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# General Short Form Disclosure Statement

## For the Nine Months Ended 31 December 2004

This General Short Form Disclosure Statement contains information as required by the Registered Bank Disclosure Statement (Off-Quarter - New Zealand Incorporated Registered Banks ) Order 1998.

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### 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, Devon Street East, New Plymouth.

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### 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.

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### 3. OWNERSHIP

The TSB Community Trust, an independent body, owns all the shares in the Bank.

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### 4. GUARANTEE ARRANGEMENTS

No material obligations of the Bank are guaranteed.

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### 5. 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, B Com., C.A., C.M.A.  
(Deputy Chair)  
Chartered Accountant

J.G. (John) Armstrong, J.P.  
Company Director

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

D.L. (David) Lean, Q.S.O., J.P.  
Company Director

M.M. (Maeve) McCarthy, LLB  
Company Director

K.W. (Kevin) Rimmington, J.P.  
TSB Bank Managing Director/CEO

C. (Colleen) Tuuta  
Company Director

D.E. (David) Walter, Q.S.O., J.P.  
Company Director

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

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

TSB Bank Limited  
PO Box 240  
New Plymouth

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### 6. AUDITORS

Deloitte.  
80 London Street  
Hamilton

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### 7. 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 2004

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### 8. CONDITIONS OF REGISTRATION

A copy of the 'Conditions of Registration' applicable as at this balance date are included in this General Short Form Disclosure Statement.

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### 9. 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.

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### 10. CREDIT RATING

TSB Bank Ltd was issued a credit rating in July 2003 applicable to its long term senior unsecured obligations payable in New Zealand, in New Zealand dollars. The credit rating was given by Standard & Poor's (Australia) Pty Limited. The current rating is BBB-/Stable/A3. 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.

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### 11. FINANCIAL AND SUPPLEMENTARY DISCLOSURES

This General Short Form Disclosure Statement is inclusive of the Banks unaudited interim financial statements for the nine months ended 31 December 2004. All necessary additional financial and supplementary disclosures are included in the notes attached to the interim financial statements.

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# General Disclosure Statement

## For the Nine Months Ended 31 December 2004

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### 12. DIRECTORS' STATEMENT

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

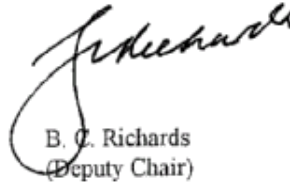
- a) The General Disclosure Statement contains all the information required by the Registered Bank Disclosure Statement (Full and Half Year - New Zealand Incorporated Registered Banks) Order 1998:
- b) The General Disclosure Statement is not false or misleading.

The Directors believe, after due enquiry, that for the nine month period ending 31 December 2004:

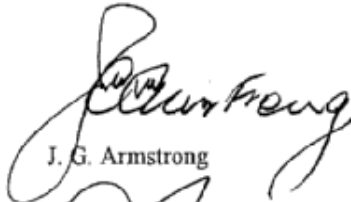
- a) The Bank complies with the Conditions of Registration:
- b) There are no credit exposures to connected Persons:
- c) The Bank has systems in place to monitor and control adequately the Bank's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk and other business risks, and that these systems are being properly applied.



E. Gill  
(Chair -- Board of Directors)



B. C. Richards  
(Deputy Chair)



J. G. Armstrong



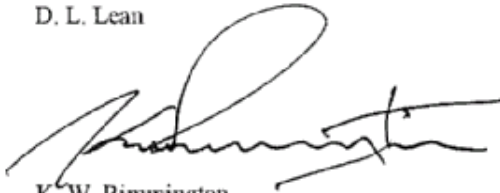
P. K. Broughton



D. L. Lean



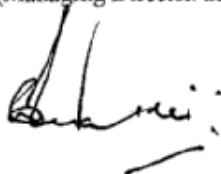
M. M. McCarthy



K. W. Rimmington  
(Managing Director/CEO)



C. Tuuta



D. E. Walter

# 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:

**Capital** of the banking group is not less than 8 percent of **risk weighted exposures**.

**Tier one capital** of the banking group is not less than 4 percent of **risk weighted exposures**.

**Capital** of the banking group is not less than NZ \$15 million.

For the purposes of this condition of registration, **capital**, **tier one capital** and **risk weighted exposures** shall be calculated in accordance with the Reserve Bank of New Zealand document entitled "Capital Adequacy Framework" (BS2) dated 1 July 2004.

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 specific provisions) of the banking group to all **connected persons** does not exceed the rating-contingent limit outlined in the following matrix:

<b>Credit rating</b>	<b>Connected exposure limit (% of the Banking Group's Tier 1 capital)</b>
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 specific provisions) to non-bank connected persons shall not exceed 15 percent of the banking group's tier 1 capital.

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 Exposure Policy" (BS8) dated July 2003.

## CONDITIONS OF REGISTRATION

5. That exposures to connected persons are not on more favourable (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.

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).

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**STATEMENT OF FINANCIAL PERFORMANCE**  
**FOR THE NINE MONTHS ENDED 31 DECEMBER 2004**

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	Note	31 December 2004 \$000	31 December 2003 \$000
Interest Income Received	1	114,365	94,479
Interest Paid	2	65,338	52,169
<b>Net Interest Income</b>		<b>49,027</b>	<b>42,310</b>
Other Operating Income Received	3	7,931	7,235
<b>Total Operating Income</b>		<b>56,958</b>	<b>49,545</b>
Operating Expenses	4	25,119	22,506
<b>Operating Surplus before Taxation</b>		<b>31,839</b>	<b>27,039</b>
Taxation		10,507	8,924
<b>Net Surplus Attributable to Shareholder</b>		<b>21,332</b>	<b>18,115</b>

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**STATEMENT OF MOVEMENTS IN EQUITY**  
**FOR THE NINE MONTHS ENDED 31 DECEMBER 2004**

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	Note	31 December 2004 \$000	31 December 2003 \$000
<b>Opening Shareholder's Equity</b>		147,190	129,243
<b>Net Surplus Attributable to Shareholder</b>		21,332	18,115
<b>Distributions to Shareholder</b>			
Interim Dividend		(1,750)	(1,660)
<b>Closing Shareholder's Equity</b>		<b>166,772</b>	<b>145,698</b>
<b>Represented by :</b>			
<b>Share Capital</b>	13	10,000	10,000
<b>Retained Surplus</b>		156,772	135,698
		<b>166,772</b>	<b>145,698</b>

The Statement of Accounting Policies (pages 9 to 10) and the Notes to the Interim Financial Statements (pages 11 to 16) form an integral part of these Interim Financial Statements.

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**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2004**

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	Note	31 December 2004 \$000	31 December 2003 \$000
<b>Assets</b>			
Cash and Liquid Assets	5	23,918	14,236
Investment Securities	6	792,937	725,979
Loans and Advances	7	1,445,564	1,266,386
Future Income Tax Benefit		4,137	3,000
Property, Plant & Equipment	9	14,340	15,956
Receivables	10	8,498	6,084
<b>Total Assets</b>		<b>2,289,394</b>	<b>2,031,641</b>
<b>Liabilities</b>			
Deposits	12	2,072,906	1,845,172
Payables	11	49,716	40,771
<b>Total Liabilities</b>		<b>2,122,622</b>	<b>1,885,943</b>
<b>Shareholder's Equity</b>			
Share Capital	13	10,000	10,000
Retained Surplus		156,772	135,698
<b>Total Shareholder's Equity</b>		<b>166,772</b>	<b>145,698</b>
<b>Total Liabilities and Shareholder's Equity</b>		<b>2,289,394</b>	<b>2,031,641</b>
<b>Total Interest Earning and Discount Bearing Assets</b>		<b>2,266,107</b>	<b>2,009,917</b>
<b>Total Interest and Discount Bearing Liabilities</b>		<b>1,955,444</b>	<b>1,729,881</b>

The Statement of Accounting Policies (pages 9 to 10) and the Notes to the Interim Financial Statements (pages 11 to 16) form an integral part of these Interim Financial Statements.

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**STATEMENT OF CASH FLOWS**  
**FOR THE NINE MONTHS ENDED 31 DECEMBER 2004**

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	Note	31 December 2004 \$000	31 December 2003 \$000
<b>Cash Flows from Operating Activities</b>			
Cash provided from (applied to):			
Interest Income Received		111,462	95,010
Other Income Received		10,593	6,558
Interest Paid		(33,992)	(28,249)
Operating Expenditure		(27,804)	(29,949)
Taxation Paid		(10,159)	(8,202)
<b>Net Cash Flow from Operating Activities</b>	14	<b>50,100</b>	<b>35,168</b>
<b>Cash Flows from Investing Activities</b>			
Cash provided from (applied to):			
Property, Plant and Equipment Sold		43	391
Net Decrease in Investment Securities			13,689
Net Increase in Investment Securities		(92,361)	-
Net Increase in Loans & Advances		(125,952)	(211,648)
Property, Plant and Equipment Purchased		(1,277)	(1,725)
<b>Net Cash Flow from Investing Activities</b>		<b>(219,547)</b>	<b>(199,293)</b>
<b>Cash Flows from Financing Activities</b>			
Cash provided from (applied to):			
Net Increase in Deposits		181,874	173,761
Dividends Paid		(5,290)	(5,175)
<b>Net Cash Flow from Financing Activities</b>		<b>176,584</b>	<b>168,586</b>
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>		<b>7,137</b>	<b>4,461</b>
Add Cash and Cash Equivalents at beginning of year		16,781	9,775
<b>Cash and Cash Equivalents at end of period</b>		<b>23,918</b>	<b>14,236</b>

The Statement of Accounting Policies (pages 9 to 10) and the Notes to the Interim Financial Statements (pages 11 to 16) form an integral part of these Interim Financial Statements.

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# STATEMENT OF ACCOUNTING POLICIES

FOR THE NINE MONTHS ENDED 31 DECEMBER 2004

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The TSB Bank Limited is a company registered under the Companies Act 1993. These interim financial statements have been prepared in accordance with FRS-24 Interim Financial Statements, and the requirements of the Companies Act 1993, the Financial Reporting Act 1993, and the Registered Bank Disclosure Statement (Full and Half Year - New Zealand Incorporated Registered Banks) Order 1998.

## **Basis for Preparation**

The Interim Financial Statements have been prepared on the historical cost basis modified to include the revaluation of land and buildings. The reporting currency is New Zealand dollars.

## **Specific Accounting Policies**

The specific accounting policies used in the preparation of the interim financial statements are as follows:

### **A. Income Recognition.**

Interest on non-accrual assets where no loss of principal is expected is recognised as income when received. Where some loss of principal is expected on the non-accrual asset the cash inflow is applied as a reduction of the carrying value of the asset as appropriate.

### **B. Interest Expense.**

Interest expense is recognised on an accrual basis

### **C. Investment Securities.**

Investment Securities are shown at cost, adjusted by any discount or premium arising on purchase, which is amortised over the term of the investment on a straight-line basis. Securities are generally not traded and are redeemed on maturity at their face value. Gains or losses due to changes in market values are only recognised in the Statement of Financial Performance if an Investment Security is realised.

### **D. Provisions**

#### **(i) General Provision for Doubtful Debts**

The general provision for Doubtful Debts has been established to account for doubtful debts that have not been specifically identified. The level of the provision is reviewed on a quarterly basis and is adjusted accounting for portfolio growth based on current and historical trends. Movements are recognised in the Statement of Financial Performance in the period in which they occur.

Specific Provisions are made and recognised against individually identified impaired assets where full recovery of the amount owed is deemed improbable.

#### **(ii) Employee Entitlements**

The provision for employee entitlements relates to employee benefits such as accrued wages, bonuses, accrued holiday pay, and long service leave. The provision is affected by a number of estimates including the expected employment period of employees and the timing of employees utilising the benefits.

#### **(iii) Dividends**

Dividends are recognised in the financial year in which they are authorised and approved by the Board of Directors.

### **E. Property, Plant and Equipment.**

All items of Property, Plant and Equipment are shown at the lower of cost less accumulated depreciation or net current market value where the assets are considered to be permanently impaired.

#### **(i) Impairment**

All items of Property, Plant and Equipment are assessed for impairment at each reporting date. Where the carrying amount is assessed to be greater than its recoverable amount, the item is written down. The writedown is recognised in the Statement of Financial Performance.

#### **(ii) Depreciation**

All items of Property, Plant and Equipment, other than land, are depreciated on a straight line basis, at rates which will write off their cost or revalued amount less estimated residual value, over their expected useful lives. The useful lives of the major classes of fixed assets are estimated to be as follows:

Buildings	40 to 100 Years
Fixtures and Fittings	5 to 10 Years
Computer Equipment	3 to 5 Years

# STATEMENT OF ACCOUNTING POLICIES

*FOR THE NINE MONTHS ENDED 31 DECEMBER 2004*

(iii) **Disposal**

On disposal or permanent withdrawal of an item of Property, Plant and Equipment the difference between the disposal proceeds (if any) and the carrying amount is recognised in the Statement of Financial Performance.

**F. Financial Instruments.**

All financial instruments are recorded at cost in the financial statements, adjusted by any discount or premium arising on purchase. In determining a fair value for these instruments quoted market prices are used where available. If not available present value or other market accepted valuation techniques are used.

Cash and Liquid Assets. As these assets are short term in nature their estimated fair value is equivalent to their carrying amount.

Investment Securities. For Investment Securities the estimated fair value is based on quoted market prices.

Loans and Advances. The estimated fair value of variable interest rate Loans and Advances is deemed to equate to their carrying amount adjusted for the fair value of any non-accrual loans. The fair value for fixed interest rate advances is estimated using discounted cash flows based on the interest rate repricing of these Loans and Advances. Discounted rates applied are based on current market interest rates for advances with similar credit and maturity profiles.

Deposits. All Deposits are effectively on call and as such carrying value is deemed to be an appropriate fair value.

Interest Rate Contracts. The fair values for interest rate contracts are obtained from discounted cash flow models or option pricing models as appropriate.

**G. Taxation.**

The income tax expense recognised for the year is based on the operating surplus before taxation adjusted for permanent differences between accounting and taxable income.

Deferred tax, which is calculated on the comprehensive basis using the liability method, arises from amounts of income or expense recognised for tax purposes in years different from those in which they are dealt with in the financial statements.

A debit balance in the deferred taxation account is only carried forward to the extent that there is virtual certainty of its recovery.

Income tax benefits arising from income tax losses are recognised only to the extent of accumulated net credits from timing differences in the deferred taxation account unless there is virtual certainty of their realisation.

**H. Asset Quality**

(i) Non accrual assets consist of:

- credit exposures where it is unlikely that all amounts owing will be collected.
- credit exposures where the original terms have been changed to grant a counterparty a concession that would not otherwise be available, due to the counterparty's difficulty in complying with the original conditions and on which interest is charged at a rate less than the Bank's average cost of borrowed funds.

(ii) Restructured assets consist of credit exposures, the original terms of which have been changed to grant a counterparty a concession that would not otherwise be available, due to the counterparty's difficulty in complying with the original conditions and on which interest continues to accrue at a rate greater than the Bank's average cost of borrowed funds as at the date of the restructuring and a loss is not otherwise expected to be incurred.

(iii) Assets acquired consists of assets acquired (primarily real estate) through the enforcement of security held in relation to credit exposures.

(iv) Past due consists of credit exposures that are contractually past due and are neither non-accrual nor restructured.

Impaired assets consist of those assets in (i) (ii) and (iii) above.

**I. Credit Policy.**

All credit activities are subject to Credit Policies and Procedures. Credit Applications must be authorised by the appropriate Bank Officer. The loan criteria for new mortgage lending includes demonstration of the borrower's ability to service the debt, loan to asset ratios and other criteria. Current policy precludes involvement in Finance leasing and the acceptance of Bills of Exchange as security.

**Changes in Accounting Policies**

Accounting polices have been applied on a consistent basis with those of the previous year.

# NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED 31 DECEMBER 2004

	31 December 2004 \$000	31 December 2003 \$000
<b>1. INTEREST INCOME RECEIVED</b>		
Government and Local Authority Securities	16,511	14,333
Loans and Advances	78,928	64,102
Cash and Liquid Assets	498	448
Other Securities and Financial Instruments	18,428	15,596
	<b>114,365</b>	<b>94,479</b>
<b>2. INTEREST PAID</b>		
Retail Deposits	65,338	52,169
<b>3. OTHER OPERATING INCOME RECEIVED</b>		
Lending and Credit Facility Related Income	2,186	1,666
Commission and Other Trading Income *	5,559	5,034
Other Income	186	535
	<b>7,931</b>	<b>7,235</b>
*Incorporates TSB Realty, TSB Holiday Shoppe and TSB Foreign Exchange income		
<b>4. OPERATING EXPENSES</b>		
Audit Services	59	63
Bad Debts Written Off	128	96
Depreciation:	1,917	1,853
Directors' Fees	128	120
Personnel Expenses	9,236	8,404
General Provision for Doubtful Debts	1,250	500
Other	12,401	11,470
	<b>25,119</b>	<b>22,506</b>
<b>5. CASH AND LIQUID ASSETS</b>		
Cash and Cash Equivalents	7,012	4,134
Reserve Bank Balances	6	10,102
Balance due from Registered Banks	16,900	-
	<b>23,918</b>	<b>14,236</b>
<b>6. INVESTMENT SECURITIES</b>		
	<b>Book Value 31 December 2004</b>	<b>Book Value 31 December 2003</b>
New Zealand Government Securities	15,279	15,446
Treasury Bills	9,728	9,473
Local Authority Securities	209,677	152,979
Bank Registered Certificates of Deposit	426,106	402,981
Other Investments	132,147	145,100
	<b>792,937</b>	<b>725,979</b>

'Other Investments' relate to investments in Commercial Paper with A1 Short Term or AA Long Term rating or better.

# NOTES TO THE INTERIM FINANCIAL STATEMENTS

*FOR THE NINE MONTHS ENDED 31 DECEMBER 2004*

	<b>31 December 2004 \$000</b>	<b>31 December 2003 \$000</b>
<b>7. LOANS AND ADVANCES</b>		
Residential Mortgages	1,303,724	1,135,552
Community	6,385	5,833
Commercial	57,194	49,677
Farming	66,215	61,247
Other	22,746	21,527
	<b>1,456,264</b>	<b>1,273,836</b>
Less General Provision for Doubtful Debts	(10,700)	(7,450)
<b>Total Loans and Advances</b>	<b>1,445,564</b>	<b>1,266,386</b>
Other is inclusive of other Retail Lending and Visa balances.		
<b>General Provision for Doubtful Debts</b>		
Balance at Beginning of Year	9,450	6,950
Charge to Statement of Financial Performance	1,250	500
Balance at End of Period	<b>10,700</b>	<b>7,450</b>
<b>Specific Provision for Doubtful Debts</b>		
Balance at Beginning of Year	-	20
Charge to Statement of Financial Performance		
Add New Provisions	70	35
Less Recoveries	(70)	(55)
Balance at End of Period	<b>-</b>	<b>-</b>

## 8. ASSET QUALITY

The classifications used and the Bank's policy for providing for doubtful debts are set out in the Accounting Policies. The balances shown have been determined without regard to security available for such assets. The recognition of past due assets does not necessarily indicate that such assets are doubtful. The Bank does not have any assets acquired through the enforcement of security. Interest continues to be accrued on all loans. No interest has been forgone.

### Impaired Assets (Pre-provisions)

Balance at Beginning of Year	-	42
Additions	265	165
Deletions	(265)	(207)
Balance at End of Period	<b>-</b>	<b>-</b>

### Past Due Assets

Balance at Beginning of Year	1,541	3,071
Additions	4,192	3,552
Deletions	(3,999)	(5,203)
Balance at End of Period	<b>1,734</b>	<b>1,420</b>

## 9. PROPERTY, PLANT & EQUIPMENT

Land At Cost *	<b>1,379</b>	<b>1,379</b>
Buildings At Cost	8,669	8,566
Accumulated Depreciation	(1,517)	(1,334)
Net Book Value *	<b>7,152</b>	<b>7,232</b>
Computer Equipment	13,900	11,230
Accumulated Depreciation	(9,791)	(8,905)
Net Book Value	<b>4,109</b>	<b>2,325</b>
Furniture & Fittings	7,423	7,479
Accumulated Depreciation	(5,701)	(5,442)
Net Book Value	<b>1,722</b>	<b>2,037</b>
Work in Progress	(22)	<b>2,983</b>
<b>Total Property, Plant and Equipment</b>	<b>14,340</b>	<b>15,956</b>

\* The latest valuation of Land & Buildings was carried out in September 2004 by Quotable Value New Zealand. This amounted to \$12.4 million.

# NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED 31 DECEMBER 2004

	31 December 2004 \$000	31 December 2003 \$000
<b>10. RECEIVABLES</b>		
Accrued Interest Receivable	5,644	2,254
Other Income Receivable	145	236
Accounts Receivable	2,709	3,594
	<b>8,498</b>	<b>6,084</b>
<b>11. PAYABLES</b>		
Accrued Interest Payable	39,157	30,962
Provision for Employee Entitlements	3,206	2,417
Taxation Payable	717	805
Accounts Payable and Other Liabilities	6,636	6,587
	<b>49,716</b>	<b>40,771</b>
<b>12. DEPOSITS</b>		
<b>Retail Deposits</b>		
Term Deposits	878,623	708,742
Other Deposits Bearing Interest	1,076,821	1,021,139
Deposits Not Bearing Interest	117,462	115,291
	<b>2,072,906</b>	<b>1,845,172</b>
<b>13. SHARE CAPITAL</b>		
Issued and Paid Up Capital: 20,000,000 Ordinary Shares	<b>10,000</b>	<b>10,000</b>
<b>14. NET CASH FLOW FROM OPERATING ACTIVITIES</b>		
Reconciliation of Statement of Financial Performance surplus with Net Cash from Operating Activities		
Operating Surplus After Taxation	21,332	18,118
Add Non-Cash Items: - Depreciation	1,917	1,853
- Doubtful Debt Provision	1,250	500
Add/(Deduct) Movements in Working Capital:		
Increase (Decrease) in Sundry Creditors	(5,852)	(9,796)
Increase (Decrease) in Interest Payable	31,346	23,920
Increase (Decrease) in Taxation Payable	274	717
Increase (Decrease) in Deferred Tax Asset	74	2
(Increase) Decrease in Sundry Debtors	2,667	(677)
(Increase) Decrease in Interest Receivable	(2,908)	531
<b>Net Cash Flow from Operating Activities</b>	<b>50,100</b>	<b>35,168</b>
<b>15. COMMITMENTS &amp; CONTINGENCIES</b>		
Lending Commitments	94,963	79,740
Approved Banking Facilities Unutilised	153,387	196,540
	<b>248,350</b>	<b>276,280</b>

There are no material contingent liabilities and outstanding claims known by the Directors for the nine months ended 31 December 2004 that would impact on the interim financial statements.

# NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED 31 DECEMBER 2004

## 16. CAPITAL ADEQUACY

### (i) Risk adjusted capital adequacy ratios

Capital adequacy ratios are calculated as the percentage of qualifying capital to total risk-weighted exposures. The Reserve Bank of New Zealand currently requires registered banks to maintain tier one capital at a minimum of 4% of total risk-weighted exposures and total capital at a minimum of 8% of total risk-weighted exposures. In addition total tier two capital may not exceed total tier one capital and lower tier two capital may not exceed 50% of total tier one capital.

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

	31 December 2004	31 December 2003
Tier one	12.92%	12.73%
Total	14.64%	14.35%

### (ii) Qualifying capital

	\$000	\$000
<b>Tier One Capital</b>		
Issued and fully paid up share capital	10,000	10,000
Retained earnings	137,190	119,243
<b>Total Tier One Capital</b>	<b>147,190</b>	<b>129,243</b>
<b>Tier Two Capital</b>		
Unaudited Current Year Retained Surplus	19,582	16,455
<b>Total Tier Two Capital</b>	<b>19,582</b>	<b>16,455</b>
<b>Total Qualifying Capital</b>	<b>166,772</b>	<b>145,698</b>

### (iii) Total Risk Weighted Exposures

	Principal Amount		Risk Weight	Risk Weighted Exposures		
	Dec-04 \$000	Dec-03 \$000		Dec-04 \$000	Dec-03 \$000	
<b>On Balance Sheet Exposures</b>						
Cash and Short Term Claims on Government	16,747	23,708	0%	-	-	
Long Term Claims on Government	15,279	15,446	10%	1,528	1,545	
Claims on Banks and Local Authorities	635,767	555,961	20%	127,153	111,192	
Loans Secured By Residential Mortgage	1,303,724	1,135,552	50%	651,862	567,776	
Other Assets	317,879	300,974	100%	317,879	300,974	
<b>Total On Balance Sheet Exposures</b>	<b>2,289,396</b>	<b>2,031,641</b>		<b>1,098,422</b>	<b>981,487</b>	
	Principal Amount	Credit Convert Factor	Credit Equivalent Amount	Risk Weight	Risk Weighted Amount	
	Dec-04 \$000	Dec-03 \$000	Dec-04 \$000	Dec-03 \$000	Dec-04 \$000	Dec-03 \$000
<b>Off Balance Sheet Exposure</b>						
Commitments to lend < year	88,505	85,261	0%	-	-	-
Commitments to lend > year	159,845	133,509	50%	79,923	66,755	33,377
Market Related Contracts	225,000	57,510	2%	4,500	1,150	230
<b>Total Off Balance Sheet Exposure</b>	<b>473,350</b>	<b>276,280</b>		<b>84,423</b>	<b>67,905</b>	<b>40,862</b>
<b>Total Risk Weighted Exposures</b>	<b>2,762,746</b>	<b>2,307,921</b>			<b>1,139,284</b>	<b>1,015,094</b>

# NOTES TO THE INTERIM FINANCIAL STATEMENTS

*FOR THE NINE MONTHS ENDED 31 DECEMBER 2004*

## 17. CONCENTRATIONS OF CREDIT EXPOSURES

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 OECD governments 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. The peak aggregate end of day exposures relate to the most recent quarter. Credit exposures disclosed are based on actual exposures.

Percentage of Total Equity	Quarter Ended 31/12/04			Quarter Ended 31/12/03		
	No. of Counterparties			No. of Counterparties		
	Non Bank	Bank	Total	Non Bank	Bank	Total
<b>As at balance date</b>						
10% - 20%	10	1	11	9	1	10
21% - 30%	1	-	1	1	1	2
31% - 40%	-	-	-	-	1	1
41% - 50%	-	5	5	-	2	2
51% - 60%	-	-	-	-	1	1
61% - 70%	-	-	-	-	1	1
<b>Peak Exposure</b>						
10% - 20%	6	1	7	12	-	12
21% - 30%	7	-	7	1	1	2
31% - 40%	1	-	1	-	2	2
41% - 50%	-	3	3	1	1	2
51% - 60%	-	1	1	-	2	2
61% - 70%	-	1	1	-	1	1

## 18. MARKET RISK EXPOSURES

Aggregate Market Risk Exposure consists of three categories of exposure: Aggregate Interest Rate Exposure, Aggregate Foreign Currency Exposure and Aggregate Equity Exposure. The Bank has no material exposures in either Foreign Currency or Equities. Calculation of the Aggregate Interest Rate Exposure, as at balance date and peak exposure during the quarter, was made in accordance with clause 1 (1) (a) of the Seventh Schedule and clauses 2 to 7 of the Eighth Schedule of the Registered Bank Disclosure Statement (Off Quarter - New Zealand Incorporated Registered Banks ) 1998.

Aggregate Interest Rate Exposure

	31 December 2004		31 December 2003	
	\$000's	% of Equity	\$000's	% of Equity
Balance Date	3,582	2.15%	2,016	1.38%
Peak Exposure	3,582	2.15%	2,072	1.42%

## 19. FOREIGN CURRENCY BALANCES

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

## 20. CREDIT EXPOSURES TO CONNECTED PARTIES

The Bank has no connected parties to which credit exposures exist.

## 21. SECURITISATION , FUNDS MANAGEMENT, AND OTHER FIDUCIARY ACTIVITIES

The Bank has no involvement with any Securitisation, Funds Management or other Fiduciary activities.

## 22. REPORTING BY SEGMENT

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

# NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED 31 DECEMBER 2004

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## 23. RISK MANAGEMENT POLICIES

### (i) Credit Risk

**Lending:** 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.

**Non Lending Assets:** Investment in non-lending assets is controlled by limiting the area of investment and through the establishment of formal limits permitted with each counterparty. The current policy permits investing with New Zealand Government, Registered Banks, Local Authorities, State Owned Enterprises, and issuers of paper with a short term debt rating of A1 or better and excludes trading Derivatives, Futures and Foreign Exchange Options.

Credit risk exposures are monitored on a daily basis and form an integral part of the management reporting system.

### (ii) Foreign Currency Risk

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 that would significantly affect the banks net interest income.

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 Forward Rate Agreements are tools that may be used to assist with the management of interest rate risk.

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

### (iv) Equity Risk

The Bank's current policy does not permit trading in equities.

### (v) Liquidity Risk

Liquidity risk is the risk that the Bank will be unable in the short term to meet its obligations. 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.

Credit lines are in place with other Registered Banks to assist meeting liquidity.

Liquidity risk is monitored on a daily basis and forms an integral part of the management reporting system.

### (vi) Internal Audit

The Bank's Audit and Compliance Manager reports ultimately to the Chair of the Audit and Compliance Committee. The scope of internal audit ensures that aspects of the Bank's operational functions are reviewed on a cyclical basis.

The Board Audit and Compliance Committee's primary function is to work with the External Auditors. A meeting with the External Auditors takes place at least annually.

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