

TSB Bank General Short Form Disclosure Statement

**for the nine months ended
31 December 2009**

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General Short Form Disclosure Statement

For the Nine Months Ended 31 December 2009

This General Short Form Disclosure Statement contains information as required by the Registered Bank Disclosure Statement (Off Quarter - New Zealand Incorporated Registered Banks) Order 2008 ('the Order').

1. NAME AND REGISTERED OFFICE OF REGISTERED BANK

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

2. DETAILS OF INCORPORATION

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

3. OWNERSHIP

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

4. DIRECTORATE

All Directors of the Bank reside in New Zealand

E. (Elaine) Gill, ONZM, LLB
(Chair – Board of Directors)
Company Director

B.C. (Bruce) Richards, MNZM, B Com, CA, CMA.
(Deputy Chair)
Chartered Accountant

P.K. (Kemp) Broughton BE, FIPENZ, J.P
Company Director

J.J. (John) Kelly
Company Director

D.L. (David) Lean, QSO., J.P
Company Director

M.M. (Maeve) McCarthy, LLB
Solicitor

K.J. (Kevin) Murphy, CA
TSB Bank Managing Director/CEO

C.B. (Colleen) Tuuta
Company Director

D.E (David) Walter, QSO, J.P
Company Director

There has been a change in the composition of Board of Directors since the publication date of the previous General Disclosure Statement, with Kevin Murphy appointed as Managing Director/CEO of TSB Bank Limited on 2 January 2010, following the retirement of Kevin Rimmington. There have been no transactions between the Bank and any Director or immediate relative or close business associate of any Director which either, has been entered into on terms other than those which would in the ordinary course of business of the Bank be given to any other person of the like circumstances or means or, which could be reasonably likely to influence materially the exercise of the Director's duties. Independent Directors are E Gill, B C Richards, J J Kelly, D L Lean, M M McCarthy and D E Walter.

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

5. AUDITOR

KPMG
10 Customhouse Quay
Wellington 6011

6. POLICY ON DIRECTORS CONFLICTS OF INTEREST

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

General Short Form Disclosure Statement For the Nine Months Ended 31 December 2009

7. CONDITIONS OF REGISTRATION

The following changes have been made to the Bank's Conditions of Registration pursuant to section 74(2) of the Reserve Bank of New Zealand 1989.

Condition of Registration 11, is a new condition, effective 1 April 2010. This new condition requires the Bank to comply to certain ratios as part of its liquidity-risk management. For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) dated 20 October 2009 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated October 2009.

Condition of Registration 12, is a new condition, effective 1 April 2010. This new condition requires the Bank to have an internal framework for liquidity risk management.

A copy of the 'Conditions of Registration' is included in this General Short Form Disclosure Statement, as from 22 October 2009.

8. 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.

9. CREDIT RATING

TSB Bank Limited has a credit rating applicable to its long term senior unsecured obligations payable in New Zealand, in New Zealand dollars. The current rating is **BBB+/Stable/A2**. This was reaffirmed on 17 September 2009. The credit rating was given by Standard & Poor's (Australia) Pty Limited. The current rating of BBB+ was raised from BBB on 19 March 2008. The rating is not subject to any qualifications.

Rating scale for long term senior unsecured obligations.

AAA Extremely strong capacity to pay interest and repay principal in a timely manner.

AA Very strong capacity to pay interest and repay principal in a timely manner.

A Strong capacity to pay interest and repay principal in a timely manner but may be more susceptible to adverse effects of changes in circumstances and economic conditions than higher rated entities.

BBB Adequate capacity to pay interest and repay principal in a timely manner but are more likely to be weakened by adverse changes in circumstances and economic conditions than higher rated entities.

BB A degree of speculation exists with respect to the ability of an entity with this credit rating to pay interest and repay principal in a timely manner. Adverse business, financial or economic conditions could impair the borrower's capacity or willingness to meet debt service commitments in a timely manner.

B Entities rated B are more vulnerable to adverse business, financial or economic conditions than entities in higher rated categories. Adverse business, financial or economic conditions will likely impair the borrower's capacity or willingness to meet debt service commitments in a timely manner.

CCC Entities rated CCC are currently vulnerable to default and are dependent on favourable business, financial or economic conditions to meet debt service commitments in a timely manner. In the event of adverse business, financial or economic conditions the entity is likely to default.

CC Entities rated CC are currently vulnerable to non-payment of interest and principal.

C Entities rated C have filed a bankruptcy petition or taken similar action, but payment of obligations are being continued.

D 'D' rated entities are in default. This is assigned when interest or principal payments are not made on the date due or when an insolvency petition or a request to appoint a receiver is filed.

Plus (+) or Minus (-)

The ratings from 'AA' to 'CCC' may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

General Short Form Disclosure Statement For the Nine Months Ended 31 December 2009

10. GUARANTEE ARRANGEMENTS

As at the date of the signing of this General Short Form Disclosure Statement, the following material obligations of the Bank are guaranteed.

On the 12 October 2008 the Minister of Finance announced a Deposit Guarantee Scheme, under which the Crown guarantees retail deposits of participating financial institutions under section 65ZD of the Public Finance Act 1989. The Guarantor is the New Zealand Government (the Crown) which has the address for service of:

Parliament Buildings
Molesworth Street
Wellington 6160
New Zealand.

TSB Bank Limited (the Principal Debtor) has a guarantee under the New Zealand Deposit Guarantee Scheme (Crown Deed of Guarantee). It is a facility where the Crown guarantees people who have deposits with institutions in the scheme. It covers all retail deposits of participating New Zealand registered banks, and retail deposits by locals in non-bank deposit taking entities. The Crown will pay the amount of any indebtedness or interest to the creditor (depositor) when due and payable, should TSB Bank be in default due to insolvency or bankruptcy. The maximum liability of the Crown, (through the Principal Debtor), and to each creditor (depositor) under the Crown Guarantee, is one million New Zealand dollars (\$1,000,000) per customer. The Crown Deed of Guarantee is effective against defaults occurring between the period 12 October 2008 and 12 October 2010.

On 1 January 2010, replacement Crown Guarantee Deeds were put in place. The replacement Crown Deed carries over many of the provisions of the previous Deed but clarify various arrangements that may arise if a deposit taking institution defaults. In particular, the replacement Deeds allow:

- a) Participating institutions to offer both guaranteed and non-guaranteed debt securities;
- b) a 14 day "stand down" between a potential default and invoking the Crown guarantee, which could provide time for the institution to resolve issues and avoid receivership; and
- c) the Crown to limit interest payable after an event of default, if the creditor does not submit a claim within a reasonable time frame.

Credit ratings currently assigned to the New Zealand Government's long term New Zealand dollar debt are:

| | |
|----------------------------|-----|
| Standard and Poor's | AAA |
| Fitch Ratings | AAA |
| Moody's Investor's Service | Aaa |

No changes have been made to these long-term ratings in the last two years.

The table below groups and ranks the ratings classes of the three major international rating agencies.

| Description | S&P Scale | Moody's Scale | Fitch Scale |
|-----------------------------|-----------|---------------|-------------|
| Extremely Strong | AAA | Aaa | AAA |
| Very Strong | AA | Aa | AA |
| Strong | A | A | A |
| Adequate | BBB | Baa | BBB |
| Less Vulnerable | BB | Ba | BB |
| More Vulnerable | B | B | B |
| Currently Vulnerable | CCC | Caa | CCC |
| Currently Highly Vulnerable | CC | Ca | CC |
| Default | D | C | D |

A copy of TSB Bank's Crown Deed of Guarantee and general information on the New Zealand Deposit Guarantee Scheme, and the most recent audited financial statements of the New Zealand Government, can be accessed at the following internet addresses:

www.treasury.govt.nz/government/financialstatements

11. FINANCIAL AND SUPPLEMENTARY DISCLOSURES

This General Short Form Disclosure Statement is inclusive of the Bank's unaudited interim financial statements for the nine months ended 31 December 2009. All necessary additional financial and supplementary disclosures are included in the notes attached to the interim financial statements. Therefore the Bank has not published any supplementary disclosures.

General Short Form Disclosure Statement For the Nine Months Ended 31 December 2009

12. DIRECTORS' STATEMENT

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

- a) The Short Form Disclosure Statement contains all the information required by the Registered Bank Disclosure Statement (Off Quarter - New Zealand Incorporated Registered Banks) Order 2008:
- b) The Short Form Disclosure Statement is not false or misleading.

The Directors believe, after due enquiry, that for the nine months ended 31 December 2009:

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



E. Gill
 (Chair - Board of Directors)



B. C. Richards
 (Deputy Chair)



P. K. Broughton



J. J. Kelly



D. L. Lean



M. M. McCarthy



K. J. Murphy
 (Managing Director/CEO)



C. B. Tuuta



D. E. Walter

18 February 2010

CONDITIONS OF REGISTRATION

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

1. That the Bank Group complies with the following requirements:

- (a) the total capital ratio of the banking group is not less than 8 percent;
- (b) the tier one capital ratio of the banking group is not less than 4 percent; and
- (c) the capital of the Banking Group is not less than NZ \$30 million.

For the purposes of this condition of registration, capital, the total capital ratio and the tier one capital ratio must be calculated in accordance with the Reserve Bank of New Zealand document entitled "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2007.

1A. That-

- (a) the Bank has an internal capital adequacy assessment process ("ICAAP") that accords with the requirements set out in the document "Guidelines on a Bank's Internal Capital Adequacy Assessment Process ("ICAAP")" (BS12) dated December 2007;
- (b) under its ICAAP, the Bank identifies and measures its "other material risks" defined as all material risks of the Banking Group that are not explicitly captured in the calculation of tier one and total capital ratios under the requirements set out in the document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2007; and
- (c) the Bank determines an internal capital allocation for each identified and measured "other material risk".

2. That the Banking Group does not conduct any non-financial activities that in aggregate are material relative to its total activities, where the term material is based on generally accepted accounting practice, as defined in the Financial Reporting Act 1993.

3. That the Banking Group's insurance business is not greater than 1% of its total consolidated assets. For the purposes of this condition:

- (i) Insurance business means any business of the nature referred to in section 4 of the Insurance Companies (Ratings and Inspection) Act 1994 (including those to which the Act is disapplied by sections 4(1)(a) and (b) and 9 of that Act), or any business of the nature referred to in section 3(1) of the Life Insurance Act 1908;

(ii) In measuring the size of the Banking Group's insurance business:

- (a) where insurance business is conducted by any entity whose business predominantly consists of insurance business, the size of that insurance business shall be:
 - the total consolidated assets of the group headed by that entity;
 - or if the entity is a subsidiary of another entity whose business predominantly consists of insurance business, the total consolidated assets of the group headed by the latter entity;
- (b) otherwise, the size of each insurance business conducted by an entity within the banking group shall equal the total liabilities relating to that insurance business, plus the equity retained by the entity to meet the solvency or financial soundness needs of the insurance business;
- (c) the amounts measured in relation to parts (a) and (b) shall be summed and compared to the total consolidated assets of the Banking Group. All amounts in parts (a) and (b) shall relate to on balance sheet items only, and shall be determined in accordance with generally accepted accounting practice, as defined in the Financial Reporting Act 1993;
- (d) where products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets shall be considered part of the insurance business.

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

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

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

CONDITIONS OF REGISTRATION

For the purposes of this registration, compliance with the rating-contingent connected exposure limit is determined in accordance with Reserve Bank of New Zealand document entitled "Connected Exposures Policy" (BS8) dated March 2008.

5. That exposures to connected persons are not on more favourable terms (eg as relates to such matters as credit assessment, tenor, interest rates, amortisation schedules and requirement for collateral) than corresponding exposures to non-connected persons.
6. That the Board of the Registered Bank contains at least two independent Directors. In this context an independent Director is a Director who is not an employee of the Registered Bank, and who is not a director, trustee or employee of any holding company of the Registered Bank, or any other entity capable of controlling or significantly influencing the Registered Bank.
7. That the chairperson of the Bank's board is not an employee of the Registered Bank.
8. That the Bank's constitution does not include any provision permitting a director, when exercising powers or performing duties as a Director, to act other than in what he or she believes is the best interest of the company (ie the Bank).
9. That no appointment of any Director, Chief Executive Officer, or Executive who reports or is accountable directly to the Chief Executive Officer, shall be made in respect of the Bank unless:
 - (i) The Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
 - (ii) The Reserve Bank has advised that it has no objection to that appointment
10. That a substantial proportion of the Bank's business is conducted in and from New Zealand.
11. That the banking group complies with the following quantitative requirements for liquidity-risk management with effect from 1 April 2010:
 - (a) The one-week mismatch ratio of the Banking group is not less than zero per cent at the end of each business day;
 - (b) The one-month mismatch ratio of the Banking group is not less than zero per cent at the end of each business day; and
 - (c) The one-year core funding ratio of the banking group is not less than 65 per cent at the end of each business day.

For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) dated 20 October 2009 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated October 2009.
12. That, with effect from 1 April 2010, the registered bank has an internal framework for liquidity risk management that is adequate in the Registered Bank's view for managing the Bank's liquidity risk at a prudent level, and that, in particular:
 - (a) Is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;
 - (b) Identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;
 - (c) Identifies the principal methods that the Bank will use for measuring, monitoring and controlling liquidity risk; and
 - (d) Considers the material sources of stress that the Bank might face, and prepares the Bank to manage stress through a contingency funding plan.

For the purposes of these conditions of registration, the term "Banking Group" means TSB Bank Limited's financial reporting group (as defined in section 2(1) of the Financial Reporting Act 1993).

INCOME STATEMENT FOR THE NINE MONTHS ENDED 31 DECEMBER 2009

| | Note | 31 December 2009 Unaudited \$000 | 31 December 2008 Unaudited \$000 | 31 March 2009 Audited \$000 |
|---|------|---|---|--------------------------------------|
| Interest Income | 2 | 197,933 | 219,428 | 284,442 |
| Interest Expense | 2 | 113,557 | 148,928 | 192,826 |
| Net Interest Income | | 84,376 | 70,500 | 91,616 |
| Other Operating Income | 3 | 11,095 | 8,038 | 15,409 |
| Net Operating Income | | 95,471 | 78,538 | 107,025 |
| Operating Expenses | 4 | 33,504 | 29,153 | 42,719 |
| Net Profit before Impairment Loss and Taxation | | 61,967 | 49,385 | 64,306 |
| Provision for Impairment Loss | | 2,546 | 1,360 | 3,020 |
| Net Profit before Taxation | | 59,421 | 48,025 | 61,286 |
| Taxation | | 17,865 | 14,408 | 18,394 |
| Net Profit after Taxation | | 41,556 | 33,617 | 42,892 |

STATEMENT OF COMPREHENSIVE INCOME FOR THE NINE MONTHS ENDED 31 DECEMBER 2009

| | 31 December 2009 Unaudited \$000 | 31 December 2008 Unaudited \$000 | 31 March 2009 Audited \$000 |
|--|---|---|--------------------------------------|
| Net Profit after Taxation | 41,556 | 33,617 | 42,892 |
| Other Comprehensive Income: | | | |
| Cash Flow Hedges | (13,776) | 17,489 | 23,055 |
| Income Tax on Other Comprehensive Income | 4,133 | - | (6,917) |
| Other Comprehensive Income for the period | (9,643) | 17,489 | 16,138 |
| Total Comprehensive Income for the period | 31,913 | 51,106 | 59,030 |

These interim financial statements are to be read in conjunction with the notes on pages 12 to 29.

STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED 31 DECEMBER 2009

| | 31 December 2009 Unaudited \$000 | 31 December 2008 Unaudited \$000 | 31 March 2009 Audited \$000 |
|--|---|---|--------------------------------------|
| Shareholder's Equity | | | |
| Beginning of Period | 286,851 | 253,159 | 253,159 |
| Net Profit after Taxation | 41,556 | 33,617 | 42,892 |
| Dividends | (2,800) | (2,600) | (9,200) |
| Balance at end of period | 325,607 | 284,176 | 286,851 |
| Cash Flow Hedge Reserve | | | |
| Beginning of Period | 16,138 | - | - |
| Movement in fair value of Derivatives | (13,776) | 17,489 | 23,055 |
| Tax on Movements | 4,133 | - | (6,917) |
| Balance at end of period | 6,495 | 17,489 | 16,138 |
| Shareholder's Equity at end of Period | 332,102 | 301,665 | 302,989 |
| Represented by: | | | |
| Net Profit after Taxation | 41,556 | 33,617 | 42,892 |
| Other Comprehensive Income | (9,643) | 17,489 | 16,138 |
| Total Comprehensive Income for the period | 31,913 | 51,106 | 59,030 |
| Dividends | (2,800) | (2,600) | (9,200) |
| Shareholder's Equity at beginning of the period | 302,989 | 253,159 | 253,159 |
| | 332,102 | 301,665 | 302,989 |

These interim financial statements are to be read in conjunction with the notes on pages 12 to 29.

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2009

| | Note | 31 December 2009 Unaudited \$000 | 31 December 2008 Unaudited \$000 | 31 March 2009 Audited \$000 |
|---|------|---|---|--------------------------------------|
| Assets | | | | |
| Cash and Cash Equivalents | 5 | 96,646 | 93,073 | 62,326 |
| Derivative Financial Instruments | 6 | 12,887 | 17,613 | 27,356 |
| Investment Securities | 7 | 1,820,963 | 1,418,624 | 1,591,108 |
| Loans and Advances to Customers | 8 | 2,345,359 | 2,095,363 | 2,130,669 |
| Other Assets | 9 | 1,289 | 1,321 | 1,152 |
| Deferred Tax Asset | | 3,832 | 5,653 | - |
| Property, Plant and Equipment | 10 | 18,853 | 18,696 | 18,677 |
| Intangible Assets | 11 | 561 | 660 | 732 |
| Total Assets | | 4,300,390 | 3,651,003 | 3,832,020 |
| Liabilities | | | | |
| Deposits from Customers | 13 | 3,922,862 | 3,300,395 | 3,474,351 |
| Derivative Financial Instruments | 6 | 1,108 | - | 1,551 |
| Current Tax Liability | | 9,493 | 7,906 | 5,771 |
| Other Liabilities | 14 | 34,825 | 41,037 | 46,572 |
| Deferred Tax Liability | | - | - | 786 |
| Total Liabilities | | 3,968,288 | 3,349,338 | 3,529,031 |
| Shareholder's Equity | | | | |
| Share Capital | 15 | 10,000 | 10,000 | 10,000 |
| Cash Flow Hedge Reserve | 15 | 6,495 | 17,489 | 16,138 |
| Retained Earnings | 15 | 315,607 | 274,176 | 276,851 |
| Total Shareholder's Equity | | 332,102 | 301,665 | 302,989 |
| Total Liabilities and Shareholder's Equity | | 4,300,390 | 3,651,003 | 3,832,020 |
| Total Interest Earning and Discount Bearing Assets | | 4,272,253 | 3,610,690 | 3,794,617 |
| Total Interest and Discount Bearing Liabilities | | 3,766,143 | 3,162,213 | 3,319,448 |

These interim financial statements are to be read in conjunction with the notes on pages 12 to 29.

STATEMENT OF CASH FLOWS

FOR THE NINE MONTHS ENDED 31 DECEMBER 2009

| | Note | 31 December 2009 Unaudited \$000 | 31 December 2008 Unaudited \$000 | 31 March 2009 Audited \$000 |
|---|------|---|---|--------------------------------------|
| Cash Flows from Operating Activities | | | | |
| Cash provided from (applied to): | | | | |
| Interest Income Received | | 194,132 | 219,428 | 283,006 |
| Other Income Received | | 10,958 | 9,194 | 12,357 |
| Interest Paid | | (86,522) | (148,928) | (192,826) |
| Operating Expenditure | | (36,529) | (20,944) | (34,333) |
| Taxation Paid | | (14,628) | (6,332) | (12,931) |
| Cash Flows from Operating Profits before Changes in Operating Assets and Liabilities | | 67,411 | 52,418 | 55,273 |
| Increase in Loans and Advances to Customers | | (217,856) | (46,943) | (84,820) |
| Derivative Financial Instruments | | 250 | 561 | 2,311 |
| Increase in Deposits from Customers | | 421,476 | 426,160 | 600,116 |
| Cash Flow from operating Assets and Liabilities | | 203,870 | 379,778 | 517,607 |
| Net Cash Flow from Operating Activities | | 271,281 | 432,196 | 572,880 |
| Cash Flows from Investing Activities | | | | |
| Cash provided from (applied to): | | | | |
| Property, Plant and Equipment Sold | | 74 | 3 | 36 |
| Increase in Investment Securities * | | (225,544) | (419,154) | (589,291) |
| Property, Plant and Equipment Purchased | | (2,063) | (4,719) | (5,344) |
| Intangible Assets Purchased | | (28) | - | (702) |
| Net Cash Flow from Investing Activities | | (227,561) | (423,870) | (595,301) |
| Cash Flows from Financing Activities | | | | |
| Cash provided from (applied to): | | | | |
| Dividends Paid | | (9,400) | (8,910) | (8,910) |
| Net Cash Flow from Financing Activities | | (9,400) | (8,910) | (8,910) |
| Net Increase/(Decrease) in Cash and Cash Equivalents | | 34,320 | (584) | (31,331) |
| Add Cash and Cash Equivalents at Beginning of Year | | 62,326 | 93,657 | 93,657 |
| Cash and Cash Equivalents at End of Period | | 96,646 | 93,073 | 62,326 |

* Investment Securities are designated as held to maturity. Cash flows associated with Investment Securities arise when an existing investment security matures or cash positions enable further purchases.

These interim financial statements are to be read in conjunction with the notes on pages 12 to 29.

STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE NINE MONTHS ENDED 31 DECEMBER 2009

| | 31 December 2009 Unaudited \$000 | 31 December 2008 Unaudited \$000 | 31 March 2009 Audited \$000 |
|--|---|---|--------------------------------------|
| Reconciliation of Net Profit after Taxation To Net Cash Flows from Operating Activities | | | |
| Net Profit after Taxation | 41,556 | 33,617 | 42,892 |
| Add Movements in Balance Sheet Items | | | |
| Accounts Payable | 21,888 | 6,068 | 5,003 |
| Provision for Tax | 3,722 | 8,980 | 6,845 |
| Deposits from Customers | 421,476 | 426,160 | 600,116 |
| Deferred Tax Asset | (485) | (904) | (1,382) |
| Accounts Receivable | (3,938) | (606) | (1,874) |
| Derivative Financial Instruments | 250 | 2,323 | (303) |
| Loans and Advances to Customers | (217,856) | (46,943) | (84,820) |
| | 225,057 | 395,078 | 523,585 |
| Add Non- Cash Items | | | |
| Depreciation | 1,813 | 1,947 | 2,559 |
| Impairment Losses on Advances to Customers | 2,656 | 1,360 | 3,020 |
| Amortisation of Intangible Assets | 199 | 194 | 824 |
| | 4,668 | 3,501 | 6,403 |
| Net Cash Flow from Operating Activities | 271,281 | 432,196 | 572,880 |
| Reconciliation of Cash and Cash Equivalents to the Balance Sheet | | | |
| Cash and Balances with Reserve Bank | 88,955 | 83,933 | 58,410 |
| Cash and Cash at Bank | 7,691 | 9,140 | 3,916 |
| Total Cash and Cash Equivalents at End of Period | 96,646 | 93,073 | 62,326 |

These interim financial statements are to be read in conjunction with the notes on pages 12 to 29.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 31 DECEMBER 2009

1. STATEMENT OF ACCOUNTING POLICIES

GENERAL ACCOUNTING POLICIES

TSB Bank Limited is a profit-oriented company registered under the Companies Act 1993, incorporated and domiciled in New Zealand. The Bank's principal business activities are retail banking in New Zealand. These financial statements have been prepared in accordance with NZ IAS 34 Interim Financial Reporting, the Companies Act 1993, the Financial Reporting Act 1993, and the Registered Bank Disclosure Statement (Off Quarter – New Zealand Incorporated Registered Banks) Order 2008.

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

The interim financial statements were approved by the Board of Directors on 18 February 2010.

Change in Accounting Policies:

NZ IFRS 8 Operating Segments ("NZ IFRS 8"), and NZ IAS 1 Presentation of Financial Statements (revised) ("NZ IAS 1") have been applied by the Bank for the nine months ended 31 December 2009.

NZ IFRS 8 replaces NZ IAS 14 Segment Reporting and requires the use of a "management approach" to segment reporting. Segment information is therefore presented on the same basis as that used for internal reporting purposes. The Bank's reportable operating standards did not change on adoption of NZ IFRS 8.

In accordance with NZ IAS 1, a "Statement of Comprehensive Income" has been disclosed showing net profit or loss and revenues and expenses recognised directly in equity. In addition the revised "Statement of Changes in Equity" shows all changes in equity.

The application of these standards has not resulted in a material impact on the Bank's reported profit or financial position.

There have been no other changes in accounting policies since the authorisation date of the previous General Disclosure Statement on 19 November 2009.

Presentation Currency and Rounding

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

Comparative Data

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

Standards Issued But Not Yet Effective

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

NZ IFRS 9 – Financial Instruments. It is the intention of the IASB to replace IAS 39 with IFRS 9. This standard is effective for annual reporting period beginning on or after 1 January 2013.

NZ IAS 24 – Related Party Disclosures (revised 2009). This standard is effective for annual reporting period beginning on or after 1 July 2011.

NZ IAS 34 – Interim Financial Reporting – Scope. This standard is effective for annual reporting period beginning on or after 1 July 2009.

NZ IAS 39 – Amendment: Eligible Hedged Items. This standard is effective for annual reporting period beginning on or after 1 July 2009.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED 31 DECEMBER 2009

| | 31 December 2009 Unaudited \$000 | 31 December 2008 Unaudited \$000 | 31 March 2009 Audited \$000 |
|--|---|---|--------------------------------------|
| 2. NET INTEREST INCOME | | | |
| Interest Income | | | |
| Cash and Cash Equivalents | 5,159 | 4,799 | 5,477 |
| Investment Securities | 52,032 | 74,607 | 95,522 |
| Loans and Advances to Customers* | 123,794 | 138,884 | 182,006 |
| Derivative Financial Instruments | 16,948 | 1,138 | 1,437 |
| Total Interest Income | 197,933 | 219,428 | 284,442 |
| Interest Expense | | | |
| Deposits from Customers | 113,557 | 148,928 | 192,826 |
| Net Interest Income | 84,376 | 70,500 | 91,616 |
| * Interest income on Loans and Advances to Customers includes interest earned on Impaired Assets of \$0.327m (\$0.143; 31 Dec 2008, \$0.223m; 31 March 2009) | | | |
| Interest income from investment securities relates to investment securities that are held to maturity. | | | |
| Interest income from Loans and Advances to Customers relates to financial assets that are designated as loans and receivables. | | | |
| The only components of interest income reported above that relate to financial assets carried at fair value through profit or loss is the income on cash and cash equivalents, and derivative financial instruments. | | | |
| Interest expense on deposits from customers relates to financial liabilities measured at amortised cost. | | | |
| 3. OTHER OPERATING INCOME | | | |
| Lending and Credit Facility Related Income | 4,199 | 2,439 | 4,874 |
| Commission and Other Trading Income * | 6,690 | 6,781 | 9,073 |
| Gain/(Loss) in Fair Value on Derivatives. | (455) | (2,900) | (288) |
| Other Income | 661 | 1,718 | 1,750 |
| | 11,095 | 8,038 | 15,409 |
| *Includes income from TSB Realty, and TSB Foreign Exchange. | | | |
| 4. OPERATING EXPENSES | | | |
| Auditors Remuneration: | | | |
| Statutory Audit | 90 | 87 | 117 |
| Bad Debts | 1,020 | 406 | 1,132 |
| Depreciation: | | | |
| Buildings | 653 | 569 | 782 |
| Computer Equipment | 487 | 567 | 733 |
| Other | 673 | 811 | 1,044 |
| Amortisation of Intangible Assets | 199 | 194 | 824 |
| Directors' Fees | 232 | 161 | 215 |
| Personnel Expenses | 13,266 | 11,307 | 16,045 |
| Defined Contribution Plan | 814 | 215 | 505 |
| Information Technology Expenses | 3,940 | 4,036 | 5,667 |
| Other Expenses | 12,130 | 10,800 | 15,655 |
| | 33,504 | 29,153 | 42,719 |
| 5. CASH AND CASH EQUIVALENTS | | | |
| Cash and Cash at Bank | 7,691 | 9,140 | 3,916 |
| Cash and Balances with Reserve Bank | 88,955 | 83,933 | 58,410 |
| | 96,646 | 93,073 | 62,326 |

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED 31 DECEMBER 2009

6. DERIVATIVE FINANCIAL INSTRUMENTS

The Bank uses interest rate swaps to manage the interest rate exposure on identified fixed rate Loans and Investment Securities. Interest rate swaps are used to maintain a margin for fixed rate interest rate arrangements.

| | As at 31 December 2009 | | |
|--------------------------------|-----------------------------|-----------------|----------------------|
| | Notional Amount \$000 | Fair Value | |
| | | Assets \$000 | Liabilities \$000 |
| Interest Rate Contracts | | | |
| Swaps | 25,700 | - | 1,108 |
| | 25,700 | - | 1,108 |

Cash Flow Hedges

The Bank uses interest rate options to hedge the interest rate risk on interest bearing assets and liabilities. Interest Rate Options (CAPS and FLOORS) are used to hedge the forecasted interest cash flows affected by the rise and fall of interest rates.

| | As at 31 December 2009 | | |
|--------------------------------|-----------------------------|-----------------|----------------------|
| | Notional Amount \$000 | Fair Value | |
| | | Assets \$000 | Liabilities \$000 |
| Interest Rate Contracts | | | |
| Options | 1,750,000 | 12,887 | - |
| | 1,750,000 | 12,887 | - |

| | As at 31 December 2008 | | |
|--------------------------------|-----------------------------|-----------------|----------------------|
| | Notional Amount \$000 | Fair Value | |
| | | Assets \$000 | Liabilities \$000 |
| Interest Rate Contracts | | | |
| Swaps | 23,100 | - | 1,509 |
| Options | 1,650,000 | 19,122 | - |
| | 1,673,100 | 19,122 | 1,509 |

| | As at 31 March 2009 | | |
|--------------------------------|-----------------------------|-----------------|----------------------|
| | Notional Amount \$000 | Fair Value | |
| | | Assets \$000 | Liabilities \$000 |
| Interest Rate Contracts | | | |
| Swaps | 23,100 | - | 1,551 |
| | 23,100 | - | 1,551 |

| | As at 31 March 2009 | | |
|--------------------------------|-----------------------------|-----------------|----------------------|
| | Notional Amount \$000 | Fair Value | |
| | | Assets \$000 | Liabilities \$000 |
| Cash Flow Hedges | | | |
| Interest Rate Contracts | | | |
| Options | 1,550,000 | 27,356 | - |
| | 1,550,000 | 27,356 | - |

7. INVESTMENT SECURITIES

| | 31 December 2009 Unaudited \$000 | 31 December 2008 Unaudited \$000 | 31 March 2009 Audited \$000 |
|---|---|---|--------------------------------------|
| Local Authority Securities | 684,060 | 509,962 | 632,854 |
| Bank Registered Certificates of Deposit | 355,293 | 663,681 | 729,449 |
| Fixed Bank Deposits | 370,000 | - | - |
| Other Investments * | 411,610 | 244,981 | 228,805 |
| | 1,820,963 | 1,418,624 | 1,591,108 |

* Other Investments relate to investments in Commercial Paper and Bonds of an investment grade or better.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED 31 DECEMBER 2009

8. LOANS AND ADVANCES TO CUSTOMERS

| | 31 December 2009 Unaudited \$000 | 31 December 2008 Unaudited \$000 | 31 March 2009 Audited \$000 |
|--|---|---|--------------------------------------|
| Residential Mortgages | 2,126,184 | 1,868,872 | 1,909,325 |
| Community | 5,781 | 7,036 | 6,482 |
| Commercial | 113,932 | 118,252 | 117,891 |
| Rural | 70,508 | 67,215 | 65,113 |
| Other * | 45,930 | 46,758 | 46,288 |
| Total Gross Loans and Advances to Customers | 2,362,335 | 2,108,133 | 2,145,099 |
| Less Provision for Impairment Loss | (16,976) | (12,770) | (14,430) |
| Total Loans and Advances to Customers | 2,345,359 | 2,095,363 | 2,130,669 |

* Other is inclusive of other Retail Lending and Visa balances.

9. OTHER ASSETS

| | | | |
|-----------------------------|--------------|--------------|--------------|
| Trade and Other Receivables | 1,289 | 1,321 | 1,152 |
| | 1,289 | 1,321 | 1,152 |

10. PROPERTY, PLANT AND EQUIPMENT

As at 31 December 2009

| Unaudited \$000 | Land | Buildings | Computer Equipment | Other * | Work in Progress | Total |
|---|--------------|---------------|-----------------------|---------------|---------------------|---------------|
| Cost | | | | | | |
| Opening Balance | 4,318 | 13,779 | 8,046 | 11,297 | 23 | 37,463 |
| Additions | - | 1,306 | 139 | 738 | 2,870 | 5,053 |
| Disposals | - | - | (15) | (292) | (2,886) | (3,193) |
| Closing Balance | 4,318 | 15,085 | 8,170 | 11,743 | 7 | 39,323 |
| Depreciation and Impairment Losses | | | | | | |
| Opening Balance | - | 3,412 | 7,163 | 8,211 | - | 18,786 |
| Depreciation for the period | - | 653 | 487 | 673 | - | 1,813 |
| Impairment Loss | - | - | - | - | - | - |
| Accumulated Depreciation (Disposals) | - | - | (4) | (125) | - | (129) |
| Closing Balance | - | 4,065 | 7,646 | 8,759 | - | 20,470 |
| Closing Net Book Value | | | | | | |
| Balance as at 1 April 2009 | 4,318 | 10,367 | 883 | 3,086 | 23 | 18,677 |
| Balance as at 31 December 2009 | 4,318 | 11,020 | 524 | 2,984 | 7 | 18,853 |

* Other is inclusive of Asset categories – Fixtures & Fittings, Plant & Equipment, Furniture, Office Equipment, and Motor Vehicles.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED 31 DECEMBER 2009

10. PROPERTY, PLANT AND EQUIPMENT - continued

As at 31 December 2008

Unaudited
\$000

| | Land | Buildings | Computer Equipment | Other * | Work in Progress | Total |
|------------------------|--------------|---------------|-----------------------|---------------|---------------------|---------------|
| Cost | | | | | | |
| Opening Balance | 1,596 | 12,854 | 12,579 | 10,283 | 81 | 37,393 |
| Additions | - | 723 | 71 | 1,064 | 4,797 | 6,655 |
| Disposals | - | - | (4,791) | (297) | (1,929) | (7,017) |
| Closing Balance | 1,596 | 13,577 | 7,859 | 11,050 | 2,949 | 37,031 |

Depreciation and Impairment Losses

| | | | | | | |
|--------------------------------------|----------|--------------|--------------|--------------|----------|---------------|
| Opening Balance | - | 2,702 | 11,221 | 7,542 | - | 21,465 |
| Depreciation for the period | - | 569 | 567 | 811 | - | 1,947 |
| Impairment Loss | - | - | - | - | - | - |
| Accumulated Depreciation (Disposals) | - | - | (4,791) | (286) | - | (5,077) |
| Closing Balance | - | 3,271 | 6,997 | 8,067 | - | 18,335 |

Closing Net Book Value

| | | | | | | |
|---------------------------------------|--------------|---------------|------------|--------------|--------------|---------------|
| Balance as at 1 April 2008 | 1,596 | 10,152 | 1,358 | 2,741 | 81 | 15,928 |
| Balance as at 31 December 2008 | 1,596 | 10,306 | 862 | 2,983 | 2,949 | 18,696 |

* Other is inclusive of Asset categories - Fixtures & Fittings, Plant & Equipment, Furniture, Office Equipment, and Motor Vehicles.

As at 31 March 2009

Audited
\$000

| | Land | Buildings | Computer Equipment | Other * | Work in Progress | Total |
|------------------------|--------------|---------------|-----------------------|---------------|---------------------|---------------|
| Cost | | | | | | |
| Opening Balance | 1,596 | 12,854 | 12,579 | 10,283 | 81 | 37,393 |
| Additions | 2,722 | 1,010 | 258 | 1,378 | 5,622 | 10,990 |
| Disposals | - | (85) | (4,791) | (364) | (5,680) | (10,920) |
| Closing Balance | 4,318 | 13,779 | 8,046 | 11,297 | 23 | 37,463 |

Depreciation and Impairment Losses

| | | | | | | |
|--------------------------------------|----------|--------------|--------------|--------------|----------|---------------|
| Opening Balance | - | 2,702 | 11,221 | 7,542 | - | 21,465 |
| Depreciation for the period | - | 782 | 733 | 1,044 | - | 2,559 |
| Impairment Loss | - | - | - | - | - | - |
| Accumulated Depreciation (Disposals) | - | (72) | (4,791) | (375) | - | (5,238) |
| Closing Balance | - | 3,412 | 7,163 | 8,211 | - | 18,786 |

Closing Net Book Value

| | | | | | | |
|------------------------------------|--------------|---------------|------------|--------------|-----------|---------------|
| Balance as at 1 April 2008 | 1,596 | 10,152 | 1,358 | 2,741 | 81 | 15,928 |
| Balance as at 31 March 2009 | 4,318 | 10,367 | 883 | 3,086 | 23 | 18,677 |

* Other is inclusive of Asset categories - Fixtures & Fittings, Plant & Equipment, Furniture, Office Equipment, and Motor Vehicles.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED 31 DECEMBER 2009

11. INTANGIBLE ASSETS

| | 31 December 2009 Unaudited \$000 | 31 December 2008 Unaudited \$000 | 31 March 2009 Audited \$000 |
|---|---|---|--------------------------------------|
| Cost | | | |
| Opening Balance | 4,035 | 4,724 | 4,724 |
| Additions | 28 | - | 702 |
| Disposals | - | (1,391) | (1,391) |
| Closing Balance | 4,063 | 3,333 | 4,035 |
| Amortisation and Impairment | | | |
| Opening Balance | 3,303 | 3,870 | 3,870 |
| Amortisation for the period | 199 | 194 | 824 |
| Impairment Loss | - | - | - |
| Accumulated Amortisation (Disposals) | - | (1,391) | (1,391) |
| Closing Balance | 3,502 | 2,673 | 3,303 |
| Closing Net Book Value | | | |
| Balance as at 1 April 2009 | 732 | 854 | 854 |
| Closing Balance as at 31 December 2009 | 561 | 660 | 732 |

12. CREDIT RISK MANAGEMENT AND ASSET QUALITY

As set in the Accounting Policies, Other Impaired Assets are any credit exposures for which an impairment loss is required to be recognised in accordance with NZ IAS 39. The majority of the Bank's provisions for impairment are made on a collective basis. The loan portfolio is predominantly residential mortgages which are secured by a first mortgage over freehold dwellings. For overdrafts and visa balances, some are unsecured as well as secured by obligation mortgages, which cover all undertakings with the Bank. The Bank does not have any restructured assets, assets acquired through the enforcement of security, or assets under administration.

The credit quality of Loans and Advances to Customers that were neither past due or impaired can be assessed by reference to the bank's internal rating system. At the origination of Loans and Advances to Customers, contracts are risk graded based on debt servicing ability and Loan-to-Valuation (LVR) ratios. These are reviewed periodically for adverse changes during the loans life. Interest continues to be accrued on all loans. No interest has been foregone in either period.

(a) Credit Quality Information for Advances to Customers

Gross Advances to Customers by Credit Quality

| | | | |
|--|------------------|------------------|------------------|
| Neither Past Due or Impaired | 2,337,932 | 2,086,836 | 2,118,246 |
| Past Due Assets | 19,903 | 19,417 | 24,424 |
| Impaired Assets | 4,500 | 1,880 | 2,429 |
| Total Gross Advances to Customers | 2,362,335 | 2,108,133 | 2,145,099 |

Lending commitments to customers were \$82.9m as at 31 December 2009 (\$61.1m; 31 December 2008 and \$98.7m; 31 March 2009)

Aging Analysis of Past Due Assets

| | | | |
|---------------------------------|---------------|---------------|---------------|
| 30 to 59 days | 10,039 | 10,100 | 13,593 |
| 60 to 89 days | 3,868 | 4,818 | 2,776 |
| Over 90 days | 5,186 | 4,499 | 8,055 |
| Balance at End of Period | 19,093 | 19,417 | 24,424 |

90-day Past Due Assets

| | | | |
|---------------------------------|--------------|--------------|--------------|
| Balance at Beginning of Period | 8,055 | 1,976 | 1,976 |
| Additions | 4,775 | 6,942 | 11,010 |
| Deletions | (7,644) | (4,419) | (4,931) |
| Balance at End of Period | 5,186 | 4,499 | 8,055 |

Impaired Assets

| | | | |
|---------------------------------|--------------|--------------|--------------|
| Balance at Beginning of Period | 2,429 | 905 | 905 |
| Additions | 6,240 | 1,440 | 1,524 |
| Deletions | (4,169) | (465) | - |
| Balance at End of Period | 4,500 | 1,880 | 2,429 |

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED 31 DECEMBER 2009

12. CREDIT RISK MANAGEMENT AND ASSET QUALITY - continued

(b) Provision for Impairment

| | 31 December 2009 Unaudited \$000 | 31 December 2008 Unaudited \$000 | 31 March 2009 Audited \$000 |
|--|---|---|--------------------------------------|
| Collective Provision for Doubtful Debts | | | |
| Balance at Beginning of Period | 13,600 | 11,100 | 11,100 |
| Charged to Income Statement | 1,250 | 1,250 | 2,500 |
| Balance at End of Period | 14,850 | 12,350 | 13,600 |
| Specific Provision for Doubtful Debts | | | |
| Balance at Beginning of Period | 830 | 310 | 310 |
| Add New Provisions | 2,316 | 360 | 520 |
| Less Amounts Written off | (865) | - | - |
| Less Amounts Recovered | (155) | (250) | - |
| Balance at End of Period | 2,126 | 420 | 830 |
| Total Provision for Impairment Loss | 16,976 | 12,770 | 14,430 |
| Impairment Losses charged to Income Statement | | | |
| Collective Provisions | 1,250 | 1,250 | 2,500 |
| Specific Provisions | 1,296 | 110 | 520 |
| Total Impairment Losses charged to Income Statement | 2,546 | 1,360 | 3,020 |

The estimated fair value of collateral and other charges related to financial assets that are individually impaired is \$3.11 million.

(c) Concentrations of Credit Exposures to Individual Counterparties

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

| Percentage of Shareholder's Equity | 31 December 2009 | | | 31 December 2008 | | | 31 March 2009 | | |
|------------------------------------|--------------------------|------|-------|--------------------------|------|-------|--------------------------|------|-------|
| | Unaudited | | | Unaudited | | | Audited | | |
| | Number of Counterparties | | | Number of Counterparties | | | Number of Counterparties | | |
| | Non Bank | Bank | Total | Non Bank | Bank | Total | Non Bank | Bank | Total |
| As at balance date | | | | | | | | | |
| 10% - 20% | 9 | 1 | 10 | 10 | - | 10 | 9 | - | 9 |
| 21% - 30% | 4 | 1 | 5 | 1 | 1 | 2 | 3 | 1 | 4 |
| 31% - 40% | - | - | - | - | 3 | 3 | - | 3 | 3 |
| 41% - 50% | - | - | - | - | 1 | 1 | - | 2 | 2 |
| 51% - 60% | - | 1 | 1 | - | 1 | 1 | - | - | - |
| 61% - 70% | - | - | - | - | - | - | - | - | - |
| 71% - 80% | - | - | - | - | - | - | - | - | - |
| 81% - 90% | - | - | - | - | - | - | - | - | - |
| 91% - 100% | - | 1 | 1 | - | - | - | - | - | - |
| Peak Exposure | | | | | | | | | |
| 10% - 20% | 12 | 2 | 14 | 9 | - | 9 | 11 | - | 11 |
| 21% - 30% | 4 | 2 | 6 | 2 | 1 | 3 | 4 | - | 4 |
| 31% - 40% | - | - | - | - | 2 | 2 | - | 2 | 2 |
| 41% - 50% | - | - | - | - | 2 | 2 | - | 3 | 3 |
| 51% - 60% | - | 1 | 1 | - | 1 | 1 | - | 1 | 1 |
| 61% - 70% | - | - | - | - | - | - | - | - | - |
| 71% - 80% | - | - | - | - | - | - | - | - | - |
| 81% - 90% | - | - | - | - | - | - | - | - | - |
| 91% - 100% | - | 1 | 1 | - | - | - | - | - | - |

NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED 31 DECEMBER 2009

12. CREDIT RISK MANAGEMENT AND ASSET QUALITY - continued

(d) Credit Exposure by Credit Rating

The following table presents the Bank's credit exposure based on the credit rating of the issuer. Credit exposure concentrations are disclosed on the basis of actual credit exposures and calculated on a gross basis, (net of individual provisions and excluding advances of a capital nature). An investment credit rating means a credit rating of BBB- or Baa3 or above, or its equivalent. The amount and percentage of the Bank's credit exposure, excluding connected persons and central government of any country with a long-term credit rating of A- or A3 or above, or its equivalent, where the period end aggregate exposure equalled or exceeded 10% of the Bank's Shareholder's Equity, as at balance date are:

| | 31 Dec 2009 Unaudited | | 31 Dec 2008 Unaudited | | 31 March 2009 Audited | |
|--------------------------------------|---------------------------------------|---|---------------------------------------|---|---------------------------------------|---|
| | Principal Amount \$000 | % of Total Credit Exposure | Principal Amount \$000 | % of Total Credit Exposure | Principal Amount \$000 | % of Total Credit Exposure |
| Bank Counterparties | | | | | | |
| Investment grade credit rating | 644,180 | 100% | 653,230 | 100% | 646,670 | 100% |
| Below investment grade credit rating | - | - | - | - | - | - |
| Not rated | - | - | - | - | - | - |
| Total Credit Exposure | 644,180 | 100% | 653,230 | 100% | 646,670 | 100% |
| Non-Banks Counterparties | | | | | | |
| Investment grade credit rating | 499,750 | 72% | 358,320 | 77% | 419,700 | 76% |
| Below investment grade credit rating | - | - | - | - | - | - |
| Not rated * | 196,000 | 28% | 110,000 | 23% | 130,000 | 24% |
| Total Credit Exposure | 695,750 | 100% | 468,320 | 100% | 549,700 | 100% |

* Not rated exposures are investment securities in unrated Local Authorities.

The credit rating is applicable to an entity's long term senior unsecured obligations payable in New Zealand, in New Zealand dollars.

(e) Credit exposures to connected persons

Credit exposure concentrations are disclosed on the basis of actual credit exposures and calculated on a gross basis (net of specific provisions and excluding advances of a capital nature). The Bank only has credit exposures to non-bank connected persons. Peak end-of-day credit exposures to connected and non-bank connected persons are calculated using the Bank's tier one capital at the end of the period. The rating-contingent limit, which is applicable to the Bank as at balance date, is 15%. There have been no rating-contingent limit changes during the last quarter. Within the rating-contingent limit there is a sub-limit of 15%, which applies to non-bank connected persons. All limits on aggregate credit exposure to all connected persons and non-bank connected persons in the Bank's Conditions of Registration have been complied with at all times over the last quarter. The information on credit exposures to connected persons has been derived in accordance with the Reserve Bank of New Zealand document entitled "Connected Exposures Policy (BS8)" dated March 2008. There are no specific provisions against credit exposures to connected persons as at 31 December 2009 (31 December 2008: nil).

| | 2009 31 Dec Unaudited \$000 | 2008 31 Dec Unaudited \$000 | 2009 31 March Audited \$000 |
|---|--|--|--|
| Credit exposures to connected and non-bank connected persons at period end | 479 | 504 | 495 |
| Credit exposures to connected and non-bank connected persons at period end expressed as a percentage of total tier one capital | 0.2% | 0.2% | 0.2% |
| Peak credit exposures to connected and non-bank connected persons during the period | 479 | 504 | 495 |
| Peak credit exposures to connected and non-bank connected persons during the period expressed as a percentage of total tier one capital | 0.2% | 0.2% | 0.2% |

NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED 31 DECEMBER 2009

13. DEPOSITS FROM CUSTOMERS

| | 31 December 2009 Unaudited \$'000 | 31 December 2008 Unaudited \$'000 | 31 March 2009 Audited \$'000 |
|---------------------------------------|--|--|---|
| Retail Term Deposits | 2,599,987 | 1,746,767 | 1,715,837 |
| On Call Deposits Bearing Interest | 1,236,156 | 1,415,446 | 1,603,611 |
| On Call Deposits Not Bearing Interest | 156,719 | 138,182 | 154,903 |
| | 3,992,862 | 3,300,395 | 3,474,351 |

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

14. OTHER LIABILITIES

| | | | |
|--------------------------|---------------|---------------|---------------|
| Employee Entitlements | 5,156 | 5,718 | 6,766 |
| Dividend Payable | - | - | 6,600 |
| Trade and Other Payables | 29,669 | 35,319 | 33,206 |
| | 34,825 | 41,037 | 46,572 |

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

15. SHARE CAPITAL, CASH FLOW HEDGE RESERVE & RETAINED EARNINGS

Share Capital

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

All ordinary Shares have equal voting rights and share equally in dividends. All shares are held by the TSB Community Trust. Dividends are recognised in the financial year in which they are authorised and approved by the Board of Directors.

Cash Flow Hedge Reserve

| | | | |
|--|--------------|---------------|---------------|
| Opening Balance | 16,138 | - | - |
| Fair Value Movements Recognised Directly in Equity | (13,776) | 17,489 | 23,055 |
| Deferred Income Tax | 4,133 | - | (6,917) |
| Balance at End of Period | 6,495 | 17,489 | 16,138 |

Retained Earnings

| | | | |
|---------------------------------|----------------|----------------|----------------|
| Opening Balance | 276,851 | 243,159 | 243,159 |
| Net Profit after Taxation | 41,556 | 33,617 | 42,892 |
| | 318,407 | 276,776 | 286,051 |
| Dividends | (2,800) | (2,600) | (9,200) |
| Balance at End of Period | 315,607 | 274,176 | 276,851 |

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 31 DECEMBER 2009

16. CAPITAL ADEQUACY

(i) Capital Management Policies

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 maximize shareholders 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.

Regulatory capital is divided into Tier One and Tier Two Capital. Tier One Capital primarily consists of Shareholder's Equity and other capital instruments acceptable to the RBNZ, less Intangible Assets and a deduction for any advances of a capital nature to Connected Persons. Tier Two Capital consists of two levels with Upper Tier Two Capital comprising Asset Revaluation Reserves and Lower Tier Two Capital comprising Subordinated Debt. Tier Two Capital also includes other hybrid and debt instruments acceptable to the RBNZ. The tangible element of investments in subsidiaries that are not wholly owned or funded is deducted from the sum of Tier One and Tier Two Capital to arrive at Total Regulatory Capital.

Regulatory capital adequacy ratios are calculated by expressing capital as a percentage of Risk Weighted Exposures. Risk Weighted Exposures are derived by assigning a risk weight percentage to certain categories of exposures, including Balance Sheet assets (excluding Intangible Assets and Capital Deductions for Investments in Subsidiaries not Wholly Owned or Funded), and Off Balance Sheet Assets. There are six risk weighting categories – 0%, 20%, 35%, 50%, 75% and 100%. It should be noted that the regulatory risk weightings may not be consistent with the loss experience of the Bank.

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

- Total Regulatory Capital must not be less than 8% of Risk Weighted Exposure.
- Tier One Capital must not be less than 4% of Risk Weighted Exposures.
- Capital must not be less than NZ\$30m.

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.

The Capital Adequacy tables set out on the following page summarise the composition of regulatory capital and the capital adequacy ratios for the Bank for the period ended 31 December 2009. During the period and the comparative periods shown, the Bank complied with all of the RBNZ capital requirements to which it is subject. No changes have been made to the Board approved levels of regulatory capital to be held during the period.

Basel II

The Basel Committee has issued a revised framework for the calculation of capital adequacy for banks, commonly known as Basel II. The Bank has adopted the "Standardised Approach" as per BS2A to calculate regulatory capital requirements under Basel II. The objective of the Basel II Framework is to develop capital adequacy guidelines that are more accurately aligned with the individual risk profile of banks. Basel II consists of 3 pillars – Pillar One covers the capital requirements for banks for credit, operation, and market risks, Pillar Two covers all other material risks not already included in Pillar One, and Pillar Three relates to market disclosure.

Pillar 2 of Basel II is intended to ensure that Banks have adequate capital to support all risks in their business, and includes the requirement on Banks to have an "Internal Capital Adequacy Assessment Process (ICAAP)" for assessing their overall capital adequacy in relation to risk profile and a strategy for maintaining adequate capital to support risk. The Bank's ICAAP has identified other areas of risk not covered by Pillar I (credit risk, market risk, and operational risk) and assigned a level of capital to them. These risks include (but are not limited to) strategic risk, reputational risk, environmental risk, additional credit risk and liquidity risk, and ownership structure. The Bank has made internal capital allocation of \$119m to cover these identified costs.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED 31 DECEMBER 2009

Total Capital Adequacy Ratios for the Bank at balance date are:

| | 31 Dec 2009 Unaudited | 31 Dec 2008 Unaudited | 31 Mar 2009 Audited |
|--|--------------------------------------|--------------------------------------|------------------------------------|
| Tier One | 14.43% | 16.17% | 16.86% |
| Total Capital | 16.38% | 18.15% | 16.86% |
| (ii) Qualifying Capital | | | |
| Tier One Capital | | | |
| Issued and fully paid up Share Capital | 10,000 | 10,000 | 10,000 |
| Retained Earnings | 276,851 | 243,159 | 243,159 |
| Current period's Audited Retained Earnings | - | - | 33,700 |
| Less Deductions from Tier One Capital | | | |
| Intangible Assets | (561) | (660) | (732) |
| Total Tier One Capital | 286,290 | 252,499 | 286,127 |
| Upper Tier Two Capital | | | |
| Unaudited Current Retained Earnings | 38,756 | 31,017 | - |
| Lower Tier Two Capital | | | |
| | - | - | - |
| Total Tier Two Capital | 38,756 | 31,017 | - |
| Total Capital | 325,046 | 283,516 | 286,127 |

(iii) Total Risk Weighted Exposures – 31 December 2009

| | Total Exposure after credit risk mitigation Dec-09 Unaudited \$000 | Risk Weight Dec-09 Unaudited | Risk Weight Exposure Dec-09 Unaudited \$000 | Minimum Pillar One Capital Requirement Dec-09 Unaudited \$000 |
|--|---|---|--|--|
| On Balance Sheet Exposures | | | | |
| Cash | 7,252 | 0% | - | - |
| Reserve Bank of New Zealand | 89,394 | 0% | - | - |
| Public Sector Entities | 694,060 | 20% | 138,812 | 11,105 |
| Banks | 676,788 | 20% | 135,358 | 10,829 |
| Banks | 48,505 | 50% | 24,252 | 1,940 |
| Corporate | 125,364 | 20% | 25,073 | 2,006 |
| Corporate | 111,145 | 50% | 55,573 | 4,446 |
| Corporate | 149,000 | 100% | 149,000 | 11,920 |
| Residential Bonds | 3,572 | 35% | 1,250 | 100 |
| Residential Mortgages <80% | 1,784,058 | 35% | 624,420 | 49,954 |
| Residential Mortgages 80%<90% | 154,324 | 50% | 77,162 | 6,173 |
| Residential Mortgages Welcome Home Loans | 158,068 | 50% | 79,034 | 6,323 |
| Residential Mortgages 90%<100% | 18,663 | 75% | 13,997 | 1,120 |
| Past Due Residential Mortgages | 9,687 | 100% | 9,687 | 775 |
| Other Assets | 257,062 | 100% | 257,062 | 20,565 |
| Non-Risk Weighted Assets | 13,448 | 0% | - | - |
| Total On Balance Sheet Exposures | 4,300,390 | | 1,590,680 | 127,256 |

NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED 31 DECEMBER 2009

16. CAPITAL ADEQUACY - continued

| | Total Exposure | Credit Conversion Factor | Credit Equivalent Amount | Average Risk Weight | Risk Weighted Exposure | Minimum Pillar One Capital Requirement |
|---|------------------------|--------------------------|--------------------------|---------------------|------------------------|--|
| | Dec-09 Unaudited \$000 | | Dec-09 Unaudited \$000 | | Dec-09 Unaudited \$000 | Dec-09 Unaudited \$000 |
| Off Balance Sheet Exposure | | | | | | |
| Revolving Credit Facility | 20,000 | 50% | 10,000 | 20% | 2,000 | 160 |
| Commitments where original maturity is more than one year | 222,522 | 50% | 111,261 | 35% | 38,941 | 3,115 |
| Market Related Contracts | | | | | | |
| Interest Rate Contracts* | 1,775,700 | N/A | 18,042 | 20% | 3,608 | 289 |
| Sub Totals | 2,018,222 | | 139,303 | | 44,549 | 3,564 |

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

Operational Risk and Market Risk Analysis

| | Implied Risk Weighted Exposure | Capital Requirement |
|------------------|--------------------------------|---------------------|
| Operational Risk | 222,851 | 17,828 |
| Market Risk | 126,334 | 10,107 |
| Sub Total | 349,185 | 27,935 |

Total Capital Requirements

| | Total Exposure after credit risk mitigation | Risk Weighted exposure or Implied RWE | Capital Requirement |
|-------------------------------|---|---------------------------------------|---------------------|
| Total credit risk plus equity | 4,439,693 | 1,635,229 | 130,820 |
| Operational Risk | N/A | 222,851 | 17,828 |
| Market Risk | N/A | 126,334 | 10,107 |
| Total | | 1,984,414 | 158,755 |

Residential Mortgages by Loan-to-Valuation Ratio

| LVR Range | 0% - 80% | 80% - 90% | Over 90% |
|-------------------|-----------|-----------|----------|
| Value of Exposure | 1,791,179 | 155,849 | 177,771 |

Market Risk

| | Interest Risk | Implied Risk Weighted Exposure | Aggregate Capital Charge | Aggregate Capital Charge as % of Banks Equity | Banks Equity |
|---------------------------------|---------------|--------------------------------|--------------------------|---|--------------|
| End of Period capital charges | Interest Risk | 126,334 | 10,107 | 3.11% | 325,046 |
| Peak end of day capital charges | Interest Risk | 133,250 | 10,660 | 3.28% | 325,046 |

In accordance with clause 8 of Schedule 4A of the Registered Bank Disclosure Statement (Off Quarter - New Zealand Incorporated Registered Banks) Order 2008, peak end-of-day aggregate capital charge and peak end-of-day aggregate capital charge as a percentage of the Bank's Equity at the end of the period, is derived by following the risk methodology for measuring capital requirements within Part 10 of - Capital Adequacy Framework (Standardised Approach) (BS2A).

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 31 DECEMBER 2009

16. CAPITAL ADEQUACY - continued

(iv) Total Risk Weighted Exposures – 31 December 2008

| | Total Exposure after credit risk mitigation | Risk Weight | Risk Weight Exposure | Minimum Pillar One Capital Requirement |
|--|---|----------------|------------------------------|---|
| | Dec-08 Unaudited \$000 | | Dec-08 Unaudited \$000 | Dec-08 Unaudited \$000 |
| On Balance Sheet Exposures | | | | |
| Cash | 9,140 | 0% | - | - |
| Reserve Bank of New Zealand | 83,933 | 0% | - | - |
| Public Sector Entities | 509,962 | 20% | 101,992 | 8,159 |
| Banks | 670,176 | 20% | 134,035 | 10,723 |
| Banks | 18,505 | 50% | 9,253 | 740 |
| Corporate | 124,015 | 20% | 24,803 | 1,984 |
| Corporate | 39,517 | 50% | 19,759 | 1,581 |
| Corporate | 16,000 | 100% | 16,000 | 1,280 |
| Residential Bonds | 39,921 | 35% | 13,972 | 1,118 |
| Residential Mortgages <80% | 1,680,595 | 35% | 588,208 | 47,057 |
| Residential Mortgages 80%<90% | 124,221 | 50% | 62,111 | 4,969 |
| Residential Mortgages Welcome Home Loans | 50,830 | 50% | 25,415 | 2,033 |
| Residential Mortgages 90%<100% | 8,727 | 75% | 6,545 | 524 |
| Past Due Residential Mortgages | 4,499 | 100% | 4,499 | 360 |
| Other Assets | 252,689 | 100% | 252,689 | 20,214 |
| Non-Risk Weighted Assets | 18,273 | 0% | - | - |
| Total On Balance Sheet Exposures | 3,651,003 | | 1,259,281 | 100,742 |

| | Total Exposure | Credit Conversion Factor | Credit Equivalent Amount | Average Risk Weight | Risk Weighted Exposure | Minimum Pillar One Capital Requirement |
|---|------------------------------|--------------------------------|--------------------------------|---------------------------|------------------------------|--|
| | Dec-08 Unaudited \$000 | | Dec-08 Unaudited \$000 | | Dec-08 Unaudited \$000 | Dec-08 Unaudited \$000 |
| Off Balance Sheet Exposure | | | | | | |
| Commitments where original maturity is more than one year | 207,440 | 50% | 103,720 | 35% | 36,302 | 2,904 |
| Market Related Contracts | | | | | | |
| Interest Rate Contracts* | 1,673,100 | N/A | 23,950 | 20% | 4,790 | 383 |
| Sub Totals | 1,880,540 | | 127,670 | | 41,092 | 3,287 |

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

Operational Risk and Market Risk Analysis

| | Implied Risk Weighted Exposure | Capital Requirement |
|------------------|---|------------------------|
| Operational Risk | 196,088 | 15,687 |
| Market Risk | 65,425 | 5,234 |
| Sub Total | 261,513 | 20,921 |

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED 31 DECEMBER 2009

16. CAPITAL ADEQUACY - continued

| | Total Exposure after credit risk mitigation | Risk Weighted exposure or Implied RWE | Capital Requirement |
|-----------------------------------|---|---|------------------------|
| Total Capital Requirements | | | |
| Total credit risk plus equity | 3,778,673 | 1,300,373 | 104,030 |
| Operational Risk | N/A | 196,088 | 15,687 |
| Market Risk | N/A | 65,425 | 5,234 |
| Total | | 1,561,885 | 124,951 |

Residential Mortgages by Loan-to-Valuation Ratio

| LVR Range | 0% - 80% | 80% - 90% | Over 90% |
|-------------------|-----------|-----------|----------|
| Value of Exposure | 1,680,595 | 124,221 | 64,056 |

| | Implied Risk Weighted Exposure | Aggregate Capital Charge | Aggregate Capital Charge as % of Banks Equity | Banks Equity |
|---------------------------------|---|--------------------------------|---|-----------------|
| Market Risk | | | | |
| End of Period capital charges | 65,425 | 5,234 | 1.85% | 283,516 |
| Peak end of day capital charges | 72,550 | 5,804 | 2.05% | 283,516 |

In accordance with clause 8 of Schedule 4A of the Registered Bank Disclosure Statement (Off Quarter – New Zealand Incorporated Registered Banks) Order 2008, peak end-of-day aggregate capital charge and peak end-of-day aggregate capital charge as a percentage of the Bank's Equity at the end of the period, is derived by following the risk methodology for measuring capital requirements within Part 10 of – Capital Adequacy Framework (Standardised Approach) (BS2A).

(v) Total Risk Weighted Exposures – 31 March 2009

| | Total Exposure after credit risk mitigation | Risk Weight | Risk Weight Exposure | Minimum Pillar One Capital Requirement |
|--|---|----------------|----------------------------|---|
| | Mar-09 Audited \$000 | | Mar-09 Audited \$000 | Mar-09 Audited \$000 |
| On Balance Sheet Exposures | | | | |
| Cash | 3,916 | 0% | - | - |
| Reserve Bank of New Zealand | 58,410 | 0% | - | - |
| Public Sector Entities | 632,460 | 20% | 126,492 | 10,119 |
| Banks | 648,300 | 20% | 129,660 | 10,373 |
| Banks | 20,000 | 50% | 10,000 | 800 |
| Corporate | 112,632 | 20% | 22,526 | 1,802 |
| Corporate | 108,556 | 50% | 54,278 | 4,342 |
| Corporate | 56,000 | 100% | 56,000 | 4,480 |
| Residential Bonds | 4,547 | 35% | 1,592 | 127 |
| Residential Mortgages <80% | 1,705,497 | 35% | 596,924 | 47,754 |
| Residential Mortgages 80%<90% | 128,928 | 50% | 64,464 | 5,157 |
| Residential Mortgages Welcome Home Loans | 62,850 | 50% | 31,425 | 2,514 |
| Residential Mortgages 90%<100% | 3,995 | 75% | 2,996 | 240 |
| Past Due Residential Mortgages | 8,055 | 100% | 8,055 | 644 |
| Other Assets | 249,786 | 100% | 249,786 | 19,983 |
| Non-Risk Weighted Assets | 28,088 | 0% | - | - |
| Total On Balance Sheet Exposures | 3,832,020 | | 1,354,198 | 108,336 |

NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED 31 DECEMBER 2009

16. CAPITAL ADEQUACY - continued

| | Total Exposure | Credit Conversion Factor | Credit Equivalent Amount | Average Risk Weight | Risk Weighted Exposure | Minimum Pillar One Capital Requirement |
|---|----------------------|--------------------------|--------------------------|---------------------|------------------------|--|
| | Mar-09 Audited \$000 | | Mar-09 Audited \$000 | | Mar-09 Audited \$000 | Mar-09 Audited \$000 |
| Off Balance Sheet Exposure | | | | | | |
| Commitments where original maturity is more than one year | 248,413 | 50% | 124,207 | 35% | 43,472 | 3,478 |
| Market Related Contracts | | | | | | |
| Interest Rate Contracts* | 1,573,100 | N/A | 30,866 | 20% | 6,173 | 494 |
| Sub Totals | 1,821,513 | | 155,073 | | 49,645 | 3,972 |

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

Operational Risk and Market Risk Analysis

| | Implied Risk Weighted Exposure | Capital Requirement |
|------------------|--------------------------------|---------------------|
| Operational Risk | 202,533 | 16,203 |
| Market Risk | 82,950 | 6,636 |
| Sub Total | 285,483 | 22,839 |

Total Capital Requirements

| | Total Exposure after credit risk mitigation | Risk Weighted exposure or Implied RWE | Capital Requirement |
|-------------------------------|---|---------------------------------------|---------------------|
| Total credit risk plus equity | 3,987,093 | 1,403,844 | 112,307 |
| Operational Risk | N/A | 202,533 | 16,203 |
| Market Risk | N/A | 82,950 | 6,636 |
| Total | | 1,689,327 | 135,146 |

Residential Mortgages by Loan-to-Valuation Ratio

| LVR Range | 0% - 80% | 80% - 90% | Over 90% |
|-------------------|-----------|-----------|----------|
| Value of Exposure | 1,705,497 | 128,928 | 74,901 |

| | Implied Risk Weighted Exposure | Aggregate Capital Charge | Aggregate Capital Charge as % of Banks Equity | Banks Equity | |
|---------------------------------|--------------------------------|--------------------------|---|--------------|---------|
| Market Risk | | | | | |
| End of Period capital charges | Interest Risk | 82,950 | 6,636 | 2.32% | 286,127 |
| Peak end of day capital charges | Interest Risk | 82,950 | 6,636 | 2.32% | 286,127 |

In accordance with clause 9 of Schedule 5A of the Registered Bank Disclosure Statement (Full and Half Year – New Zealand Incorporated Registered Banks) Order 2008, peak end-of-day aggregate capital charge and peak end-of-day aggregate capital charge as a percentage of the Bank's Equity at the end of the period, is derived by following the risk methodology for measuring capital requirements within Part 10 of – Capital Adequacy Framework (Standardised Approach) (BS2A).

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 31 DECEMBER 2009

17. FOREIGN CURRENCY BALANCES

As at Balance Date there were no material holdings of Foreign Currency.

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

The Bank has no involvement with any Securitisation, Custodial, Funds Management or other Fiduciary activities. The Bank does not conduct any insurance business, however general and life insurance products are marketed through the Bank's branch network. These have been provided on arms length terms and conditions and at fair value. The Bank provides no funding to the entities on whose behalf the insurance products are marketed. External third party insurance companies underwrite these, and the bank has no financial association with them.

On the 1 October 2008, the TSB Bank PIE Cash Fund commenced. TSB Bank Limited is the manager and promoter of the TSB Bank PIE Unit Trusts, and the New Zealand Guardian Trust Company Limited is the trustee. Units in the Fund do not directly represent deposits or other liabilities of TSB Bank. However, the Trust Deed stipulates that 100% of the TSB Bank PIE Cash Fund is invested exclusively in TSB Bank debt securities. As at 31 December 2009, the TSB Bank PIE Unit Trust had \$51.8m invested with the Bank.

19. REPORTING BY SEGMENT

TSB Bank operates predominantly in the business of Retail Banking in New Zealand.

20. COMMITMENTS AND CONTINGENT LIABILITIES

| | 31 December 2009 Unaudited \$000 | 31 December 2008 Unaudited \$000 | 31 March 2009 Audited \$000 |
|---|---|---|--|
| Commitments approved to advance less than one year | 103,544 | 101,167 | 102,120 |
| Commitments approved to advance greater than one year | 242,522 | 207,440 | 248,413 |
| | 346,066 | 308,607 | 350,533 |

There are no material contingent liabilities and outstanding claims known by the Directors as at 31 December 2009 that would impact on the financial statements.

21. SUBSEQUENT EVENTS

In accordance with NZ IAS 10 – "Events after the Reporting Period", there have been no material events requiring adjustment to these interim financial statements.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 31 DECEMBER 2009

22. RISK MANAGEMENT POLICIES

The Bank is committed to the management of risk and has management structures and information systems to manage individual risks. The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board of Directors has approved the Bank's Treasury Management Policy. The Asset and Liability Management Committee meet on a regular basis to review the overall risk management framework for funding and investments. The following sections describe the risk management framework components.

(i) Credit Risk

Credit risk is the potential risk for loss arising from failure of a debtor or counterparty to meet their contractual obligations. Credit risk principally arises within the Bank from its core business of providing lending facilities. The Bank is predominantly a residential lender. Residential and non-residential loans are generally secured by way of 1st mortgage over Land and Buildings. Borrowers must satisfy a number of conditions when applying for credit including an ability to service the debt whilst satisfying loan to asset ratios. Discretionary lending limits exist at different levels within the Bank.

Regular reviews of loans by both Management and Internal Audit ensure that the Bank is well positioned to assess the financial position of borrowers. Investment in non-lending assets is controlled by limiting the concentration and type of investment, and through the establishment of formal limits permitted with each counterparty. The current policy permits investing with the New Zealand Government, Registered Banks, Local Authorities, State Owned Enterprises and other issuers of paper with a short term debt rating of A1 or better and excludes trading in Derivatives, Futures and Foreign Exchange options. The Bank has a comprehensive, clearly defined policy for the approval and management of all credit risk, including risk to other banks and related counterparties. Both intra-day and term credit risk exposures are monitored on a daily basis and form an integral part of the management reporting system.

Details of credit risk management and asset quality are shown in note 12 (Credit Risk Management).

(ii) Foreign Currency Risk

Foreign Exchange risk is the risk to earning and value caused by a change in foreign exchange rates. The Bank operates a Retail Foreign Currency outlet. Bank policy is to maintain minimal levels of holdings and therefore foreign currency exposure is immaterial.

(iii) Interest Rate Risk

Interest rate risk arises where the Bank is exposed to an adverse movement in interest rates, which would significantly affect the Bank's net interest income. Interest Rate related contracts hedge interest rate risk associated with the Bank's Statement of Financial Position.

The Bank controls its interest rate risk by paying close attention to ensuring a deemed appropriate margin between interest income and interest expense is maintained. Interest Rate Swaps and Interest Rate Options are tools that may be used to assist with the management of interest rate risk.

Interest rate risk is monitored on a day to day basis and forms an integral part of the management reporting system.

(iv) Equity Risk

Equity risk results from the repricing of equity investments. The Bank's current policy does not permit the investment in or trading of equities.

(v) Liquidity Risk

Liquidity risk is managing risk to ensure the Bank is able in the short term to meet its financial obligations as they fall due. The Bank's liquidity management policy requires that sufficient liquidity be maintained to meet demand as required. A ratio of liquid assets to total liabilities is applied to determine the minimum amount of liquid assets to be held. Liquid assets are maintained in the form of Cash, Registered Bank Bills, Local Authority and Treasury Bills, all of which are readily tradeable to provide for any unexpected patterns in cash movements. Uncommitted and committed credit lines are in place with other Registered Banks to assist in meeting liquidity requirements. Liquidity risk is monitored on a daily basis by forecasting future daily cash requirements and forms an integral part of the management reporting system.

(vi) Operational Risk

Operational Risk is defined as the risk of economic gain or loss resulting from inadequate or failed internal processes and methodologies, people, systems or external events. Senior management are accountable to the Board for maintaining an adequate and effective control environment. While operational risk can never be eliminated, TSB Bank endeavours to minimise the impact of operational incidents by ensuring that the appropriate infrastructure of controls, systems, staff and processes are in place.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 31 DECEMBER 2009

(vii) Internal Audit

The Bank's Audit and Compliance Manager reports ultimately to the Chair of the Audit and Compliance Committee and meets at least annually with the committee. The scope of internal audit ensures that aspects of the Bank's operational, compliance, financial and systems operations are reviewed based on an assessment of risk on an ongoing basis. A comprehensive audit program gives a good coverage of audit procedures to be applied in order to achieve the audit objectives.

The Audit and Compliance Committee's primary function is to liaise with the External Auditors and the Bank's Audit and Compliance Manager. The Audit and Compliance Committee comprises three directors who are B C Richards (independent director), P K Broughton, and M M McCarthy (independent director). A meeting with the External Auditor takes place at least annually.

There have been no material changes to the above policies in the year prior to this balance date.

DIRECTORY

Directors

E. (Elaine) Gill, ONZM, LLB, J.P, Chair
 B.C. (Bruce) Richards, MNZM, B Com, CA, CMA, Deputy Chair
 P.K. (Kemp) Broughton, BE, FIPENZ, J.P
 J.J. (John) Kelly
 D.L. (David) Lean, QSO, J.P
 M.M. (Maeve) McCarthy, LLB
 K.J. (Kevin) Murphy, CA, Managing Director/CEO
 C.B. (Colleen) Tuuta
 D.E. (David) Walter, QSO, J.P

Management

K.J. (Kevin) Murphy, CA, Managing Director/CEO
 C.L. (Charles) Duke, Deputy Chief Executive
 R. (Rod) Grant, National Business Manager - Marketing
 R. (Rod) Main, National Business Manager - Operations
 M.D. (Marie) Collins, Manager Technology Services
 R.G. (Roddy) Bennett, B. Sci, ACA, Chief Financial Officer
 L.D. (Linda) Burczynski, Dipl. Mgmt, Manager Human Resources
 P.D. (Phil) Gerrard, AAIBS, Manager Lending Services
 C.D. (Carolyn) Wratislav, Manager Training and Development
 J. (John) Ainsworth, Manager Audit and Compliance

National

H.D. (Heather) King, Manager, Bank Direct
 S.J. (Stephanie) White, Manager, Network Support
 L.N. (Lindsay) McElroy, Manager, Auckland Central
 N.M. (Neil) Carrie, Manager, Takapuna
 S. (Sandra) Makein, Manager, Hamilton
 K.G. (Kerry) Clement, Manager, Tauranga
 C.P. (Chris) Greatholder, Manager, Napier
 J.E. (Jo) Robson, Manager, Hastings
 G.J. (Graham) Clarke, Manager, Palmerston North
 H.L. (Lynne) Russell, Manager, Wellington
 S.L. (Steven) Kirk, Manager, Christchurch

Taranaki

L.S. (Len) Walker, Manager, City
 P.J. (Paul) Drake, Manager, Fitzroy
 V.J. (Viv) Hall, Manager, Waitara
 F.J. (Fay) Bint, Manager, Inglewood
 N.L. (Neal) Spragg, Manager, Stratford
 K.H. (Kim) Dines, Manager, Westown
 L.A. (Lisa) Hardegger, Manager, Moturoa
 R.A. (Rachel) Werder, Manager, Hawera
 J.A. (Jill) Sutton, Manager, Eltham
 D.M.A. (Davina) Keller, Manager, Opunake
 C.M. (Campbell) Third, Manager, Centre
 R.A. (Rebecca) Valentine, Manager, Frankleigh Park
 S.R. (Steven) Dickson, Manager, Vogeltown
 V.J. (Valmai) McEldowney, Manager, Bell Block
 J.A. (Jade) Hopkinson, Manager, Merrilands

Divisions

S.J. (Stephen) McIntosh, Manager, TSB Foreign Exchange
 G.P. (Greg) Hull, AREINZ, Manager, TSB Realty

Registered Office

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

Principal Solicitors to the Company

Auld Brewer Mazengarb & McEwen
 9 Vivian Street, New Plymouth

Auditor

KPMG
 10 Customhouse Quay, Wellington