

# **TSB Bank General Disclosure Statement**

**For the Period Ended  
30 September 2005**

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# General Disclosure Statement

## For the Six Months Ended 30 September 2005

This General Disclosure Statement contains information as required by the Registered Bank Disclosure Statement (Full and Half Year - New Zealand Incorporated Registered Banks) Order 2005.

### 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 Bank Community Trust, an independent body, owns all the shares in the TSB Bank Limited, and is domiciled in New Zealand. The TSB Bank Community Trust appoints the Board of Directors.

### 4. GUARANTEE ARRANGEMENTS

No material obligations of the Bank are guaranteed.

### 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

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  
Solicitor

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. Independent Directors are E Gill, B C Richards, 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

### 6. AUDITOR

Deloitte.  
80 London Street  
Hamilton

### 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 Disclosure Statement For the Six Months Ended 30 September 2005

### 8. CONDITIONS OF REGISTRATION

A copy of the 'Conditions of Registration' is included in this General Disclosure Statement, dated from 30 March 2005.

### 9. PENDING PROCEEDINGS OR ARBITRATION

The New Zealand Commerce Commission has filed criminal proceedings against TSB Bank Limited, along with five other major banks, two card services companies, and one financial services company under the Fair Trading Act 1986 in relation to disclosure of international currency conversion fees charged on foreign currency credit card and debit card transactions. The Directors cannot reliably estimate any likely outflows arising at this time.

### 10. CREDIT RATING

TSB Bank Ltd was assigned a credit rating in April 2002 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. No changes have been made to this rating and 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.

### 11. DIRECTORSHIPS

The following directors are also directors of the following companies outside TSB Bank Limited.

**B C Richards** - Hotel School NZ Limited, Staples Rodway Taranaki Limited, SR Taranaki Trustees Limited, Staples Rodway Taranaki Nominees Limited, SRTN Trustees Limited

**D L Lean** - David Lean & Associates Limited, Rahoitu Dairy Limited

**M M McCarthy** - J M Northshore Limited, J M Northshore (2005) Limited

**K W Rimmington** - Interchange and Settlement Limited

**C Tuuta** - Albatross Enterprises Limited

**D E Walter** - Westgate Transport Limited

## General Disclosure Statement For the Six Months Ended 30 September 2005

### 12. FINANCIAL AND SUPPLEMENTARY DISCLOSURES

This General Disclosure Statement is inclusive of the Banks unaudited six monthly interim financial statements for the period ending 30 September 2005. All necessary additional financial and supplementary disclosures are included in the notes attached to the interim financial statements.

### 13. 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 2005:
- b) The General Disclosure Statement is not false or misleading.

The Directors believe, after due enquiry, that for the six month period ending 30 September 2005:

- 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)



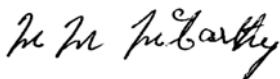
B. C. Richards  
(Deputy Chair)



P. K. Broughton



D. L. Lean



M. M. McCarthy



K. W. Rimmington  
(Managing Director/CEO)



C. Tuuta



D. E. Walter

18 November 2005

## 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 March 2005.

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 disappplied 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 March 2005.

## 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 SIX MONTHS ENDED 30 SEPTEMBER 2005

	Note	30 September 2005 Unaudited \$000	30 September 2004 Unaudited \$000	31 March 2005 Audited \$000
Interest Income Received	1	90,796	73,357	156,201
Interest Paid	2	55,768	41,434	90,535
<b>Net Interest Income</b>		<b>35,028</b>	<b>31,923</b>	<b>65,666</b>
Other Operating Income Received	3	5,734	5,220	10,610
<b>Net Operating Income</b>		<b>40,762</b>	<b>37,143</b>	<b>76,276</b>
Operating Expenses	4	16,184	15,859	34,518
<b>Operating Surplus Before Taxation</b>		<b>24,578</b>	<b>21,284</b>	<b>41,758</b>
Taxation		8,111	7,024	13,789
<b>Net Surplus Attributable to Shareholder</b>		<b>16,467</b>	<b>14,260</b>	<b>27,969</b>

## STATEMENT OF MOVEMENTS IN EQUITY

### FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

	Note	30 September 2005 Unaudited \$000	30 September 2004 Unaudited \$000	31 March 2005 Audited \$000
<b>Opening Shareholder's Equity</b>		168,894	147,190	147,190
<b>Net Surplus Attributable to Shareholder</b>		16,467	14,260	27,969
<b>Distributions to Shareholder</b>	15			
Interim Dividend		(2,025)	(1,750)	(1,750)
Final Dividend		-	-	(4,515)
<b>Closing Shareholder's Equity</b>		<b>183,336</b>	<b>159,700</b>	<b>168,894</b>
<b>Represented by:</b>				
<b>Share Capital</b>	14	10,000	10,000	10,000
<b>Retained Surplus</b>		173,336	149,700	158,894
		<b>183,336</b>	<b>159,700</b>	<b>168,894</b>

The Statement of Accounting Policies (pages 9 to 11) and the Notes to the Interim Financial Statements (pages 12 to 23) form an integral part of these Interim Financial Statements.

## STATEMENT OF FINANCIAL POSITION

### AS AT 30 SEPTEMBER 2005

	Note	30 September 2005 Unaudited \$000	30 September 2004 Unaudited \$000	31 March 2005 Audited \$000
<b>Assets</b>				
Cash and Liquid Assets	5	20,567	15,898	14,280
Investment Securities	6	831,860	748,414	799,552
Loans and Advances	8	1,571,452	1,400,829	1,497,849
Future Income Tax Benefit	7	4,725	4,137	4,852
Property, Plant and Equipment	9	13,514	14,767	13,909
Receivables	11	8,851	7,281	9,212
<b>Total Assets</b>		<b>2,450,969</b>	<b>2,191,326</b>	<b>2,339,654</b>
<b>Liabilities</b>				
Deposits	13	2,216,269	1,991,368	2,134,810
Provision for Dividend		2,025	1,750	4,515
Payables	12	49,339	38,508	31,435
<b>Total Liabilities</b>		<b>2,267,633</b>	<b>2,031,626</b>	<b>2,170,760</b>
<b>Shareholder's Equity</b>				
Share Capital	14	10,000	10,000	10,000
Retained Surplus		173,336	149,700	158,894
<b>Total Shareholder's Equity</b>		<b>183,336</b>	<b>159,700</b>	<b>168,894</b>
<b>Total Liabilities and Shareholder's Equity</b>		<b>2,450,969</b>	<b>2,191,326</b>	<b>2,339,654</b>
<b>Total Interest Earning and Discount Bearing Assets</b>		<b>2,431,670</b>	<b>2,172,024</b>	<b>2,317,169</b>
<b>Total Interest and Discount Bearing Liabilities</b>		<b>2,102,486</b>	<b>1,873,753</b>	<b>2,010,063</b>

The Statement of Accounting Policies (pages 9 to 11) and the Notes to the Interim Financial Statements (pages 12 to 23) form an integral part of these Interim Financial Statements.

## STATEMENT OF CASH FLOWS

### FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

	Note	30 September 2005 Unaudited \$000	30 September 2004 Unaudited \$000	31 March 2005 Audited \$000
<b>Cash Flows from Operating Activities</b>				
Cash provided from (applied to):				
Interest Income Received		87,485	70,230	155,446
Other Income Received		8,787	7,857	10,144
Taxation Refund		583	-	-
Interest Paid		(25,612)	(21,555)	(87,440)
Operating Expenditure		(29,457)	(21,332)	(25,751)
Taxation Paid		(5,170)	(5,044)	(15,329)
	16	<b>36,616</b>	<b>30,156</b>	<b>37,070</b>
<b>Cash Flows from Investing Activities</b>				
Cash provided from (applied to):				
Property, Plant and Equipment Sold		333	43	70
Net Decrease in Investment Securities		-	-	-
Net Increase in Investment Securities		(32,308)	(47,838)	(98,976)
Net Increase in Loans and Advances		(74,103)	(80,467)	(177,737)
Property, Plant and Equipment Purchased		(1,360)	(1,039)	(2,138)
<b>Net Cash Flow used in Investing Activities</b>		<b>(107,438)</b>	<b>(129,301)</b>	<b>(278,781)</b>
<b>Cash Flows from Financing Activities</b>				
Cash provided from (applied to):				
Net Increase in Deposits		81,624	101,802	244,500
Dividends Paid		(4,515)	(3,540)	(5,290)
<b>Net Cash Flow from Financing Activities</b>		<b>77,109</b>	<b>98,262</b>	<b>239,210</b>
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>		<b>6,287</b>	<b>(883)</b>	<b>(2,501)</b>
Add Cash and Cash Equivalents at beginning of the year		14,280	16,781	16,781
<b>Cash and Cash Equivalents at end of period</b>		<b>20,567</b>	<b>15,898</b>	<b>14,280</b>

The Statement of Accounting Policies (pages 9 to 11) and the Notes to the Interim Financial Statements (pages 12 to 23) form an integral part of these Interim Financial Statements.

## STATEMENT OF ACCOUNTING POLICIES

### FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

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 2005. These interim financial statements should be read in conjunction with the Annual Report for the year ended 31 March 2005.

#### **Basis for Preparation**

The Interim Financial Statements have been prepared on the historical cost. 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 Income is recognised on an accrual basis. All material fee income and commission is recognised in the Statement of Financial Performance when the service is provided to the customer. 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. Expense Recognition.**

All material expenses are recognised in the Statement of Financial Performance on an accrual basis, including interest expense.

##### **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.

###### **(ii) Specific Provisions**

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

###### **(iii) 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.

###### **(iv) 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 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 impaired amount less estimated residual value, over their expected useful lives.

## STATEMENT OF ACCOUNTING POLICIES

### FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

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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

#### **(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. Interest rate related contracts hedge interest rate risk associated with the Bank's Statement of Financial Position.

#### **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.

## STATEMENT OF ACCOUNTING POLICIES

### FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

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#### **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 policies have been applied on a consistent basis with those of the previous year.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

	30 September 2005 \$000	30 September 2004 \$000	31 March 2005 \$000
<b>1. INTEREST INCOME RECEIVED</b>			
Government and Local Authority Securities	14,473	10,444	23,091
Loans and Advances	61,642	51,122	107,352
Cash and Liquid Assets	430	304	747
Other Securities and Financial Instruments	14,251	11,487	25,011
	<b>90,796</b>	<b>73,357</b>	<b>156,201</b>

### 2. INTEREST PAID

Retail Deposits	55,768	41,434	90,535
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### 3. OTHER OPERATING INCOME RECEIVED

Lending and Credit Facility Related Income	1,626	1,356	2,887
Commission and Other Trading Income *	4,019	3,705	7,518
Other Income	89	159	205
	<b>5,734</b>	<b>5,220</b>	<b>10,610</b>

\*Includes income from TSB Realty, TSB Holiday Shoppe and TSB Foreign Exchange income.

### 4. OPERATING EXPENSES

Audit Services	39	39	74
Auditor – Other Services	-	-	15
Bad Debts Written Off	37	54	159
Depreciation:			
Buildings	93	85	291
Computer Equipment	771	813	1,684
Fixtures and Fittings	358	354	707
Writedown of Property	200	-	500
Directors' Fees	88	86	171
Personnel Expenses	6,293	6,034	13,029
General Provision for Doubtful Debts	500	500	750
Specific Provision for Doubtful Debts	50	70	-
Other	7,755	7,824	17,138
	<b>16,184</b>	<b>15,859</b>	<b>34,518</b>

### 5. CASH AND LIQUID ASSETS

Cash and Cash Equivalents	2,959	3,137	4,415
Reserve Bank Balances	17,608	761	865
Balance due from Registered Banks	-	12,000	9,000
	<b>20,567</b>	<b>15,898</b>	<b>14,280</b>

### 6. INVESTMENT SECURITIES

	Market Value 30 Sept 2005 \$000			
New Zealand Government Securities	15,202	15,154	15,321	15,237
Treasury Bills	9,996	9,871	9,877	9,882
Local Authority Securities	286,405	283,971	205,790	262,804
Fixed Bank Deposits	-	-	-	5,000
Bank Registered Certificates of Deposit	417,214	417,214	419,854	395,746
Other Investments	103,009	105,650	97,572	110,883
	<b>831,826</b>	<b>831,860</b>	<b>748,414</b>	<b>799,552</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 SIX MONTHS ENDED 30 SEPTEMBER 2005

	30 September 2005 \$000	30 September 2004 \$000	31 March 2005 \$000
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### 7. TAXATION

#### Future Income Tax Benefit

Balance at beginning of Period	4,852	4,211	4,211
Net Movement in timing Differences	(127)	(74)	641
<b>Balance at End of Period</b>	<b>4,725</b>	<b>4,137</b>	<b>4,852</b>

The major timing differences relate to depreciation, provisions and the recognition of investment income.

### 8. LOANS AND ADVANCES

Residential Mortgages	1,424,189	1,260,193	1,349,876
Community	6,710	6,526	6,510
Commercial	63,347	56,394	61,103
Farming	66,638	67,368	68,911
Other	21,318	20,368	21,649
	<b>1,582,202</b>	<b>1,410,849</b>	<b>1,508,049</b>
Less General Provision for Doubtful Debts	(10,700)	(9,950)	(10,200)
Less Specific Provision for Bad and Doubtful Debts	(50)	(70)	-
<b>Total Loans and Advances</b>	<b>1,571,452</b>	<b>1,400,829</b>	<b>1,497,849</b>

Other is inclusive of other Retail lending and Visa balances.

#### General Provision for Doubtful Debts

Balance at beginning of year	10,200	9,450	9,450
Charge to Statement of Financial Performance	500	500	750
<b>Balance at end of period</b>	<b>10,700</b>	<b>9,950</b>	<b>10,200</b>

#### Specific Provision for Doubtful Debts

Balance at Beginning of Year	-	-	-
Charge to Statement of Financial Performance	-	-	-
Add New Provisions	50	70	70
Less Recoveries	-	(70)	(70)
<b>Balance at End of Period</b>	<b>50</b>	<b>-</b>	<b>-</b>

### 9. PROPERTY, PLANT AND EQUIPMENT

Land At Cost *	1,371	1,379	1,379
Buildings At Cost	8,414	8,448	8,686
Accumulated Depreciation	(1,681)	(1,466)	(1,671)
<b>Net Book Value *</b>	<b>6,733</b>	<b>6,982</b>	<b>7,015</b>
Computer Equipment	14,384	13,874	14,001
Accumulated Depreciation	(10,983)	(9,354)	(10,220)
<b>Net Book Value</b>	<b>3,401</b>	<b>4,520</b>	<b>3,781</b>
Furniture and Fittings	7,799	7,314	7,581
Accumulated Depreciation	(6,077)	(5,580)	(5,848)
<b>Net Book Value</b>	<b>1,722</b>	<b>1,734</b>	<b>1,733</b>
Work in Progress	287	152	1
<b>Total Property, Plant and Equipment</b>	<b>13,514</b>	<b>14,767</b>	<b>13,909</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 SIX MONTHS ENDED 30 SEPTEMBER 2005

	30 September 2005 \$000	30 September 2004 \$000	31 March 2005 \$000
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### 10. 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 or under administration. Interest continues to be accrued on all loans. No interest has been foregone.

#### Impaired Assets (Pre-provisions)

Balance at Beginning of Year	-	-	-
Additions	592	265	265
Deletions	-	-	(265)
Balance at End of Period	<b>592</b>	<b>265</b>	-

#### Past Due Assets

Balance at Beginning of Year	1,914	1,541	1,541
Additions	4,458	2,983	5,003
Deletions	(1,855)	(1,276)	(4,630)
Balance at End of Period	<b>4,517</b>	<b>3,248</b>	<b>1,914</b>

### 11. RECEIVABLES

Accrued Interest Receivable	6,802	5,863	3,491
Other Income Receivable	229	177	-
Accounts Receivable	1,820	1,241	5,265
Taxation Refund	-	-	456
	<b>8,851</b>	<b>7,281</b>	<b>9,212</b>

### 12. PAYABLES

Accrued Interest Payable	37,017	27,913	11,016
Provision for Employee Entitlements	3,537	3,043	4,115
Taxation Payable	2,943	2,349	-
Accounts Payable and Other Liabilities	5,842	5,203	16,304
	<b>49,339</b>	<b>38,508</b>	<b>31,435</b>

### 13. DEPOSITS

#### Retail Deposits

Term Deposits	958,808	818,814	883,458
Other Deposits Bearing Interest	1,143,678	1,054,939	1,126,605
Deposits Not Bearing Interest	113,783	117,615	124,747
	<b>2,216,269</b>	<b>1,991,368</b>	<b>2,134,810</b>

### 14. SHARE CAPITAL

Issued and Paid Up Capital: 20,000,000 Ordinary Shares	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>
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## NOTES TO THE INTERIM FINANCIAL STATEMENTS

### FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

#### 15. DIVIDEND

	30 September 2005		30 September 2004		31 March 2005	
	\$000	\$ Per Share	\$000	\$ Per Share	\$000	\$ Per Share
Interim	2,025	0.101	1,750	0.088	1,750	0.087
Final	-	-	-	-	4,515	0.225
	<b>2,025</b>	<b>0.101</b>	<b>1,750</b>	<b>0.088</b>	<b>6,265</b>	<b>0.312</b>

#### 16. NET CASH FLOW FROM OPERATING ACTIVITIES

Reconciliation of Statement of Financial Performance surplus with Net Cash Flow from Operating Activities

	30 September 2005 \$000	30 September 2004 \$000	31 March 2005 \$000
Operating Surplus After Taxation	16,467	14,260	27,969
Add Non-Cash Items:			
- Depreciation	1,222	1,252	2,682
- Writedown of Property	200	-	500
- Doubtful Debts Provision	500	500	750
Add/(Deduct) Movements in Working Capital:			
Increase (Decrease) in Sundry Creditors	(11,150)	(7,448)	4,835
Increase (Decrease) in Interest Payable	26,111	20,102	3,095
Increase (Decrease) in Taxation Payable	3,397	1,906	(899)
Increase (Decrease) in Deferred Tax Asset	127	74	(641)
(Increase) Decrease in Sundry Debtors	3,053	2,637	(466)
(Increase) Decrease in Interest Receivable	(3,311)	(3,127)	(755)
Net Cash Flow from Operating Activities	<b>36,616</b>	<b>30,156</b>	<b>37,070</b>

#### 17. REPRICING SCHEDULE

The interest rate repricing schedule of on-balance sheet monetary assets and monetary liabilities has been prepared on the basis of contractual maturity or next repricing date, whichever is earlier. Interest Rate derivatives such as Interest rate Swaps, and Interest Rate options are used to convert fixed rate exposure into floating. This is disclosed in Note 20.

**(i) As at 30 September 2005**

	Weighted Average Interest Rate (%)	0-6 Months \$000	6-12 Months \$000	1-2 Years \$000	2-5 Years \$000	Over 5 Years \$000	Total \$000
<b>Monetary Assets</b>							
Cash and Liquid Assets	6.75	20,567	-	-	-	-	<b>20,567</b>
Investment Securities	7.09	780,636	15,075	15,131	14,018	7,000	<b>831,860</b>
Loans and Advances	7.95	704,702	256,687	509,125	105,734	5,954	<b>1,582,202</b>
Other Monetary Assets		8,851	-	-	-	-	<b>8,851</b>
<b>Total Monetary Assets</b>		<b>1,514,756</b>	<b>271,762</b>	<b>524,256</b>	<b>119,752</b>	<b>12,954</b>	<b>2,443,480</b>
<b>Monetary Liabilities</b>							
Deposits	5.24	2,024,075	125,174	36,700	25,202	5,118	<b>2,216,269</b>
Provision for Dividend		2,025	-	-	-	-	<b>2,025</b>
Other Current Liabilities		46,396	-	-	-	-	<b>46,396</b>
<b>Total Monetary Liabilities</b>		<b>2,072,496</b>	<b>125,174</b>	<b>36,700</b>	<b>25,202</b>	<b>5,118</b>	<b>2,264,690</b>
<b>Interest Rate Sensitivity Gap</b>		<b>(557,740)</b>	<b>146,588</b>	<b>487,556</b>	<b>94,550</b>	<b>7,836</b>	<b>178,790</b>

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

### 17. REPRICING SCHEDULE CONTINUED

(ii) As at 30 September 2004	Weighted Average Interest Rate (%)	0-6 Months \$000	6-12 Months \$000	1-2 Years \$000	2-5 Years \$000	Over 5 Years \$000	Total \$000
<b>Monetary Assets</b>							
Cash and Liquid Assets	6.00	3,898	-	-	-	-	3,898
Due from other Banks	6.25	12,000	-	-	-	-	12,000
Investment Securities	6.47	696,877	10,000	10,262	31,274	-	748,413
Loans and Advances	7.51	736,962	244,403	295,108	134,376	-	1,410,849
Other Monetary Assets		7,281	-	-	-	-	7,281
<b>Total Monetary Assets</b>		<b>1,457,018</b>	<b>254,403</b>	<b>305,370</b>	<b>165,650</b>	<b>-</b>	<b>2,182,441</b>
<b>Monetary Liabilities</b>							
Deposits	4.55	1,713,838	189,712	54,553	33,220	45	1,991,368
Provision for Dividend		1,750	-	-	-	-	1,750
Other Current Liabilities		36,159	-	-	-	-	36,159
<b>Total Monetary Liabilities</b>		<b>1,751,747</b>	<b>189,712</b>	<b>54,553</b>	<b>33,220</b>	<b>45</b>	<b>2,029,277</b>
<b>Interest Rate Sensitivity Gap</b>		<b>(294,729)</b>	<b>64,691</b>	<b>250,817</b>	<b>132,430</b>	<b>(45)</b>	<b>153,164</b>

(iii) As at 31 March 2005	Weighted Average Interest Rate (%)	0-6 Months \$000	6-12 Months \$000	1-2 Years \$000	2-5 Years \$000	Over 5 Years \$000	Total \$000
<b>Monetary Assets</b>							
Cash and Liquid Assets	6.50	5,280	-	-	-	-	5,280
Due from Other Banks	6.75	9,000	-	-	-	-	9,000
Investment Securities	6.90	750,918	26,285	15,335	7,015	-	799,553
Loans and Advances	7.79	760,913	236,696	401,338	105,488	3,614	1,508,049
Other Monetary Assets		9,212	-	-	-	-	9,212
<b>Total Monetary Assets</b>		<b>1,535,323</b>	<b>262,981</b>	<b>416,673</b>	<b>112,503</b>	<b>3,614</b>	<b>2,331,094</b>
<b>Monetary Liabilities</b>							
Deposits	4.89	1,956,330	109,861	36,320	32,299	-	2,134,810
Provision for Dividend		4,515	-	-	-	-	4,515
Other Current Liabilities		31,434	-	-	-	-	31,435
<b>Total Monetary Liabilities</b>		<b>1,992,279</b>	<b>109,861</b>	<b>36,320</b>	<b>32,299</b>	<b>-</b>	<b>2,170,760</b>
<b>Interest Rate Sensitivity Gap</b>		<b>(456,956)</b>	<b>153,120</b>	<b>380,353</b>	<b>80,204</b>	<b>3,614</b>	<b>160,334</b>

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

### FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

#### 18. 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:

	30 September 2005	30 September 2004	31 March 2005
Tier one	14.46%	13.86%	14.93%
Total	15.69%	15.04%	14.93%

##### (ii) Qualifying capital

	\$000	\$000	\$000
<b>Tier One Capital</b>			
Issued and fully paid up share capital	10,000	10,000	10,000
Retained earnings	158,894	137,190	137,190
Current Years Audited Retained Surplus		-	21,704
<b>Total Tier One Capital</b>	<b>168,894</b>	<b>147,190</b>	<b>168,894</b>
<b>Tier Two Capital</b>	<b>14,442</b>	<b>12,510</b>	<b>-</b>
<b>Total Qualifying Capital</b>	<b>183,336</b>	<b>159,700</b>	<b>168,894</b>

##### (iii) Total Risk Weighted Exposures September 2005/2004

	Principal Amount		Risk Weight	Risk Weighted Exposures	
	Sep-05 \$000	Sep-04 \$000		Sep-05 \$000	Sep-04 \$000
<b>On Balance Sheet Exposures</b>					
Cash and Short-Term Claims on Government	35,455	13,775	0%	-	-
Long-Term Claims on Government	10,136	15,321	10%	1,014	1,532
Claims on New Zealand Banks and Local Authorities	708,198	637,644	20%	141,640	127,529
Loans Secured By Residential Mortgage	1,424,189	1,260,193	50%	712,095	630,097
Other Assets	272,991	264,393	100%	272,991	264,393
<b>Total On Balance Sheet Exposures</b>	<b>2,450,969</b>	<b>2,191,326</b>		<b>1,127,740</b>	<b>1,023,551</b>

##### Off Balance Sheet Exposure

	Principal Amount		Credit Conversion Factor	Credit Equivalent Amount		Risk Weight	Risk Weighted Amount	
	Sep-05 \$000	Sep-04 \$000		Sep 05 \$000	Sep 04 \$000		Sep 05 \$000	Sep 04 \$000
Commitments to lend < year	93,246	88,778	0%	-	-	100%	-	-
Commitments to lend > year	158,340	150,934	50%	79,170	75,468	50%	39,585	37,733
Market Related Contracts*	521,600	58,662	N/A	2,867	1,173	20%	573	235
Other	700	500	100%	700	500	50%	350	250
<b>Total Off Balance Sheet Exposure</b>	<b>773,886</b>	<b>298,874</b>		<b>82,737</b>	<b>77,141</b>		<b>40,508</b>	<b>38,218</b>
<b>Total Risk Weighted Exposures</b>	<b>3,224,855</b>	<b>2,490,200</b>					<b>1,168,248</b>	<b>1,061,769</b>

\* The credit equivalent amounts for market related contracts are calculated using the current exposure method.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

### 18. CAPITAL ADEQUACY - CONTINUED

(iv) Total Risk Weighted Exposures - 31 March 2005

	Principal Amount	Risk Weight	Risk Weighted Exposures		
	31 March 2005 \$000		31 March 2005 \$000		
<b>On Balance Sheet Exposures</b>					
Cash and Short-Term Claims on Government	20,202	0%	-		
Long-Term Claims on Government	10,197	10%	1,020		
Claims on New Zealand Banks and Local Authorities	679,565	20%	135,913		
Loans Secured By Residential Mortgage	1,349,876	50%	674,938		
Other Assets	279,814	100%	279,814		
<b>Total On Balance Sheet Exposures</b>	<b>2,339,654</b>		<b>1,091,685</b>		
<b>Off Balance Sheet Exposure</b>					
	Principal Amount	Credit Conversion Factor	Credit Equivalent Amount	Risk Weight	Risk Weighted Amount
	March 05 \$000		March 05 \$000		March 05 \$000
Commitments to lend < year	90,991	0%	-	100%	-
Commitments to lend > year	157,779	50%	78,890	50%	39,445
Market Related Contracts*	324,582	N/A	1,928	20%	386
Other	-	100%	-	50%	-
<b>Total Off Balance Sheet Exposure</b>	<b>573,352</b>		<b>80,818</b>		<b>39,831</b>
<b>Total Risk Weighted Exposures</b>	<b>2,913,006</b>				<b>1,131,516</b>

\* The credit equivalent amounts for market related contracts are calculated using the current exposure method.

### 19. FAIR VALUE OF FINANCIAL INSTRUMENTS

	30 September 2005		30 September 2004		31 March 2005	
	\$000	\$000	\$000	\$000	\$000	\$000
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and Liquid Assets	20,567	20,567	15,898	15,898	14,280	14,280
Investments	831,860	831,826	748,414	748,771	799,552	798,908
Loans and Advances *	1,571,452	1,569,559	1,400,829	1,397,039	1,497,849	1,493,633
Deposits	2,216,269	2,216,269	1,991,368	1,991,368	2,134,810	2,134,810

\* The estimated fair value of Loans and Advances has been calculated as per the Statement of Accounting Policies

### 20. MARKET RELATED CONTRACTS (DERIVATIVES)

As at 30 September 2005					
			Notional Amount	Credit Equivalent Amount	Fair Value
			\$000	\$000	\$000
<b>Interest Rate Contracts</b>					
Swaps			21,600	321	225
Options			500,000	2,546	296
<b>Total Interest Rate Contracts</b>			<b>521,600</b>	<b>2,867</b>	<b>521</b>

The unrecognised gains on these Interest Rate Contracts is \$0.429m, calculated as the fair value of \$0.521m less the net payable recognised in the Statement of Financial Position of \$0.092m.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

			As at 30 September 2004		
			Notional Amount	Credit Equivalent Amount	Fair Value
<b>Interest Rate Contracts</b>			<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Swaps			18,662	373	152
Options			40,000	800	159
<b>Total Interest Rate Contracts</b>			<b>58,662</b>	<b>1,173</b>	<b>311</b>

The unrecognised gains on these Interest Rate Contracts is \$0.331m, calculated as the fair value of \$0.311m plus the net receivable recognised in the Statement of Financial Position of \$0.020m.

			As at 31 March 2005		
			Notional Amount	Credit Equivalent Amount	Fair Value
<b>Interest Rate Contracts</b>			<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Swaps			17,582	319	217
Options			307,000	1,609	359
<b>Total Interest Rate Contracts</b>			<b>324,582</b>	<b>1,189</b>	<b>576</b>

The unrecognised gains on these Interest Rate Contracts is \$0.593m, calculated as the fair value of (\$0.576)m plus the net receivable recognised in the Statement of Financial Position of \$0.017m.

### 21. FOREIGN CURRENCY BALANCES

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

### 22. CREDIT EXPOSURES TO CONNECTED PARTIES

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

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

The Bank has no involvement with any Securitisation, 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.

### 24. REPORTING BY SEGMENT

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

	30 September 2005 \$000	30 September 2004 \$000	31 March 2005 \$000
<b>25. COMMITMENTS &amp; CONTINGENCIES</b>			
Lending Commitments	87,428	88,221	94,220
Capital Commitments	700	500	-
Approved Banking Facilities Unutilised	164,158	210,153	154,552
	<b>252,286</b>	<b>298,874</b>	<b>248,772</b>

Total Commitments are also split by maturity in Note 18.

Refer to Note 9 of the General Disclosure Statement which outlines pending proceedings against TSB Bank Ltd.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

### FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

#### 26. 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. Also shown below as at balance date, is the amount and percentage of aggregate credit exposures that is of an investment grade credit rating.

Percentage of Total Equity	Quarter Ended 30 September 2005			Quarter Ended 30 September 2004		
	Number of Counterparties			Number of Counterparties		
	Non Bank	Bank	Total	Non Bank	Bank	Total
<b>As at balance date</b>						
10% - 20%	2	1	3	7	1	8
21% - 30%	1	-	1	-	-	-
31% - 40%	2	2	4	-	1	1
41% - 50%	-	2	2	-	1	1
51% - 60%	-	1	1	-	2	2
61% - 70%	-	-	-	-	1	1
<b>Peak Exposure</b>						
10% - 20%	4	1	5	8	1	9
21% - 30%	1	-	1	7	-	7
31% - 40%	2	1	3	-	1	1
41% - 50%	-	3	3	-	2	2
51% - 60%	-	1	1	-	2	2
61% - 70%	-	-	-	-	1	1

	As at 30 September 2005		As at 30 September 2004	
	Investment Grade Credit Rating		Investment Grade Credit Rating	
	\$000	%	\$000	%
<b>Bank</b>	428,000	53	437,000	60
<b>Non Bank</b>	216,400	27	181,900	25
<b>Other</b>	167,000	21	109,000	15

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

An Investment grade credit rating means a credit rating of BBB- or Baa3, or above, or its equivalent.

Other, refers to investments in non-rated Local Authorities.

#### 27. 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 (Full and Half Year - New Zealand Incorporated Registered Banks) Order 2005.

##### Aggregate Interest Rate Exposure.

	30 September 2005		30 September 2004	
	\$000	% of Equity	\$000	% of Equity
Balance Date	4,604	2.51%	2,272	1.42%
Peak Exposure	4,604	2.51%	2,461	1.54%

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

### FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

#### 28. 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 the 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 in Derivatives, Futures and Foreign Exchange options.

Credit risk exposures are monitored on a regular 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, which would significantly affect the banks 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**

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 requirements.

Liquidity risk is monitored on a regular 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 Banks operational functions are reviewed on a cyclical basis.

The Audit and Compliance Committee's primary function is to liaise with the External Auditors. 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.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

	30 September 2005 \$000	30 September 2004 \$000	31 March 2005 \$000
<b>29. CONCENTRATIONS OF CREDIT EXPOSURES</b>			
Within Taranaki	788,148	684,072	735,934
Rest of New Zealand	1,621,397	1,483,678	1,571,667
<b>Total Exposures by Geographic Region</b>	<b>2,409,545</b>	<b>2,167,750</b>	<b>2,307,601</b>
Agriculture	66,638	67,368	68,911
Utilities	43,000	35,000	52,000
Communications	16,000	12,500	6,000
Government and Public Authorities	308,134	230,548	286,294
Finance	430,726	446,366	418,258
Housing	1,418,386	1,281,547	1,366,284
Personal	22,604	21,501	22,241
Community	6,710	6,526	6,510
Commercial	97,347	66,394	81,103
<b>Total Exposures by Industry</b>	<b>2,409,545</b>	<b>2,167,750</b>	<b>2,307,601</b>

Cash and Liquid Assets, Future Income Tax Benefit, Property, Plant and Equipment and Other Assets have been excluded from the above analysis on the basis that the credit exposure is insignificant or nil.

### 30. CONCENTRATIONS OF FUNDING

<b>Retail Deposits</b>			
Within Taranaki	1,319,004	1,198,221	1,283,707
Rest of New Zealand	897,265	793,147	851,103
<b>Total Funding by Geographic Region</b>	<b>2,216,269</b>	<b>1,991,368</b>	<b>2,134,810</b>
Government and Public Authorities	22,313	5,483	15,143
Households	2,131,561	1,933,014	2,058,086
Community	24,065	22,966	23,923
Commercial	38,330	29,905	37,658
<b>Total Funding by Industry</b>	<b>2,216,269</b>	<b>1,991,368</b>	<b>2,134,810</b>

### 31. INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The Bank's first annual report under New Zealand equivalents to International Financial Reporting Standards (NZIFRS) will be for the year ended 31 March 2008. However, it is a requirement that the General Short Form Disclosure Statement for the quarter ended 30 June 2007, include interim financial statements under NZIFRS. We are not able yet to reliably estimate the likely effect of changes on the reported financial position and financial performance. The actual impact of adopting NZIFRS may vary from the information presented, and the variation may or may not be significant.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

### FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

#### 31. FINANCIAL SUMMARY

All figures relate to year ended 31 March unless otherwise stated.

	<b>30 Sept 2005</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>FINANCIAL PERFORMANCE</b>	<b>(6 Months)</b>	<b>(Audited)</b>	<b>(Audited)</b>	<b>(Audited)</b>	<b>(Audited)</b>	<b>(Audited)</b>
Interest Income	90,796	156,201	127,809	118,619	104,672	99,337
Interest Expense	55,768	90,535	70,391	65,090	59,462	56,840
<b>Net Interest Income</b>	<b>35,028</b>	<b>65,666</b>	<b>57,418</b>	<b>53,529</b>	<b>45,210</b>	<b>42,497</b>
Other Income	5,734	10,610	9,551	8,235	7,162	7,065
<b>Total Operating Income</b>	<b>40,762</b>	<b>76,276</b>	<b>66,969</b>	<b>61,764</b>	<b>52,372</b>	<b>49,562</b>
Impaired Asset Expense	-	-	-	(180)	(10)	210
Operating Expenses	16,184	34,518	32,411	30,047	25,075	25,113
<b>Operating Profit before Taxation</b>	<b>24,578</b>	<b>41,758</b>	<b>34,558</b>	<b>31,897</b>	<b>27,307</b>	<b>24,239</b>
Taxation	8,111	13,789	11,411	10,488	8,857	7,599
<b>Net Profit Attributable to Shareholders</b>	<b>16,467</b>	<b>27,969</b>	<b>23,147</b>	<b>21,409</b>	<b>18,450</b>	<b>16,640</b>
Dividend	2,025	6,265	5,200	4,785	4,100	3,450
<b>Retained Profits</b>	<b>14,442</b>	<b>21,704</b>	<b>17,947</b>	<b>16,624</b>	<b>14,350</b>	<b>13,190</b>
<b>FINANCIAL POSITION</b>						
Total Assets	2,450,969	2,339,654	2,063,657	1,829,508	1,625,990	1,422,281
Total Impaired Assets	50	-	-	42	276	511
Depositor's Funds	2,216,269	2,134,810	1,888,979	1,670,820	1,489,790	1,299,983
Total Liabilities	2,267,633	2,170,760	1,916,467	1,700,265	1,513,371	1,324,012

The amounts set out in the Financial Summary have been prepared from audited financial statements of the Bank apart from the 30 September 2005 figures, which are not audited. The Bank has no extraordinary items or minority interests.

## **REVIEW REPORT TO THE DIRECTORS OF TSB BANK LIMITED**

We have reviewed the interim financial statements on pages 1 to 23. The interim financial statements provide information about the past financial performance of the TSB Bank Limited and their financial position and cashflows as at 30 September 2005. This information is stated in accordance with the accounting policies set out in the TSB Bank Limited annual financial statements dated 31 March 2005.

### **Board of Directors' Responsibilities**

The Board of Directors is responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice, of interim financial statement which give a true and fair view of the financial position of TSB Bank Limited as at 30 September 2005 and of the results of operations and cash flows for the 6 months ended on that date. They are also responsible for the preparation and presentation of supplementary information which:

- (a) gives a true and fair view, in accordance with Clause 12(3) of the Order, of the matters to which it relates, and
- (b) complies with Schedules 7 and 8 of the Order in accordance with Clause 12(4) of the Order.

### **Independent Accountant's Responsibilities**

We are responsible for reviewing the interim financial statements presented by the Board of Directors in order to report to you whether, in our opinion and on the basis of the procedures performed by us, anything has come to our attention that would indicate that the interim financial statements do not present fairly the matters to which they relate.

It is also our responsibility to examine the supplementary information prepared in accordance with Clause 12(4) of the Order and conclude as to whether, on the basis of the procedures described below, anything has come to our attention that would indicate that the supplementary information has been prepared in accordance with Schedule 7 and 8 of the Order, and report our findings to you.

### **Basis of Opinion**

A review is limited primarily to enquiries of company personnel and analytical review procedures applied to financial data and thus provide less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

We have reviewed the interim financial statements of TSB Bank Limited for the 6 months ended 30 September 2005 in accordance with the Review Engagement Standards issued by the New Zealand Institute of Chartered Accountants. These standards require that we plan and perform the review to obtain moderate assurance as to whether the statements are free of material misstatement.

Our firm carries out audit assignments on behalf of the Bank. In addition, certain partners and employees of our firm may deal with the bank on normal terms within the ordinary course of trading activities of the Bank. Our firm has no other interests in the Bank

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that:

- (a) the accompanying interim financial statements on pages 1 to 23 do not present fairly the financial position of the TSB Bank Limited as at 30 September 2005 and the results of operations and cash flows for the 6 months ended on that date in accordance with generally accepted accounting practice in New Zealand; and
- (b) the supplementary information required by Clause 12(3) of the Order does not give a true and fair view of the matters to which it relates; and
- (c) the supplementary information as required by Clause 12(4) of the Order, does not comply with Schedules 7 and 8 of the Order.

Our review was completed on 16 November 2005 and our review opinion is expressed as at that date.



**HAMILTON, NEW ZEALAND**

**CHARTERED ACCOUNTANTS**