order. The full financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB").

The amounts contained in these summary financial statements are presented in New Zealand dollars and are rounded to the nearest thousand dollars.

Changes in accounting policy

The Bank has assessed the impact of the IFRS Interpretation Committee ("IFRIC") decision on Configuration or Customisation Costs in a Cloud Computing Arrangement and consequently revised its accounting policy to expense the cloud computing arrangement involving a service contract, referred to as Software-as-a-Service ("SaaS"), which do not meet the identifiability and control criteria set out in NZ IAS 38 Intangible Assets. The costs undertaken in implementing these arrangements are also expensed unless they give rise to a separate intangible asset under NZ IAS 38.

The change in accounting policy has been applied retrospectively and impacted both the current and prior period presented as follows:

Financial statement item	2022	2021	2020
Statement of financial position			
Decrease in tangible assets	(7,980)	(10,079)	(10,415)
Increase in deferred tax assets	2,234	2,822	2,916
Decrease in retained earnings	-	(7,257)	(7,499)
Statement of comprehensive income			
Increase in operating expenses	7,980	10,079	-
Decrease in tax expenses	(2,234)	(2,822)	-
Decrease in net profit after tax	(5,746)	(7,257)	-
Statement of cashflows			
Decrease in net cash flows from operating activities	(7,980)	(10,079)	-
Increase in net cash flows from investing activities	7,980	10,079	-

The financial statements were approved by the Board of Directors on 9 June 2022.

2. Critical Accounting Estimates, Assumptions and Judgements

The preparation of the full financial statements, on which these summary financial statements are based, requires the use of certain critical accounting estimates and requires management to exercise its judgement in the process of applying the Bank's accounting policies. Some areas involve a high degree of judgement or complexity and there are areas where assumptions and estimates are significant.

3. Risk Management Policies

The Board of Directors has overall responsibility for ensuring that Management establishes a framework for assessing material risks and sets up a method for monitoring compliance with internal risk management policies. The Bank is committed to the appropriate management of all material 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 previously disclosed the need to deliver improvements in its risk management policies and processes, including the control environment, monitoring, reporting and assurance around material risks. Progress on that risk uplift work has continued unabated notwithstanding significant operational challenges presented by COVID-19 over the last 12 months. Key focus areas include, uplifting internal policies and standards, refining risk governance practices, strengthening compliance programmes, creation and/or enhancement of obligation and control registers, reinforcing risk culture aligned to the three lines of accountability model, and embedding the operating model supporting the risk department following a restructure and expansion last year. The Bank has also undertaken a reassessment of five of its Bank Top Risks, and where these are out of appetite has developed a pathway to bring them within appetite. The Bank remains committed to taking appropriate steps to continue maturing its risk environment and this is reinforced by its business plan.

The Bank has identified a need for improved technology and data governance management policies and processes, including the control environment. While that technology and data governance environment matures there is a higher degree of uncertainty regarding any unknown risks than would be the case in a fully mature technology and data risk environment. The Bank is committed to taking appropriate steps to mature the technology and data risk environment as soon as practicable.

As part of the risk strengthening, the Bank remains focused on uplifting key areas of regulatory compliance. In that regard, the Bank has continued to undertake a review of the Credit Contracts and Consumer Finance Act 2003 ("CCCFA") and the underlying systems, processes and controls in so far as it relates to Bank lending products and services. A broad programme of work is underway.

The ongoing economic effects, supply chain disruption and COVID-19-related illnesses have continued to create a challenge to the Bank's operating environment as well as for our customers, and additionally created constraints in attracting and retaining the necessary specialist and skilled workforce.

The Bank's Directors are of the opinion that there are no other matters relating to the business or affairs of the Bank which would, if disclosed in this Summary Financial Statements and accompanying notes, 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.

The Bank's risk management framework embeds risk management accountability and responsibility throughout the Bank. The Bank's risk management framework is comprised of the following elements:

- A three lines of accountability model that clearly defines the roles and responsibilities of individuals in relation to the effective management of risk;
- Material risk domains and associated risk appetite statements and measurement mechanisms;
- Policies and procedures covering risk identification, assessment, controls, treatment, monitoring, measurement and reporting; and
- Mechanisms for the on-going review of systems, policies, and procedures, including independent review by Internal and External Audit.

Internal audit's role within the Third Line of Accountability, is to provide independent and objective assurance services to management and Directors. This include examining and evaluating the adequacy and effectiveness of internal controls, risk management, and governance processes to deliver business objectives. The internal audit function reports directly to the Chairperson of the Audit Committee.

A number of Standing Committees of the Board and Executive Management assist in the management of risk, as follows: Audit Committee (Board Committee); Risk Committee (Board Committee); People, Culture and Capability Committee (Board Committee); Asset and Liability Committee (Executive Committee); Executive Risk Committee (Executive Committee); Regulatory Oversight Committee (Executive Committee) and Credit Committee (Executive Committee).

The Bank's principal risk areas are as follows:

Credit Risk: the potential risk for loss arising from failure of a debtor or counterparty to meet their contractual obligations. This arises within the Bank from its core business of providing lending facilities.

Market Risk: 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 of the full financial statements for the year ended 31 March 2022.

Liquidity Risk: the inability of the bank to access the funds that it needs to meet its obligations when they become due, which arises largely through the Bank's role in the maturity transformation between its assets (loans and investments) and its liabilities (deposits and other funding).

Operational Risk: the risk of loss resulting from inadequate or failed internal processes and methodologies, people, systems or external events.

4. Investment Securities

	2022	2021
Local authority securities	120,599	197,827
Government securities and Government-guaranteed securities	311,918	506,637
Registered bank securities	313,681	396,864
Multilateral development banks and other international organisations	455,225	511,954
Other investments*	257,919	325,492
Total investment securities	1,459,342	1,938,774

* Other investment securities relate to debt securities in utility companies, state enterprises, and other New Zealand companies.

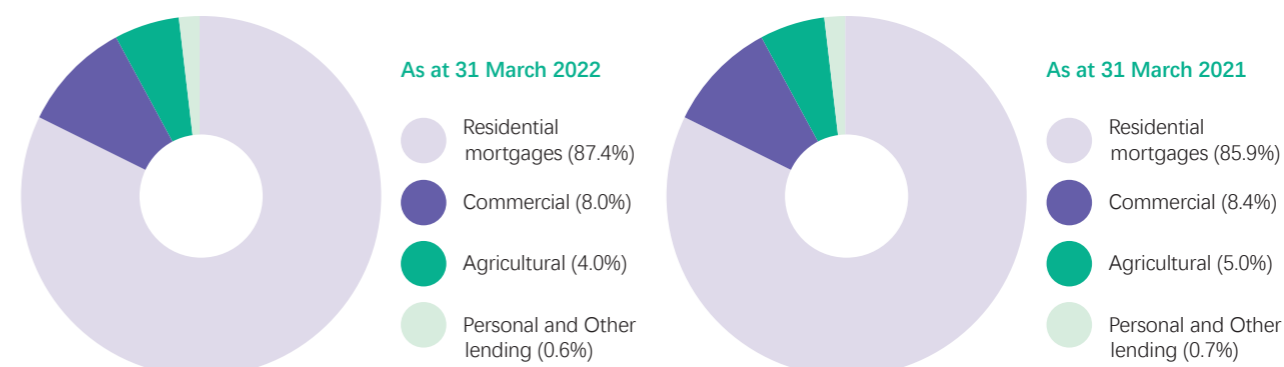
5. Loans and Advances to Customers

This covers all forms of lending to customers, and include mortgages, overdrafts, personal loans and credit card balances.

	2022	2021
Residential mortgages	5,852,327	5,481,169
Commercial *	537,771	536,063
Agricultural	268,075	316,367
Personal	20,866	27,602
Others	21,173	16,791
Total gross loans and advances to customers	6,700,212	6,377,992
Less provision for doubtful debts	(32,993)	(39,701)
Total loans and advances to customers	6,667,219	6,338,291

* Commercial includes a loan to Toi Foundation Holdings Limited of \$nil (2021: \$35.44m) on normal customer terms and conditions.

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



- Residential: Residential mortgages include owner-occupied housing and the lending for the purpose of investment in residential property. Residential mortgages comprise 87.4% (2021: 85.9%) of the total loan portfolio and they are secured by a first mortgage over freehold dwellings.
- Commercial: Include business loans and commercial property lending that are secured by residential or commercial properties.
- Agricultural: Agricultural loans that are secured by agricultural properties.
- Personal: Personal is inclusive of other retail lending and credit card balances.
- Others: Include lending accruals and deferred acquisition costs.

6. Credit Risk Management and Asset Quality

The accounting policies in the full financial statements set out all technical definitions in compliance with accounting standards. The following definitions are for guidance purposes in order to provide a general understanding.

The Bank's loan portfolio comprises predominantly of residential mortgages (88%) which are secured by first-ranking registered mortgages over residential property. As at 31 March 2022, \$50m of these loans are underwritten by Housing New Zealand Corporation, a Statutory Crown Corporation, as part of its Welcome Home Loan programme.

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. Loans and advances to customers are risk graded at the origination and reviewed periodically for adverse changes during the life of the loan.

Over the term of the loans and advances to customers, the Bank accounts for its credit risk by appropriately providing for expected credit loss allowance 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.

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.

Gross loans and advances to customers by credit quality	2022	2021
Neither past due or impaired	6,647,365	6,306,616
Past due assets not impaired	36,119	48,064
Impaired assets	16,728	23,312
Total gross loans and advances to customers	6,700,212	6,377,992

Credit impairment losses/(reversal) recognised in the Statement of Comprehensive Income

For the year ended 31 March 2022	Loans and advances	Lending commitments	Investment securities	Total
Individual impairment expenses	85	-	-	85
Collective provision	(9,752)	3,009	63	(6,680)
Specific provision	(1,528)	-	-	(1,528)
Credit impairment losses to profit or loss	(11,195)	3,009	63	(8,123)

For the year ended 31 March 2021

Individual impairment expenses	1,254	-	-	1,254
Collective provision	(1,722)	559	-	(1,163)
Specific provision	(2,293)	-	-	(2,293)
Credit impairment losses to profit or loss	(2,761)	559	-	(2,202)

Credit impairment losses/(reversal) recognised in the Statement of Financial Position

As at 31 March 2022	Note	Stage 1 Collectively assessed 12 month ECL	Stage 2 Collectively assessed Lifetime ECL	Stage 3 Collectively assessed Lifetime ECL	Stage 3 individually assessed Lifetime ECL	Total provision
Loans and advances to customers	5	24,757	1,083	1,351	5,802	32,993
Lending commitments		2,843	166	-	-	3,009
Investment securities		63	-	-	-	63

As at 31 March 2021

Loans and advances to customers	5	23,493	7,496	1,382	7,330	39,701
Lending commitments		4,002	570	-	-	4,572
Investment securities		-	-	-	-	-

7. Deposits

	2022	2021
Retail term deposits *	3,452,075	3,634,927
On call deposits bearing interest *	3,901,158	3,645,708
On call deposits not bearing interest	782,063	682,890
Wholesale deposits bearing interest	44,924	34,980
Total deposits	8,180,220	7,998,505

*Includes the total deposits of \$14.7m (2021: \$11.0m) from related parties.

8. Liquidity Risk Management

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 2022	On demand	0-1 months	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities:							
Deposits	4,672,957	413,493	843,650	1,860,349	440,846	-	8,231,295
Lease liabilities	-	6,244	507	2,194	7,512	10,289	26,746
Derivative financial instruments	-	-	-	-	-	-	-
Inflows from derivatives	(103)	(2,027)	(7,235)	(53,724)	(106,221)	-	(169,310)
Outflows from derivatives	183	1,752	6,514	32,913	63,309	-	104,671
Other financial liabilities	-	18,473	5,785	-	374	-	24,632
Total financial liabilities	4,673,037	437,935	849,221	1,841,732	405,820	10,289	8,218,034
Lending commitments	876,421	-	-	-	-	-	876,421

As at 31 March 2021

Liabilities:							
Deposits	4,315,196	421,924	951,355	1,838,713	517,140	-	8,044,328
Lease liabilities	-	225	450	1,862	7,779	11,247	21,563
Derivative financial instruments	-	-	-	-	-	-	-
Inflows from derivatives	(19)	(462)	(2,051)	(7,005)	(15,967)	-	(25,504)
Outflows from derivatives	81	739	1,695	7,937	13,570	-	24,022
Other financial liabilities	-	30,230	5,805	-	820	-	36,855
Total financial liabilities	4,315,258	452,656	957,254	1,841,507	523,342	11,247	8,101,264
Lending commitments	860,942	-	-	-	-	-	860,942

9. Capital Adequacy (Unaudited)

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.

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.

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

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

9. Capital Adequacy (Unaudited) (continued)

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 (superseded by new Banking Prudential Requirements "BPR" on 1 October 2021) 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.

The Bank has identified the scope to resolve these matters but calculations are yet to be reperformed. The Bank currently holds approximately \$270 million of capital in excess of the minimum capital requirement. The initial assessment of the impact of these corrections will result in an increase to the Bank's minimum capital requirement of up to \$6m.

	RBNZ Minimum ratio requirement	2022 31 Mar Unaudited Basel III	2021 31 Mar Unaudited Basel III
Total capital adequacy ratios for the Bank at balance date are:			
Common Equity Tier 1 capital ratio	4.50%	13.54%	14.47%
Tier 1 capital ratio	6.00%	13.54%	14.47%
Total capital ratio	8.00%	13.54%	14.47%
Prudential capital buffer	2.50%	5.54%	6.47%

10. Subsequent Events

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



Independent Auditor's Report

To the shareholder of TSB Bank Limited

Report on the summary financial statements**Opinion**

In our opinion, the accompanying summary financial statements of TSB Bank Limited (the 'Bank') on pages 29 to 36:

- Has been correctly derived from the audited Bank financial statements for the year ended on that date; and
- Is a fair summary of the Bank financial statements, in accordance with FRS 43 Summary Financial Statements.

The accompanying summary financial statements comprises:

- the summary statement of financial position as at 31 March 2022;
- the summary statements of comprehensive income, changes in equity and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standard on Auditing (New Zealand) (ISA (NZ)) 810 (Revised), *Engagements to Report on Summary Financial Statements*.

We are independent of the Bank in accordance with Professional and Ethical Standard 1 International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our firm has also provided other assurance services to the Bank in relation to independent assessments of fees and interest calculation compliance. We have also provided other services to the Bank in relation to regulatory advisory principally related to AML/CFT reporting obligations and specific IT system risk assessment services. Subject to certain restrictions, partners and employees of our firm may also deal with the Bank on normal terms within the ordinary course of trading activities of the business of the Bank. These matters have not impaired our independence as auditor of the Bank. The firm has no other relationship with, or interest in, the Bank

Other information

The Directors, on behalf of the Bank, are responsible for the other information included in the Bank's Annual Report. Other information includes the Highlights, Chair report, CEO report and reports relating to Our customers, Our people and Our communities on pages 2 to 24 within the Bank's Annual Report and also information included on pages 26 to 28. Our opinion on the summary financial statements does not cover any other information and we do not express any form of assurance conclusion thereon



In connection with our audit of the summary financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the summary financial statements 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.



Use of this Independent Auditor's Report

This report is made solely to the shareholder as a body. Our audit 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 audit work, this report, or any of the opinions we have formed.



Responsibilities of the Directors for the summary Financial Statements

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

- the preparation and fair presentation of the summary financial statements in accordance with FRS 43 Summary Financial Statements; and
- implementing necessary internal control to enable the preparation of a summary set of financial statements that is correctly derived from the audited financial statements.



Auditor's Responsibilities for the summary Financial Statements

Our responsibility is to express an opinion on whether the summary financial statements are consistent, in all material respects, with (or are a fair summary of) the audited financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (New Zealand) (ISA (NZ)) 810 (Revised), *Engagements to Report on Summary Financial Statements*.

We expressed an unmodified audit opinion on the financial statements in our audit report dated 9 June 2022.

The summary financial statements do not contain all the disclosures required for a full set of financial statements under generally accepted accounting practice in New Zealand. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of the.

KPMG

KPMG
Wellington
9 June 2022

Directory

Directors

M.C. (Mark) Darrow, FCA, B Bus, CFInstD, JP, Chair (appointed as a Director on 1 February 2022 and became Chair of the Board on 18 March 2022)
M.I. (Murray) Bain, MCom (Hons), BSc, CFInstD, ONZM, Deputy Chair
M.A. (Anne) Blackburn, MA, BA, CFInstD
P.S. (Peter) Dalziel, MBA, CMInstD
H.F. (Harvey) Dunlop, BCom (Ag)
K.C. (Kevin) McDonald, MBA
N. (Natalie) Pearce, BCom
M. (Michael) Schubert, BCom
D.J. (Dion) Tuuta
J.J. (John) Kelly (retired as a Director and Chair of the Board on 18 March 2022)

Executive Management

D. (Donna) Cooper, B.Bus, MA Int Bus, CEO
J. (Joe) Bishop, BA (Hons), GM Product and Marketing
C. (Chris) Boggs, BCom, MBM, GM People & Strategy
G. (Gordon) Davidson, BA, CA, MBA, Chief Financial Officer
J. (Julian) Downs, BSc, GM Technology
S. (Sean) Edwards, MBA, MHSc (Psych), GM Customer Solutions and Service
G. (Graeme) Scrivener, MA, BA(Hons), Chief Risk Officer
L. (Larissa) Vaughan, LLB (Hons), GM Regulatory Affairs and General Counsel

Registered Office

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

Auditor

KPMG
10 Customhouse Quay,
Wellington 6011

Contact Us

Postal Address: PO Box 240, Taranaki Mail Centre, New Plymouth, 4340
Phone Number: (06) 968 3700
Fax Number: (06) 968 3740
Web Address: <https://www.tsb.co.nz/contact>

