TSB Bank
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TSB Bank
General Short Form
Disclosure Statement

For the Period Ended
30 June 2008

TSB Bank
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General Short Form Disclosure Statement

For the Three Months Ended 30 June 2008

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

1. Name and Registered Office of Registered Bank

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

2. Details of Incorporation

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

3. Ownership

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

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, J.P
(Chair – Board of Directors)
Company Director

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

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

D.L. (David) Lean QSO, 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, QSO, 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.

8. Conditions of Registration

Pursuant to section 74(2) of the Reserve Bank of New Zealand Act 1989, the Bank's existing Condition of Registration 1 (Capital Adequacy) and Condition of Registration 4 (Connected Exposure) are hereby removed and replaced. A copy of the 'Conditions of Registration' is included in this General Short Form Disclosure Statement, dated as from 31 March 2008.

9. Pending Proceedings or Arbitration

In November 2006, the New Zealand Commerce Commission filed civil proceedings against a number of financial institutions, including the Bank, for alleged breaches of the Commerce Act 1986 relating to interchange fees. Seven major retailers have lodged a claim in the High Court seeking damages for anti-competitive behaviour over the charging by credit card companies and banks of interchange fees on transactions. As at the date of signing, the possible liability the Bank may face cannot be reliably measured.

In addition to the above, the Bank has received notification that the Commerce Commission is conducting an investigation into the level of default fees charged to individual card holders by the major credit card issuers in New Zealand. It is alleged that these default fees, including late payment fees and/or dishonour fees, may be unreasonable under section 41 of the Credit Contracts and Consumer Finance (CCCF) Act 2003. As at the date of signing, the possible liability the Bank may face cannot be reliably measured.

The Bank has also received further notification from the Commerce Commission that it is conducting an investigation into the fee charged and received by major credit card issuers to individual card holders in New Zealand when a credit card is used in overseas currency transactions. This "Overseas Transaction Fee" (OTF) may be a credit fee under the CCCF Act 2003, and may be unreasonable under section 41 of the CCCF Act 2003 when it is calculated at a certain percentage of the transaction value. As at the date of signing, the possible liability the Bank may face cannot be reliably measured.

10. Credit Rating

TSB Bank Limited has a credit rating applicable to its long term senior unsecured obligations payable in New Zealand, in New Zealand dollars. The current rating is BBB+/Stable/A2. The credit rating was given by Standard & Poor's (Australia) Pty Limited. The current rating of BBB+ was raised from BBB on 19 March 2008. The credit rating had been BBB since 5 September 2006 when it was raised from BBB-. 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. Financial and Supplementary Disclosures

This General Short Form Disclosure Statement is inclusive of the Bank's unaudited interim financial statements for the three months ended 30 June 2008. All necessary additional financial and supplementary disclosures are included in the notes attached to the interim financial statements.

12. Directors' Statement

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

a) The Short Form Disclosure Statement contains all the information required by the Registered Bank Disclosure Statement (Off Quarter - New Zealand Incorporated Registered Banks) Order 2008:

b) The Short Form Disclosure Statement is not false or misleading.

The Directors believe, after due enquiry, that for the period ended 30 June 2008:

a) The Bank complies with the Conditions of Registration;

b) Credit Exposures to Connected Persons were not contrary to the interests of the Bank; and

c) The Bank has systems in place to monitor and control adequately the Bank's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risks and other business risks, and that these systems are being properly applied.

E. Gill
(Chair – Board of Directors)

B. C. Richards
(Deputy Chair)

P. K. Broughton

D. L. Lean

M. M. McCarthy

K. W. Rimmington
(Managing Director/CEO)

C. Tuuta

D. E. Walter

21 August 2008

CONDITIONS OF REGISTRATION

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

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

   (a) the total capital ratio of the banking group is not less than 8 percent;
   (b) the tier one capital ratio of the banking group is not less than 4 percent; and
   (c) the capital of the Banking Group is not less than NZ $15 million.

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

1A. That-

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

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

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

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

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

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

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

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

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

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

5. That exposures to connected persons are not on more favourable terms (eg as relates to such matters as credit assessment, tenor, interest rates, amortisation schedules and requirement for collateral) than corresponding exposures to non-connected persons.

6. That the Board of the Registered Bank contains at least two independent Directors. In this context an independent Director is a Director who is not an employee of the Registered Bank, and who is not a director, trustee or employee of any holding company of the Registered Bank, or any other entity capable of controlling or significantly influencing the Registered Bank.

7. That the chairperson of the Bank's board is not an employee of the Registered Bank.

8. That the Bank's constitution does not include any provision permitting a director, when exercising powers or performing duties as a Director, to act other than in what he or she believes is the best interest of the company (ie the Bank).

9. That no appointment of any Director, Chief Executive Officer, or Executive who reports or is accountable directly to the Chief Executive Officer, shall be made in respect of the Bank unless:

   (i) The Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and

   (ii) The Reserve Bank has advised that it has no objection to that appointment

10. That a substantial proportion of the Bank's business is conducted in and from New Zealand.

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

INCOME STATEMENT
FOR THE THREE MONTHS ENDED 30 JUNE 2008

	Note	30 June 2008 Unaudited $000	30 June 2007 Unaudited $000	31 March 2008 Audited $000
Interest Income	2	71,513	60,206	255,749
Interest Expense	2	47,741	37,827	166,601
Net Interest Income		**23,772**	**22,379**	**89,148**
Other Operating Income Received	3	2,110	2,499	12,023
Net Operating Income		**25,882**	**24,878**	**101,171**
Operating Expenses	4	8,711	8,839	40,560
Net Profit before Impairment Loss and Taxation		**17,171**	**16,039**	**60,611**
Provision for Impairment Loss		250	250	1,910
Net Profit before Taxation		**16,921**	**15,789**	**58,701**
Taxation		5,076	5,210	19,371
Net Profit after Taxation		**11,845**	**10,579**	**39,330**

STATEMENT OF RECOGNISED INCOME AND EXPENSE
FOR THE THREE MONTHS ENDED 30 JUNE 2008

	30 June 2008 Unaudited $000	30 June 2007 Unaudited $000	31 March 2008 Audited $000
Items Recognised Directly in Equity	-	-	-
Net Income Recognised Directly in Equity	**-**	**-**	**-**
Net Profit after Taxation	11,845	10,579	39,330
Total Recognised Income and Expense for the period	**11,845**	**10,579**	**39,330**

The accounting policies and other notes form part of, and should be read in conjunction with, these interim financial statements.

BALANCE SHEET
AS AT 30 JUNE 2008

	Note	30 June 2008 Unaudited $000	30 June 2007 Unaudited $000	31 March 2008 Audited $000
Assets				
Cash and Cash Equivalents	5	78,412	36,351	93,657
Derivative Financial Instruments	6	1,358	2,739	2,447
Investment Securities	7	1,140,345	873,961	999,470
Loans and Advances to Customers	8	2,038,629	1,987,191	2,049,780
Other Assets	9	1,151	2,353	714
Current Tax Asset		1,074	48	1,074
Deferred Tax Asset	10	4,749	4,930	4,749
Property, Plant and Equipment	11	15,506	15,570	15,928
Intangible Assets	12	790	999	854
Total Assets		**3,282,014**	**2,924,142**	**3,168,673**
Liabilities				
Deposits from Customers	14	2,979,605	2,671,236	2,874,235
Current Tax Liability		5,076	5,210	-
Other Liabilities	15	32,329	14,488	41,279
Total Liabilities		**3,017,010**	**2,690,934**	**2,915,514**
Shareholder's Equity				
Share Capital	16	10,000	10,000	10,000
Retained Earnings	16	255,004	223,208	243,159
Total Shareholder's Equity		**265,004**	**233,208**	**253,159**
Total Liabilities and Shareholder's Equity		**3,282,014**	**2,924,142**	**3,168,673**
Total Interest Earning and Discount Bearing Assets		**3,264,021**	**2,902,634**	**3,142,735**
Total Interest and Discount Bearing Liabilities		**2,848,656**	**2,547,401**	**2,727,866**

The accounting policies and other notes form part of, and should be read in conjunction with, these interim financial statements.

STATEMENT OF CASH FLOWS

FOR THE THREE MONTHS ENDED 30 JUNE 2008

	30 June 2008 Unaudited $000	30 June 2007 Unaudited $000	31 March 2008 Audited $000
Cash Flows from Operating Activities			
Cash provided from (applied to):			
Interest Income Received	71,513	60,206	255,749
Other Income Received	914	875	12,624
Interest Paid	(47,741)	(37,827)	(166,601)
Operating Expenditure	(10,623)	(22,121)	(31,581)
Taxation Paid	-	-	(20,216)
Cash Flows from Operating Profits before changes in Operating Assets and Liabilities	**14,063**	**1,133**	**49,975**
Changes in Operating Assets and Liabilities			
Loans and Advances to Customers	10,901	(66,272)	(130,521)
Derivative Financial Instruments	1,848	(82)	(376)
Deposits from Customers	105,370	59,638	262,637
Cash Flow from Operating Assets and Liabilities	**118,119**	**(6,716)**	**131,740**
Net Cash Flow from Operating Activities	**132,182**	**(5,583)**	**181,715**
Cash Flows from Investing Activities			
Cash provided from (applied to):			
Property, Plant and Equipment Sold	-	44	96
Investment Securities *	(140,875)	33,398	(92,111)
Property, Plant and Equipment Purchased	(242)	(1,901)	(3,901)
Intangible Assets Purchased	-	-	(45)
Net Cash Flow from Investing Activities	**(141,117)**	**31,541**	**(95,961)**
Cash Flows from Financing Activities			
Cash provided from (applied to):			
Dividends Paid	(6,310)	(5,595)	(8,085)
Net Cash Flow from Financing Activities	**(6,310)**	**(5,595)**	**(8,085)**
Net Increase/(Decrease) in Cash and Cash Equivalents	**(15,245)**	**20,363**	**77,669**
Add Cash and Cash Equivalents at Beginning of Year	93,657	15,988	15,988
Cash and Cash Equivalents at End of Period	**78,412**	**36,351**	**93,657**

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

The accounting policies and other notes form part of, and should be read in conjunction with, these interim financial statements.

STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE THREE MONTHS ENDED 30 JUNE 2008

	30 June 2008 Unaudited $000	30 June 2007 Unaudited $000	31 March 2008 Audited $000
Reconciliation of Net Profit after Taxation To Net Cash Flows from Operating Activities			
Net Profit after Taxation	**11,845**	**10,579**	**39,330**
Add Movements in Balance Sheet Items			
Accounts Payable	(2,640)	(13,766)	6,715
Provision for Tax	5,076	5,210	(1,026)
Deposits from Customers	105,370	59,638	262,637
Deferred Tax Asset	-	-	181
Accounts Receivable	(437)	(366)	1,273
Derivative Financial Instruments	1,089	(1,340)	(1,048)
Loans and Advances to Customers	10,901	(66,272)	(130,521)
	119,359	**(16,896)**	**138,211**
Add Non- Cash Items			
Depreciation	664	419	2,009
Impairment Losses on Loans and Advances to Customers	250	250	1,910
Amortisation of Intangible Assets	64	65	255
	978	**734**	**4,174**
Net Cash Flow from Operating Activities	**132,182**	**(5,583)**	**181,715**
Reconciliation of Cash and Cash Equivalents to the Balance Sheet			
Cash and Balances with Central Bank	73,273	31,712	87,933
Cash and Cash at Bank	5,139	4,639	5,724
Total Cash and Cash Equivalents at End of Period	**78,412**	**36,351**	**93,657**

The accounting policies and other notes form part of, and should be read in conjunction with, these interim financial statements.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED 30 JUNE 2008

1. STATEMENT OF ACCOUNTING POLICIES

GENERAL ACCOUNTING POLICIES

TSB Bank Limited is a profit-oriented company registered under the Companies Act 1993 and incorporated in New Zealand. The Bank's principal business activities are retail banking in New Zealand. These financial statements have been prepared in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 1993, and the Registered Bank Disclosure Statement (Off Quarter – New Zealand Incorporated Registered Banks) Order 2008. The financial statements for the three months ended 30 June 2008 incorporated in this General Short Form Disclosure Statement have been prepared in accordance with NZ IAS-34 "Interim Financial Reporting" and should be read in conjunction with the 31 March 2008 Annual Report. Compliance with NZ IAS-34 ensures compliance with IAS-34.

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

The interim financial statements were approved by the Board of Directors on 21 August 2008.

Change in Accounting Policies:

There have been no material changes in accounting policies during the interim financial period. The accounting policies used in the preparation of these interim financial statements are consistent with the accounting policies used in the preparation of the General Disclosure Statement for the year ended 31 March 2008.

Current Tax

The corporate tax rate in New Zealand was changed from 33% to 30% with effect from the 2008/2009 income tax year. This revised income tax rate has impacted the current tax liability balance for the current income tax year.

Comparative Data

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

Presentation Currency and Rounding

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

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED 30 JUNE 2008

	30 June 2008 Unaudited $000	30 June 2007 Unaudited $000	31 March 2008 Audited $000
2. NET INTEREST INCOME			
Interest Income			
Cash and Cash Equivalents	1,841	560	3,687
Investment Securities	23,412	17,355	78,137
Loans and Advances to Customers	45,501	41,033	171,875
Derivative Financial Instruments	759	1,258	2,050
Total Interest Income	**71,513**	**60,206**	**255,749**
Interest Expense			
Deposits from Customers	**47,741**	**37,827**	**166,601**
Net Interest Income	**23,772**	**22,379**	**89,148**

Interest income from investment securities relates to investment securities that are held to maturity.

Interest income from Loans and Advances to Customers relates to financial assets that are designated as loans and receivables.

The only components of interest income reported above that relate to financial assets carried at fair value through profit or loss is the income on cash and cash equivalents, and derivative financial instruments.

Interest expense on deposits from customers relates to financial liabilities measured at amortised cost.

3. OTHER OPERATING INCOME RECEIVED

	30 June 2008 Unaudited $000	30 June 2007 Unaudited $000	31 March 2008 Audited $000
Lending and Credit Facility Related Income	635	605	2,238
Commission and Other Trading Income *	2,171	1,885	7,968
Gain (Loss) in Fair Value on Derivatives	(1,710)	-	672
Other Income	1,014	9	1,145
	2,110	**2,499**	**12,023**

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

4. OPERATING EXPENSES

	30 June 2008 Unaudited $000	30 June 2007 Unaudited $000	31 March 2008 Audited $000
Auditors Remuneration:			
Statutory Audit	27	28	112
Other Assurance Services - Technology Services Audit	-	-	23
- NZ IFRS transition audit	-	-	66
- Commerce Commission	-	-	26
Bad Debts	59	(43)	575
Depreciation:			
Buildings	176	141	640
Computer Equipment	200	112	572
Furniture and Fittings	224	166	797
Amortisation of Intangible Assets	64	65	255
Directors' Fees	54	50	200
Personnel Expenses	3,475	3,268	15,417
Defined Contribution Plan	86	87	548
Other Expenses	4,346	4,965	21,329
	8,711	**8,839**	**40,560**

5. CASH AND CASH EQUIVALENTS

	30 June 2008 Unaudited $000	30 June 2007 Unaudited $000	31 March 2008 Audited $000
Cash and Cash at Bank	5,139	4,639	5,724
Cash and Balances with Reserve Bank	73,273	31,712	87,933
	78,412	**36,351**	**93,657**

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED 30 JUNE 2008

6. DERIVATIVE FINANCIAL INSTRUMENTS

	As at 30 June 2008		
Interest Rate Contracts	**Notional Amount $000**	**Credit Equivalent Amount $000**	**Fair Value $000**
Swaps	26,656	372	183
Options	1,600,000	4,675	1,175
Total Interest Rate Contracts	**1,626,656**	**5,047**	**1,358**

Information on the credit equivalent amount is also disclosed in note 17

	As at 30 June 2007		
Interest Rate Contracts	**Notional Amount $000**	**Credit Equivalent Amount $000**	**Fair Value $000**
Swaps	29,406	855	721
Options	1,400,000	7,517	2,018
Total Interest Rate Contracts	**1,429,406**	**8,372**	**2,739**

Information on the credit equivalent amount is also disclosed in note 17

	As at 31 March 2008		
Interest Rate Contracts	**Notional Amount $000**	**Credit Equivalent Amount $000**	**Fair Value $000**
Swaps	26,656	5,764	2,013
Options	1,550,000	549	434
Total Interest Rate Contracts	**1,576,656**	**6,313**	**2,447**

Information on the credit equivalent amount is also disclosed in note 17

7. INVESTMENT SECURITIES

	30 June 2008 Unaudited $000	**30 June 2007 Unaudited $000**	**31 March 2008 Audited $000**
New Zealand Government Securities	-	-	-
Treasury Bills	-	-	-
Local Authority Securities	340,980	308,000	360,343
Bank Registered Certificates of Deposit	614,445	493,617	505,260
Other Investments *	184,920	72,344	133,867
	1,140,345	**873,961**	**999,470**

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

8. LOANS AND ADVANCES TO CUSTOMERS

Residential Mortgages	1,833,136	1,783,515	1,840,680
Community	8,052	8,744	7,962
Commercial	112,074	102,712	110,533
Farming	65,931	71,707	69,133
Other *	31,210	30,283	32,882
Total Gross Loans and Advances to Customers	**2,050,403**	**1,996,961**	**2,061,190**
Less Provision for Impairment Loss (see note 13(b))	(11,774)	(9,770)	(11,410)
Total Loans and Advances to Customers	**2,038,629**	**1,987,191**	**2,049,780**

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

9. OTHER ASSETS

Trade and Other Receivables	1,151	2,353	714
	1,151	**2,353**	**714**

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED 30 JUNE 2008

10. DEFERRED TAX ASSET

	30 June 2008 Unaudited $000	30 June 2007 Unaudited $000	31 March 2008 Audited $000
Balance at Beginning of Period	4,930	4,451	4,930
Net Movement in Temporary Differences	(181)	479	(181)
Balance at End of Period	**4,749**	**4,930**	**4,749**
Deferred Tax relates to:			
Property, Plant, and Equipment	690	1,022	690
Amortisation of Intangibles	41	-	41
Provision for Impairment Losses	3,423	3,135	3,423
Fair value adjustments through profit and loss	(734)	(462)	(734)
Other	1,329	1,235	1,329
Total Deferred Tax Assets	**4,749**	**4,930**	**4,749**

No change has been taken into account in the measurement of deferred taxes for the interim period.

11. PROPERTY, PLANT AND EQUIPMENT

As at 30 June 2008

Unaudited $000	Land	Buildings	Computer Equipment	Furniture & Fittings	Work in Progress	Total
Cost	1,596	12,854	12,579	10,283	81	37,393
Accumulated Depreciation	-	(2,702)	(11,221)	(7,542)	-	(21,465)
Opening Net Book Value	**1,596**	**10,152**	**1,358**	**2,741**	**81**	**15,928**
Additions	-	-	5	36	137	178
Depreciation	-	(176)	(200)	(224)	-	(600)
Closing Net Book Value	**1,596**	**9,976**	**1,163**	**2,553**	**218**	**15,506**
Opening Cost	1,596	12,854	12,579	10,283	81	37,393
Additions	-	-	5	36	207	248
Disposals (at Cost)	-	-	(4,787)	(119)	(70)	(4,976)
Accumulated Depreciation	-	(2,878)	(6,634)	(7,647)	-	(17,159)
Closing Net Book Value	**1,596**	**9,976**	**1,163**	**2,553**	**218**	**15,506**

As at 30 June 2007

Unaudited $000	Land	Buildings	Computer Equipment	Furniture & Fittings	Work in Progress	Total
Cost	1,371	10,900	11,505	8,968	844	33,588
Accumulated Depreciation	-	(2,062)	(10,649)	(6,745)	-	(19,456)
Opening Net Book Value	**1,371**	**8,838**	**856**	**2,223**	**844**	**14,132**
Additions	225	707	161	373	2,018	3,484
Disposals	-	-	-	(79)	(1,579)	(1,658)
Depreciation	-	(141)	(112)	(166)	-	(419)
Closing Net Book Value	**1,596**	**9,404**	**905**	**2,382**	**1,283**	**15,570**
Cost	1,596	11,607	11,666	9,262	1,283	35,414
Accumulated Depreciation	-	(2,203)	(10,761)	(6,880)	-	(19,875)
Closing Net Book Value	**1,596**	**9,404**	**905**	**2,382**	**1,283**	**15,570**

As at 31 March 2008

Audited $000	Land	Buildings	Computer Equipment	Furniture & Fittings	Work in Progress	Total
Cost	1,371	10,900	11,505	8,968	844	33,588
Accumulated Depreciation	-	(2,062)	(10,649)	(6,745)	-	(19,456)
Opening Net Book Value	**1,371**	**8,838**	**856**	**2,223**	**844**	**14,132**
Additions	225	1,954	1,102	1,402	5,033	9,716
Disposals	-		(28)	(87)	(5,796)	(5,911)
Depreciation	-	(640)	(572)	(797)	-	(2,009)
Closing Net Book Value	**1,596**	**10,152**	**1,358**	**2,741**	**81**	**15,928**
Cost	1,596	12,854	12,579	10,283	81	37,393
Accumulated Depreciation	-	(2,702)	(11,221)	(7,542)	-	(21,465)
Closing Net Book Value	**1,596**	**10,152**	**1,358**	**2,741**	**81**	**15,928**

NOTES TO THE INTERIM FINANCIAL STATEMENTS
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12. INTANGIBLE ASSETS

	30 June 2008 Unaudited $000	30 June 2007 Unaudited $000	31 March 2008 Audited $000
Cost	4,724	4,679	4,679
Accumulated Amortisation	(3,870)	(3,615)	(3,615)
Opening Net Book Value	**854**	**1,064**	**1,064**
Additions	-	-	45
Amortisation	(64)	(65)	(255)
Closing Net Book Value	**790**	**999**	**854**
Cost	4,724	4,679	4,724
Disposals (at Cost)	(1,391)	-	-
Accumulated Amortisation	(2,543)	(3,680)	(3,870)
Closing Net Book Value	**790**	**999**	**854**

13. CREDIT RISK MANAGEMENT AND ASSET QUALITY

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

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

(a) Credit Quality Information for Loans and Advances to Customers

	30 June 2008 Unaudited $000	30 June 2007 Unaudited $000	31 March 2008 Audited $000
Gross Advances to Customers by Credit Quality			
Neither Past Due or Impaired	2,036,806	1,991,605	2,049,110
Past Due Assets	12,519	5,233	11,175
Impaired Assets	1,078	123	905
Total Gross Loans and Advances to Customers	**2,050,403**	**1,996,961**	**2,061,190**
Aging Analysis of Past Due Assets			
30 to 59 days	8,133	2,408	5,104
60 to 89 days	2,215	1,995	4,095
Over 90 days	2,171	830	1,976
Balance at End of Period	**12,519**	**5,233**	**11,175**
90 – day Past Due Assets			
Balance at Beginning of Period	1,976	1,110	1,110
Additions	1,019	543	3,512
Deletions	(824)	(823)	(2,646)
Balance at End of Period	**2,171**	**830**	**1,976**
Impaired Assets			
Balance at Beginning of Period	905	119	119
Additions	173	4	909
Deletions	-	-	(123)
Balance at End of Period	**1,078**	**123**	**905**

13. CREDIT RISK MANAGEMENT AND ASSET QUALITY - continued

(b) Provision for Impairment Loss

	30 June 2008 Unaudited $000	30 June 2007 Unaudited $000	31 March 2008 Audited $000
Collective Provision for Doubtful Debts			
Balance at Beginning of Period	11,100	9,500	9,500
Charged to Income Statement	250	250	1,600
Balance at End of Period	**11,350**	**9,750**	**11,100**
Specific Provision for Doubtful Debts			
Balance at Beginning of Period	310	20	20
Charged to Income Statement:			
Add New Provisions	114	-	310
Less Amounts Recovered	-	-	(20)
Balance at End of Period	**424**	**20**	**310**
Total Provision for Impairment Loss	**11,774**	**9,770**	**11,410**
Impairment Losses charged to Income Statement			
Collective Provisions	250	250	1,600
Specific Provisions	424	20	310
Total Impairment Losses charged to Income Statement	**674**	**270**	**1,910**

(c) Concentrations of Credit Exposures to Individual Counterparties

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

Percentage of Shareholder's Equity	30 June 2008 Unaudited			30 June 2007 Unaudited			31 March 2008 Audited		
	Number of Counterparties			Number of Counterparties			Number of Counterparties		
	Non Bank	Bank	Total	Non Bank	Bank	Total	Non Bank	Bank	Total
As at balance date									
10% - 20%	6	1	7	3	-	3	3	2	5
21% - 30%	1	2	3	1	3	4	1	2	3
31% - 40%	-	2	2	1	2	3	1	2	3
41% - 50%	-	2	2	-	1	1	-	1	1
51% - 60%	-	-	-	-	-	-	-	-	-
61% - 70%	-	-	-	-	-	-	-	-	-
Peak Exposure									
10% - 20%	6	1	7	3	-	3	3	1	4
21% - 30%	1	2	3	1	2	3	1	3	4
31% - 40%	-	2	2	1	2	3	1	-	1
41% - 50%	-	2	2	-	1	1	-	3	3
51% - 60%	-	-	-	-	1	1	-	-	-
61% - 70%	-	-	-	-	-	-	-	-	-
71% - 80%	-	-	-	-	-	-	-	-	-
81% - 90%	-	-	-	-	-	-	-	-	-

13. CREDIT RISK MANAGEMENT AND ASSET QUALITY - continued

(d) Credit Exposure by Credit Rating

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

	30 June 2008 Unaudited		30 June 2007 Unaudited		31 March 2008 Audited	
	Principal Amount $000	% of Total Credit Exposure	Principal Amount $000	% of Total Credit Exposure	Principal Amount $000	% of Total Credit Exposure
Bank Counterparties						
Investment grade credit rating	617,000	100%	443,000	100%	497,000	100%
Below investment grade credit rating	-	-	-	-	-	-
Not rated	-	-	-	-	-	-
Total Credit Exposure	**617,000**	**100%**	**443,000**	**100%**	**497,000**	**100%**
Non-Banks Counterparties						
Investment grade credit rating	223,700	76%	147,000	67%	163,200	68%
Below investment grade credit rating	-	-	-	-	-	-
Not rated *	70,000	24%	72,500	33%	77,500	32%
Total Credit Exposure	**293,700**	**100%**	**219,500**	**100%**	**240,700**	**100%**

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

The credit rating is applicable to an entity's long term senior unsecured obligations payable in New Zealand, in New Zealand dollars.
An Investment grade credit rating means a credit rating of BBB- or Baa3, or above, or its equivalent.

(e) Credit exposures to connected persons

Credit exposure concentrations are disclosed on the basis of actual credit exposures and calculated on a gross basis (net of specific provisions and excluding advances of a capital nature). The Bank does not have credit exposures to connected and non-bank connected persons. Peak end-of-day credit exposures to connected and non-bank connected persons are calculated using the Bank's tier one capital at the end of the period. The rating-contingent limit, which is applicable to the Bank as at balance date, is 15%. There have been no rating-contingent limit changes during the last quarter. Within the rating-contingent limit there is a sub-limit of 15%, which applies to non-bank connected persons. All limits on aggregate credit exposure to all connected persons and non-bank connected persons in the Bank's Conditions of Registration have been complied with at all times over the last quarter. There are no specific provisions against credit exposures to connected persons as at 30 June 2008 (30 June 2007: nil).

	2008 30 June Unaudited	2007 30 June Unaudited	2008 31 March Audited
Credit exposures to connected and non-bank connected persons at period end	**476**	495	656
Credit exposures to connected and non-bank connected persons at period end expressed as a percentage of total tier one capital	**0.2%**	0.2%	0.3%
Peak credit exposures to connected and non-bank connected persons during the period	**476**	495	656
Peak credit exposures to connected and non-bank connected persons during the period expressed as a percentage of total tier one capital	**0.2%**	0.2%	0.3%

14. DEPOSITS FROM CUSTOMERS

	30 June 2008 Unaudited $000	30 June 2007 Unaudited $000	31 March 2008 Audited $000
Retail Term Deposits	1,519,346	1,209,652	1,380,702
On Call Deposits Bearing Interest	1,329,310	1,337,749	1,347,164
On Call Deposits Not Bearing Interest	130,949	123,835	146,369
	2,979,605	**2,671,236**	**2,874,235**

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

15. OTHER LIABILITIES

Employee Entitlements	4,433	3,696	6,448
Dividend Payable	-	-	6,310
Trade and Other Payables	27,896	10,792	28,521
	32,329	**14,488**	**41,279**

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

16. SHARE CAPITAL & RETAINED EARNINGS

Share Capital

Issued and Fully Paid Up Capital:			
20,000,000 Ordinary Shares par value $0.50 per share	**10,000**	**10,000**	**10,000**

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

Retained Earnings

Balance at Beginning of Year	243,159	210,260	210,260
Adjustment on Transition to NZ IFRS	-	2,369	2,369
Restated Opening Balance	**-**	**212,629**	**212,629**
Net Profit after Taxation	11,845	10,579	39,330
	255,004	**223,208**	**251,959**
Dividends	-	-	(8,800)
Balance at End of Period	**255,004**	**223,208**	**243,159**

17. CAPITAL ADEQUACY

(i) Capital Management Policies

The Bank's objectives for the management of capital adequacy is to comply at all times with the regulatory capital requirements set by the Reserve Bank of New Zealand (RBNZ); to maintain a strong capital base to cover the inherent risks of the business in excess of that required by rating agencies to maintain an investment credit grading; and to support the future development and growth of the business to maximize shareholders value.

The Bank is subject to regulation by the RBNZ. The RBNZ has set minimum regulatory capital requirements for banks that are consistent with the internationally agreed framework developed by the Basel Committee on Banking Supervision. These requirements define what is acceptable as capital and provide for methods of measuring the risks incurred by the Bank. The Bank must comply with RBNZ minimum capital adequacy ratios under its Conditions of Registration.
Regulatory capital is divided into Tier One and Tier Two Capital. Tier One Capital primarily consists of Shareholder's Equity and other capital instruments acceptable to the RBNZ, less Intangible Assets and a deduction for any advances of a capital nature to Connected Persons. Tier Two Capital consists of two levels with Upper Tier Two Capital comprising Asset Revaluation Reserves and Lower Tier Two Capital comprising Subordinated Debt. Tier Two Capital also includes other hybrid and debt instruments acceptable to the RBNZ. The tangible element of investments in subsidiaries that are not wholly owned or funded is deducted from the sum of Tier One and Tier Two Capital to arrive at Total Regulatory Capital. The Bank does not have any Tier Two Capital components.

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

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

- Total Regulatory Capital must not be less that 8% of Risk Weighted Exposure.
- Tier One Capital must not be less than 4% of Risk Weighted Exposures.
- Capital must not be less than NZ$15m.

The Board of Directors has ultimate responsibility for capital adequacy, and approves capital policy and minimum capital levels and limits. These are typically at a higher level than required by the Regulator to reduce the risk of breaching conditions of registration. The Bank monitors its capital adequacy and reports this on a regular basis to the Board.

The Capital Adequacy tables set out on the following page summarise the composition of regulatory capital and the capital adequacy ratios for the Bank for the period ended 30 June 2008. During the period and the comparative periods shown, the Bank complied with all of the RBNZ capital requirements to which it is subject. No changes have been made to the Board approved levels of regulatory capital to be held during the period.

Basel II

The Basel Committee has issued a revised framework for the calculation of capital adequacy for banks, commonly known as Basel II. The Bank has adopted the "Standardised Approach" as per BS2A to calculate regulatory capital requirements under Basel II from the first quarter of 2008. The objective of the Basel II Framework is to develop capital adequacy guidelines that are more accurately aligned with the individual risk profile of banks. Basel II consists of 3 pillars – Pillar One covers the capital requirements for banks for credit, operation, and market risks, Pillar Two covers all other material risks not already included in Pillar One, and Pillar Three relates to market disclosure.

Due to systems development required under Basel II, data for the comparative period 30 June 2007 has not been restated and presented under Basel II methodology.

Pillar 2 of Basel II is intended to ensure that Banks have adequate capital to support all risks in their business, and includes the requirement on Banks to have an "Internal Capital Adequacy Assessment Process (ICAAP)" for assessing their overall capital adequacy in relation to risk profile and a strategy for maintaining adequate capital to support risk. The Bank's ICAAP has identified other areas of risk not covered by Pillar I (credit risk, market risk, and operational risk) and assigned a level of capital to them. These risks include but are not limited to strategic risk, reputational risk, environmental risk, additional credit risk and liquidity risk, and ownership structure. The Bank has made internal capital allocation of $95m to cover these identified costs.

17. CAPITAL ADEQUACY - continued

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

	30 June 2008 Unaudited	30 June 2007 Unaudited	31 March 2008 Audited
Tier One	17.14%	16.04%	17.66%
Total Capital	17.95%	16.80%	17.66%

(ii) Qualifying Capital

	30 June 2008 Unaudited	30 June 2007 Unaudited	31 March 2008 Audited
Tier One Capital			
Issued and fully paid up Share Capital	10,000	10,000	10,000
Retained Earnings	243,159	212,629	212,629
Current Period's Audited Retained Earnings	-		30,530
Less Deductions from Tier One Capital			
Intangible Assets	(790)	(999)	(854)
Total Tier One Capital	**252,369**	**221,630**	**252,305**
Tier Two Capital			-
Upper Tier Two Capital			
Unaudited Current Retained Earnings	11,845	10,579	-
Lower Tier Two Capital			-
Total Tier Two Capital	**11,845**	**10,579**	-
Total Capital	**264,214**	**232,209**	**252,305**

(iii) Total Risk Weighted Exposures – June 2008

	Total Exposure after credit risk mitigation June-08 Unaudited $000	Risk Weight	Risk Weight Exposure June-08 Unaudited $000	Minimum Pillar One Capital Requirement June-08 Unaudited $000
On Balance Sheet Exposures				
Cash	5,139	0%	-	-
Reserve Bank of New Zealand	73,273	0%	-	-
Public Sector Entities	340,979	20%	68,196	5,456
Banks	633,940	20%	126,788	10,143
Banks	5,505	50%	2,753	220
Corporate	24,351	20%	4,870	390
Corporate	112,655	50%	56,328	4,506
Corporate	8,000	100%	8,000	640
Residential Bonds	7,769	35%	2,719	218
Residential Mortgages <80%	1,656,936	35%	579,928	46,394
Residential Mortgages 80%<90%	113,400	50%	56,700	4,536
Residential Mortgages Welcome Home Loans	43,995	50%	21,998	1,760
Residential Mortgages 90%<100%	5,284	75%	3,963	317
Past Due Residential Mortgages	2,171	100%	2,171	174
Other Assets	235,119	100%	235,119	18,810
Non-Risk Weighted Assets	13,498	0%	-	-
Total On Balance Sheet Exposures	**3,282,014**		**1,169,533**	**93,564**

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED 30 JUNE 2008

17. CAPITAL ADEQUACY - continued

	Total Exposure	Credit Conversion Factor	Credit Equivalent Amount	Average Risk Weight	Risk Weighted Exposure	inimum Pillar One Capital Requirement
	June-08 Unaudited $000		June-08 Unaudited $000		June-08 Unaudited $000	June-08 Unaudited $000
Off Balance Sheet Exposure						
Commitments where original maturity is more than one year	169,015	50%	84,508	35%	29,578	2,366
Market Related Contracts						
Interest Rate Contracts*	1,626,656	N/A	5,047	20%	1,009	81
Sub Totals	**1,795,671**		**89,555**		**30,587**	**2,447**

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

Operational Risk and Market Risk Analysis	Implied Risk Weighted Exposure	Capital Requirement
Operational Risk	186,050	14,884
Market Risk	85,963	6,877
Sub Total	**272,013**	**21,761**

Total Capital Requirements	Total Exposure after credit risk mitigation	Risk Weighted exposure or Implied RWE	Capital Requirement
Total credit risk plus equity	3,371,569	1,200,120	96,011
Operational Risk	N/A	186,050	14,884
Market Risk	N/A	85,963	6,877
Total		**1,472,133**	**117,772**

Residential Mortgages by Loan-to-Valuation Ratio

LVR Range	0%-80%	80% - 90%	Over 90%
Value of Exposure	1,656,936	113,400	62,800

Market Risk		Implied Risk Weighted Exposure	Aggregate Capital Charge	Aggregate Capital Charge as % of Banks Equity	Banks Equity
End of Period capital charges	Interest Risk	85,963	6,877	2.60%	264,214
Peak end of day capital charges	Interest Risk	90,638	7,251	2.74%	264,214

NOTES TO THE INTERIM FINANCIAL STATEMENTS

17. CAPITAL ADEQUACY - continued

(iv) Total Risk Weighted Exposures – June 2007

	Principal Amount June-07 Unaudited $000	Risk Weight	Risk Weighted Exposure June-07 Unaudited $000
On Balance Sheet Exposures			
Cash and Short-Term Claims on Government	36,351	0%	-
Long-Term Claims on Government	38,295	10%	3,830
Claims on Banks	493,624	20%	98,725
Claims on Public Sector Entities	308,000	20%	61,600
Loans Secured By Residential Mortgage	1,749,935	50%	874,968
Other Assets	294,199	100%	294,199
Non-Risk Weighted Assets	2,739	0%	-
Total On Balance Sheet Exposures	**2,923,143**		**1,333,322**

	Principal Amount June-07 Unaudited $000	Credit Conversion Factor	Credit Equivalent Amount June-07 Unaudited $000	Risk Weight	Risk Weighted Exposure June-07 Unaudited $000
Off Balance Sheet Exposure					
Commitments to lend < year	99,542	0%	-	100%	-
Commitments to lend > year	211,162	50%	105,582	50%	52,791
Market Related Contracts *	1,429,406	N/A	8,372	20%	1,674
Total Off Balance Sheet Exposure	**1,740,110**		**113,954**		**54,465**
Total Risk Weighted Exposures	**4,663,253**				**1,387,787**

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

(v) Total Risk Weighted Exposures – March 2008

	Total Exposure after credit risk mitigation March-08 Audited $000	Risk Weight	Risk Weight Exposure March-08 Audited $000	Minimum Pillar One Capital Requirement March-08 Audited $000
On Balance Sheet Exposures				
Cash and Gold Bullion	5,724	0%	-	-
Reserve Bank of New Zealand	87,933	0%	-	-
Public Sector Entities	372,343	20%	74,469	5,957
Banks	524,756	20%	104,951	8,396
Banks	5,505	50%	2,753	220
Corporate	63,883	20%	12,777	1,022
Corporate	15,527	50%	7,764	621
Corporate	8,000	100%	8,000	640
Residential Bonds	3,586	35%	1,255	100
Residential Mortgages <80%	1,659,760	35%	580,916	46,473
Residential Mortgages 80%<90%	114,873	50%	57,436	4,595
Residential Mortgages Welcome Home Loans	42,963	50%	21,481	1,719
Residential Mortgages 90%<100%	10,008	75%	7,506	600
Past Due Residential Mortgages	1,976	100%	1,976	158
Other Assets	237,435	100%	237,435	18,996
Non-Risk Weighted Assets	14,401	0%	-	-
Total On Balance Sheet Exposures	**3,168,673**		**1,118,719**	**89,497**

NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED 30 JUNE 2008

17. CAPITAL ADEQUACY - continued

	Total Exposure	Credit Conversion Factor	Credit Equivalent Amount	Average Risk Weight	Risk Weighted Exposure	Minimum Pillar One Capital Requirement
	March-08 Audited $000		March-08 Audited $000		March-08 Audited $000	March-08 Audited $000
Off Balance Sheet Exposure						
Commitments where original maturity is more than one year	183,540	50%	91,770	35%	32,120	2,570
Market Related Contracts						
Interest Rate Contracts*	1,576,656	N/A	6,313	20%	1,263	101
Sub Totals	**1,760,196**		**98,083**		**33,383**	**2,671**

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

Operational Risk and Market Risk Analysis	Implied Risk Weighted Exposure	Capital Requirement
Operational Risk	181,688	14,535
Market Risk	94,738	7,579
Sub Total	276,426	22,114

Total Capital Requirements	Total Exposure after credit risk mitigation	Risk Weighted exposure or Implied RWE	Capital Requirement
Total credit risk plus equity	3,266,756	1,152,101	92,168
Operational Risk	N/A	181,688	14,535
Market Risk	N/A	94,738	7,579
Total		**1,428,527**	**114,282**

Residential Mortgages by Loan-to-Valuation Ratio

LVR Range	0%-80%	80% - 90%	Over 90%
Value of Exposure	1,659,760	114,873	66,047

		Implied Risk Weighted Exposure	Aggregate Capital Charge	Aggregate Capital Charge as % of Banks Equity	Banks Equity
Market Risk					
End of Period capital charges	Interest Risk	94,738	7,579	2.99%	253,159
Peak end of day capital charges	Interest Risk	98,513	7,881	3.11%	253,159

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

18. Foreign Currency Balances

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

19. Securitisation, Funds Management, Other Fiduciary Activities and the Marketing and Distributing of Insurance Products

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

20. Reporting By Segment

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

21. Commitments and Contingent Liabilities

	30 June 2008 Unaudited $000	30 June 2007 Unaudited $000	31 March 2008 Audited $000
Commitments approved to advance less than one year	102,699	99,542	100,702
Commitments approved to advance greater than one year	169,015	211,162	183,540
Capital Commitments	300	-	300
	272,014	**310,704**	**284,542**

Total Commitments are also split by maturity in Note 17.

In November 2006, the New Zealand Commerce Commission filed civil proceedings against a number of financial institutions, including the bank, for alleged breaches of the Commerce Act 1986 relating to interchange fees. Seven major retailers have lodged a claim in the High Court seeking damages for anti-competitive behaviour over the charging by credit card companies and banks of interchange fees on transactions. As at the date of signing, the possible liability the bank may face cannot be reliably measured.

In addition to the above, the Bank has received notification that the Commerce Commission is conducting an investigation into the level of default fees charged to individual card holders by the major credit card issuers in New Zealand. It is alleged that these default fees, including late payment fees and/or dishonour fees, may be unreasonable under section 41 of the Credit Contracts and Consumer Finance (CCCF) Act 2003. As at the date of signing, the possible liability the Bank may face cannot be reliably measured.

The Bank has also received further notification from the Commerce Commission that it is conducting an investigation into the fee charged and received by major credit card issuers to individual card holders in New Zealand when a credit card is used in overseas currency transactions. This "Overseas Transaction Fee" (OTF) may be a credit fee under the CCCF Act 2003, and may be unreasonable under section 41 of the CCCF Act 2003 when it is calculated at a certain percentage of the transaction value. As at the date of signing, the possible liability the Bank may face cannot be reliably measured.

22. Risk Management Policies

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

(i) Credit Risk

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

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

The Bank relies primarily on the integrity of the debtor or counterparty and their ability to meet their obligations to the Bank. Details of credit risk management and asset quality are shown in note 13 (Credit Risk Management and Asset Quality).

(ii) Foreign Currency Risk

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

(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 Balance Sheet.

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

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

(iv) Equity Risk

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

(v) Liquidity Risk

Liquidity risk is managing risk to ensure the Bank is able in the short term to meet its financial obligations as they fall due. The Bank's liquidity management policy requires that sufficient liquidity be maintained to meet demand as required. A ratio of liquid assets to total liabilities is applied to determine the minimum amount of liquid assets to be held. Liquid assets are maintained in the form of Cash, Registered Bank Bills, Local Authority and Treasury Bills, all of which are readily tradeable to provide for any unexpected patterns in cash movements.

Committed credit lines are in place with other Registered Banks to assist in meeting liquidity requirements. Liquidity risk is monitored on a daily basis by forecasting future daily cash requirements and forms an integral part of the management reporting system.

22. RISK MANAGEMENT POLICIES - continued

(vi) Operational Risk

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

(vii) Internal Audit

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

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

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

DIRECTORY

Directors

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

Management

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

National

H.D. (Heather) King, Manager, Bank Direct
S.J. (Stephanie) White, Manager, Loan Direct
L.N. (Lindsay) McElroy, Manager, Auckland Home Loan Lounge
S. (Sandra) Makein, Manager, Hamilton Service Centre
K.G. (Kerry) Clement, Manager, Tauranga Service Centre
J.E. (Jo) Robson, Manager, Hastings Service Centre
G.J. (Graham) Clarke, Manager, Palmerston North Service Centre
H.L. (Lynne) Russell, Manager, Wellington Service Centre
S.L. (Steven) Kirk, Manager, Christchurch Service Centre

Taranaki

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

Divisions

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

Registered Office

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

Principal Solicitors to the Company

Auld Brewer Mazengarb & McEwen
9 Vivian Street, New Plymouth

Auditor

Deloitte.
Fonterra House, 80 London Street, Hamilton