



TSB Bank Limited

Disclosure Statement

For the nine months ended 31 December 2017



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Disclosure Statement

For the nine months ended 31 December 2017

This Disclosure Statement contains information as required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order").

1 Name and Registered Office of Registered Bank

TSB Bank Limited (trading as TSB) is a registered bank (elsewhere in this statement referred to as the "Bank"). Registered Office: Level 5, TSB Centre, 120 Devon Street East, New Plymouth.

2 Corporate Information

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 Bank is wholly owned by the TSB Community Trust (an independent body), through the Trust's fully owned subsidiary, TSB Group Limited, and is domiciled in New Zealand. TSB Community Trust appoints the Board of Directors. TSB Community Trust address is 21 Dawson Street, PO Box 667, New Plymouth 4340.

4 Directorate

Managing Director, Kevin Murphy announced his retirement from the bank since the 31 March 2017 full year Disclosure Statement signed on 8 June 2017. Murray Bain, current TSB Director, is now Acting Managing Director. Please refer note 16 Subsequent Events on page 19 for further details.

5 Pending Proceedings or Arbitration

This Bank has no proceedings or arbitration pending in New Zealand or elsewhere which may have a material adverse effect on the Bank.

6 Credit Rating

The Bank has a credit rating applicable to its long term senior unsecured obligations payable in New Zealand, in New Zealand dollars. The current rating is A-/Stable/a-, a Long Term Issuer Default Rating assigned by Fitch Ratings on 10 October 2017.

7 Guarantee Arrangements

No material obligations of the Bank are guaranteed.

8 Conditions of Registration

No changes have been made to the Bank's Conditions of Registration since the last Disclosure Statement issued for the six months ended 30 September 2017.

Internal Audit identified a failure to calculate capital in accordance with BS2A which represented a minor breach of the Bank's conditions of registration, minor as the adjustment to the reported March 2017 Total Capital Ratio would have been 0.02% lower.

9 Directors' Statement

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

- a. The Disclosure Statement contains all the information required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order"); and
- b. The Disclosure Statement is not false or misleading.

The Directors believe, after due enquiry that for the period ended 31 December 2017:

- a. The Bank has complied with the Conditions of Registration;
- b. Credit Exposures to Connected Persons were not contrary to the interests of the Bank; and
- c. Subject to the comment under the heading "Risk Management Policies" on page 19, 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.

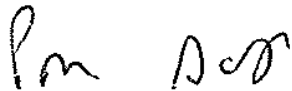
Director
J. J. Kelly
(Chair - Board of Directors)



Director
M. I. Bain
(Acting Managing Director)



Director
P. M. Schuyt



Director
K. M. Marriner



Director
H. P. W. Wano



Director
N. Pearce



Director
M. A. Blackburn



Director
D. J. Tuuta



Dated this 23rd day of February, 2018

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Income Statement

For the nine months ended 31 December 2017

	Note	2017 31 December Unaudited \$000's	2016 31 December Unaudited \$000's	2017 31 March Audited \$000's
Interest income	2	220,968	221,488	290,385
Interest expense	2	126,287	119,843	158,850
Net interest income		94,681	101,645	131,535
Other operating income	3	23,505	13,640	17,224
Net operating income		118,186	115,285	148,759
Operating expenses	4	63,245	54,343	80,241
Profit before impairment and tax		54,941	60,942	68,518
Impairment losses	8	2,917	3,269	4,010
Net profit before tax		52,024	57,673	64,508
Income tax expense		14,551	16,148	18,168
Net profit after tax		37,473	41,525	46,340

Statement of Comprehensive Income

For the nine months ended 31 December 2017

	2017 31 December Unaudited \$000's	2016 31 December Unaudited \$000's	2017 31 March Audited \$000's
Net profit after tax	37,473	41,525	46,340
Other comprehensive income (net of tax)			
Items that may be reclassified subsequently to profit or loss			
Movement in fair value of available for sale investments	49	(10,561)	(7,014)
Movement in effective portion of changes in fair value of cash flow hedges	(2,414)	4,757	3,369
Income tax on items that may be reclassified to profit or loss	663	1,625	1,021
Other comprehensive income for the period (net of tax)	(1,702)	(4,179)	(2,624)
Total comprehensive income for the period	35,771	37,346	43,716

Statement of Changes in Equity

For the nine months ended 31 December 2017

Unaudited – December 2017	Note	Share Capital \$000's	Available for Sale Investments Revaluation Reserve \$000's	Cash Flow Hedge Reserve \$000's	Retained Earnings \$000's	Total Equity \$000's
Balance at 1 April 2017		10,000	14,083	(1,842)	565,883	588,124
Total comprehensive income for the period						
Net profit after tax		-	-	-	37,473	37,473
Other comprehensive income:						
Movement in effective portion of changes in fair value of cash flow hedges (net of tax)		-	-	(1,739)	-	(1,739)
Movement in fair value of available for sale investments (net of tax)		-	36	-	-	36
Total other comprehensive income		-	36	(1,739)	-	(1,703)
Total comprehensive income for the period		-	36	(1,739)	37,473	35,770
Transactions with owner, recorded directly in equity						
Dividends to equity holder	10	-	-	-	(12,657)	(12,657)
Total transactions with owner		-	-	-	(12,657)	(12,657)
Balance at 31 December 2017 (unaudited)		10,000	14,119	(3,581)	590,699	611,237
Unaudited – December 2016						
Balance at 1 April 2016		10,000	19,133	(4,268)	529,543	554,408
Total comprehensive income for the period						
Net profit after tax		-	-	-	41,525	41,525
Other comprehensive income:						
Movement in effective portion of changes in fair value of cash flow hedges (net of tax)		-	-	3,425	-	3,425
Movement in fair value of available for sale investments (net of tax)		-	(7,604)	-	-	(7,604)
Total other comprehensive income		-	(7,604)	3,425	-	(4,179)
Total comprehensive income for the period		-	(7,604)	3,425	41,525	37,346
Transactions with owner, recorded directly in equity						
Dividends to equity holder	10	-	-	-	(3,173)	(3,173)
Total transactions with owner		-	-	-	(3,173)	(3,173)
Balance at 31 December 2017 (unaudited)		10,000	11,529	(843)	567,895	588,581
Audited – March 2017						
Balance at 1 April 2016		10,000	19,133	(4,268)	529,543	554,408
Total comprehensive income for the period						
Net profit after tax		-	-	-	46,340	46,340
Other comprehensive income:						
Movement in effective portion of changes in fair value of cash flow hedges (net of tax)		-	-	2,426	-	2,426
Movement in fair value of available for sale investments (net of tax)		-	(5,050)	-	-	(5,050)
Total other comprehensive income		-	(5,050)	2,426	-	(2,624)
Total comprehensive income for the period		-	(5,050)	2,426	46,340	43,716
Transactions with owner, recorded directly in equity						
Dividends to equity holder	10	-	-	-	(10,000)	(10,000)
Total transactions with owner		-	-	-	(10,000)	(10,000)
Balance at 31 December 2017 (unaudited)		10,000	14,083	(1,842)	565,883	588,124

These interim financial statements are to be read in conjunction with the notes on pages 9 to 19.

Statement of Financial Position

As at 31 December 2017

	Note	2017 31 December Unaudited \$000's	2016 31 December Unaudited \$000's	2017 31 March Audited \$000's
ASSETS:				
Cash and cash equivalents	5	105,195	119,083	144,200
Derivative financial instruments		130	376	350
Investment securities (available-for-sale)	6	1,983,548	2,034,434	1,969,995
Loans and advances to customers	7	5,156,653	4,444,501	4,657,668
Deferred tax asset		3,910	3,578	3,248
Property, plant and equipment		18,830	16,973	17,662
Intangible assets		8,786	8,000	8,339
Other assets		1,024	1,978	1,218
Total assets		7,278,076	6,628,923	6,802,680
LIABILITIES:				
Deposits	9	6,612,218	5,997,634	6,156,809
Derivative financial instruments		9,372	4,984	8,285
Current tax liability		8,303	4,148	2,451
Other liabilities		36,946	33,576	47,011
Total liabilities		6,666,839	6,040,342	6,214,556
SHAREHOLDER'S EQUITY:				
Share capital		10,000	10,000	10,000
Available for sale investments revaluation reserve		14,119	11,529	14,083
Cash flow hedge reserve		(3,581)	(843)	(1,842)
Retained earnings		590,699	567,895	565,883
Total shareholder's equity		611,237	588,581	588,124
total liabilities and shareholder's equity		7,278,076	6,628,923	6,802,680
Total interest earning and discount bearing assets		7,189,478	6,549,184	6,722,094
Total interest and discount bearing liabilities		6,259,656	5,663,223	5,838,074

Statement of Cash Flows

For the nine months ended 31 December 2017

	Note	2017 31 December Unaudited \$000's	2016 31 December Unaudited \$000's	2017 31 March Audited \$000's
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash provided from (applied to)				
Interest received		217,722	230,066	292,911
Other income received		23,699	12,678	17,021
Interest paid		(109,694)	(101,404)	(159,492)
Operating expenditure		(63,064)	(56,965)	(75,078)
Tax and subvention payment		(8,699)	(7,521)	(11,512)
Cash flows from operating profits before changes in operating assets and liabilities		59,964	76,854	63,850
Net changes in operating assets and liabilities:				
Increase in loans and advances to customers		(499,287)	(623,552)	(831,077)
Derivative financial instruments		(1,107)	(1,539)	400
Increase in deposits		438,815	166,003	344,259
Cash flows from net changes in operating assets and liabilities		(61,579)	(459,088)	(486,418)
Net cash flows from operating activities		(1,615)	(382,234)	(422,568)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Cash provided from (applied to)				
Property, plant and equipment sold / (purchased)		(12,873)	(71)	(1,561)
Net (purchase) / maturity of investment securities		(3,402)	400,739	468,394
Intangible asset purchased		(1,631)	(5,036)	(5,750)
Net cash (used by) / from investing activities		(17,906)	395,632	461,083
CASH FLOWS FROM FINANCING ACTIVITIES:				
Cash provided from (applied to)				
Dividends paid		(19,484)	(12,648)	(12,648)
Net cash used by financing activities		(19,484)	(12,648)	(12,648)
Net (decrease)/ increase in cash and cash equivalents		(39,005)	750	25,867
Add cash and cash equivalents at beginning of period		144,200	118,333	118,333
Cash and cash equivalents at end of period	5	105,195	119,083	144,200

Statement of Cash Flows (continued)

For the nine months ended 31 December 2017

RECONCILIATION OF NET PROFIT AFTER TAX TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	2017 31 December Unaudited \$000's	2016 31 December Unaudited \$000's	2017 31 March Audited \$000's
Net profit after tax	37,473	41,525	46,340
Non-cash items:			
- Amortisation of intangible assets	1,184	676	1,052
- Depreciation	2,234	2,262	3,063
- Impairment losses / (gains)	2,917	3,269	4,010
	6,335	6,207	8,125
Add movements in statement of financial position items:			
- Accounts payable	13,356	12,879	406
- Current tax	5,852	8,627	6,930
- Deposits	438,815	166,003	344,259
- Deferred tax asset	-	-	(274)
- Accounts receivable	(3,052)	7,616	2,323
- Derivative financial instruments	(1,107)	(1,539)	400
- Loans and advances to customers	(499,287)	(623,552)	(831,077)
	(45,423)	(429,966)	(477,033)
Net cash flows from operating activities	(1,615)	(382,234)	(422,568)

RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF FINANCIAL POSITION

	2017 31 December Unaudited \$000's	2016 31 December Unaudited \$000's	2017 31 March Audited \$000's
Cash and cash at bank	32,555	28,239	27,692
Balances with Reserve Bank	72,640	90,844	116,508
Total cash and cash equivalents at end of period	105,195	119,083	144,200

Notes to the Interim Financial Statements

1 Statement of Accounting Policies

The financial statements of the Bank incorporated in this Disclosure Statement have been prepared in accordance with the requirements of NZ IAS 34 Interim Financial Reporting and should be read in conjunction with the 31 March 2017 annual report. The Bank's financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP), as appropriate for profit-oriented entities.

There have been no changes in accounting policies since the approval of the 31 March 2017 Annual Report and Disclosure Statement on 8 June 2017.

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

2 Net Interest Income

	2017 31 December Unaudited \$000's	2016 31 December Unaudited \$000's	2017 31 March Audited \$000's
Interest income			
Cash and cash equivalents	1,155	1,301	1,671
Investment securities	46,377	66,201	81,024
Loans and advances to customers	173,436	153,986	207,690
Total interest income	220,968	221,488	290,385
Interest expense			
Deposits from customers	125,809	119,650	158,537
Wholesale deposits	478	193	313
Total interest expense	126,287	119,843	158,850
Net interest	94,681	101,645	131,535

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

3 Other Operating Income

	2017 31 December Unaudited \$000's	2016 31 December Unaudited \$000's	2017 31 March Audited \$000's
Gain on sale of fixed assets	14	19	19
Lending and credit facility related income	2,017	2,021	2,639
Commission and other trading income *	9,620	8,351	11,204
Cumulative gain transferred from available for sale investments revaluation reserve **	9,852	-	-
Gain / (loss) on derivative financial instruments at fair value	(72)	1,149	1,193
Other income	2,074	2,100	2,169
Total Other Operating Income	23,505	13,640	17,224

* Includes income from TSB Realty and TSB Foreign Exchange.

** Includes recovery from Solid Energy (SENZ) (Subject to Deed of Company Arrangement) Restructured Asset of \$7.4m.

4 Operating Expenses

	2017 31 December Unaudited \$000's	2016 31 December Unaudited \$000's	2017 31 March Audited \$000's
Fees paid to auditor:			
Audit and review of financial statements	129	125	145
Other services	113	156	347
Depreciation	2,234	2,262	3,063
Amortisation of intangible assets	896	676	1,052
Directors' fees	425	479	603
Personnel	30,637	24,723	34,564
Defined contribution plan	1,203	1,012	1,635
Information technology	6,514	5,862	9,058
Premises occupancy	2,469	2,196	3,039
Marketing	6,790	6,912	11,678
Other	11,835	9,940	15,057
Total operating expenses	63,245	54,343	80,241

5 Liquidity Risk

	2017 31 December Unaudited \$000's	2016 31 December Unaudited \$000's	2017 31 March Audited \$000's
Cash and cash equivalents			
Cash and cash at bank	32,555	28,239	27,692
Balances with reserve bank	72,640	90,844	116,508
Total cash and cash equivalents	105,195	119,083	144,200
Investment securities (liquid investment portfolio)			
Local authority securities	370,969	433,871	443,235
Sovereigns and central banks	443,100	169,510	190,943
Registered bank securities	474,601	488,524	499,472
Registered bank term investments	30,882	-	-
Other investments	393,384	252,300	338,709
Total investment securities	1,712,936	1,344,205	1,472,359
Total core liquid assets	1,818,131	1,463,288	1,616,559

6 Investment Securities

	2017 31 December Unaudited \$000's	2016 31 December Unaudited \$000's	2017 31 March Audited \$000's
Available for sale			
Local authority securities	371,693	491,217	493,336
Sovereigns and central banks	443,100	169,510	190,943
Registered bank securities	502,018	741,400	536,680
Registered bank term investments	30,882	-	-
Other investments *	635,855	632,307	749,036
Total investment securities	1,983,548	2,034,434	1,969,995

* Other investments relate to investments in utility companies, SOE's and commercial paper, and bonds of New Zealand corporates. Included in this amount are \$1.954m for Solid Energy (SENZ) (Subject to Deed of Company Arrangement) Restructured Asset (31 December 2016; \$21.193m; 31 March 2017 \$17.825m). The decrease in the value of investment is due to the cash flow from SENZ, partly offset by the revision of the estimated recoveries from the sale of SENZ.

7 Loans and Advances to Customers

	2017 31 December Unaudited \$000's	2016 31 December Unaudited \$000's	2017 31 March Audited \$000's
	Note		
Residential mortgages	4,266,231	3,648,404	3,851,176
Commercial	495,437	427,203	438,265
Agricultural	306,967	289,626	289,672
Community	3,550	4,516	4,504
Other *	109,214	97,260	97,299
Total gross loans and advances to customers	5,181,399	4,467,009	4,680,916
Less provision for doubtful debts	8 (24,746)	(22,508)	(23,248)
Total loans and advances to customers	5,156,653	4,444,501	4,657,668

* Other is inclusive of lending through Harmony platform, other retail lending and credit card balances.

8 Credit Risk Management and Asset Quality

8.1 Credit Quality Information for Loans and Advances to Customers

(i) End period balances

As at 31 December 2017 (Unaudited)	Residential Mortgage Loans \$000's	Agricultural Exposures \$000's	Commercial Exposures \$000's	Other Exposures \$000's	Total Credit Exposures \$000's
Past due assets at least 90 days but not impaired	6,019	1,981	2,460	82	10,542
Individually impaired assets	410	3,423	-	-	3,833
Specific provision for doubtful debts	95	200	-	-	295
Collective provision for doubtful debts	19,388	2,081	2,648	334	24,451
Total provision for doubtful debts	19,483	2,281	2,648	334	24,746

(ii) Impairment losses charged to income statement

For the nine months ended 31 December 2017 (unaudited)	Residential Mortgage Loans \$000's	Agricultural Exposures \$000's	Commercial Exposures \$000's	Other Exposures \$000's	Total Credit Exposures \$000's
Movement in collective provisions	2,132	(58)	277	(10)	2,341
Movement in specific provisions	(235)	(300)	(160)	(148)	(843)
Individual impairment expenses	438	-	-	981	1,419
Impairment losses – loans and advances	2,335	(358)	117	823	2,917

The estimated fair value of collateral and other charges related to financial assets that are individually impaired is \$3.518m (31 December 2016; \$11.062m; 31 March 2017 \$8.595m).

8.2 Concentrations of Credit Exposures to Individual Counterparties

The following disclosures show the number of individual counterparties (not being members of groups of closely related counterparties) or groups of closely related counterparties (excluding central government of any country with a long-term credit rating of A- or A3 or above, or its equivalent, and connected persons), where the period end and peak end-of-day credit exposures equalled or exceeded 10% of the Bank's equity as at reporting date. The peak aggregate end of day credit exposures is the greater of actual credit exposures for the last quarter. Credit exposures disclosed are based on actual exposures. The credit rating is applicable to an entity's long term senior unsecured obligations payable in New Zealand, in New Zealand dollars.

8 Credit Risk Management and Asset Quality (continued)

8.2 Concentrations of Credit Exposures to Individual Counterparties (continued)

There were no peak or balance date credit exposures to bank counterparties with a long-term credit rating below A- or A3, or its equivalent, which exceeded 10% of equity for the three months ended 31 December 2017.

	30 December 2017 Number of Non-Bank Counterparties				30 December 2016 Number of Non-Bank Counterparties			
	"A" Rated	"B" Rated	Unrated	Total	"A" Rated	"B" Rated	Unrated	Total
As at Balance Date								
11% - 15%	4	-	-	4	4	1	-	5
16% - 20%	-	-	-	-	-	1	-	1
21% - 25%					1	-	-	1
Total	4	-	-	4	5	2	-	7
Peak Exposure								
11% - 15%	5	-	-	5	4	2	-	6
16% - 20%	-	-	-	-	1	1	-	2
21% - 25%	-	-	-	-	1	-	-	1
Total	5	-	-	5	6	3	-	9

	31 March 2017 Number of Non-Bank Counterparties			
	"A" Rated	"B" Rated	Unrated	Total
As at Balance Date				
11% - 15%	3	1	-	4
16% - 20%	1	-	-	1
21% - 25%	-	-	-	-
Total	4	1	-	5
Peak Exposure				
11% - 15%	5	1	-	6
16% - 20%	-	1	-	1
21% - 25%	1	-	-	1
Total	6	2	-	8

Note:

- "A" Rated - those counterparties that have a long-term credit rating of A- or A3 or above, or its equivalent.
- "B" Rated - those counterparties that have a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent.
- Unrated - those counterparties that do not have a long-term credit rating, being local authorities and utilities.

9 Deposits

	2017 31 December Unaudited \$000's	2016 31 December Unaudited \$000's	2017 31 March Audited \$000's
Retail term deposits	3,509,039	2,867,540	3,080,422
On call deposits bearing interest	2,715,705	2,775,739	2,737,705
On call deposits not bearing interest	352,561	334,411	318,736
Wholesale deposits bearing interest	34,913	19,944	19,946
Total deposits	6,612,218	5,997,634	6,156,809

All creditors and depositors are ranked equally. Wholesale Deposits consist of Registered Certificates of Deposit.

10 Dividend

	2017 31 December Unaudited		2016 31 December Unaudited		2017 31 March Audited	
	\$000's	\$ Per Share	\$000's	\$ Per Share	\$000's	\$ Per Share
Interim	2,657	0.133	3,173	0.159	3,173	0.159
Special	10,000	0.500	-	-	-	-
Final	-	-	-	-	6,827	0.341
Total	12,657	0.633	3,173	0.159	10,000	0.500

11 Capital Adequacy

11.1 Capital Management Policies

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.

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 the Conditions of Registration. The Bank monitors its capital adequacy and reports this on a regular basis to the Board and on a monthly basis to the RBNZ.

The capital adequacy tables set out on the following pages summarise the composition of regulatory capital and the capital adequacy ratios for the Bank for the period ended 31 December 2017. During the period and the comparative periods shown, the Bank complied with all of the RBNZ capital requirements to which it is subject.

11 Capital Adequacy (continued)

11.1 Capital Management Policies (continued)

Basel III

The Bank has adopted Basel III capital framework with effect from 1 January 2013.

Pillar 2 of Basel III 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, liquidity risk, investment portfolio risk, sector and regional concentration risk, natural disaster risk, brand risk and ownership structure. The Bank has made an internal capital allocation of \$171.0m (31 December 2016 \$217.0m; 31 March 2017, \$217.9m) to cover these identified risks.

	RBNZ Minimum Ratio Requirement	2017 31 December Unaudited Basel III	2016 31 December Unaudited Basel III	2017 31 March Audited Basel III
Common equity tier 1 capital ratio	4.5%	14.54%	14.65%	14.60%
Tier 1 capital ratio	6.0%	14.54%	14.65%	14.60%
Total capital ratio	8.0%	14.54%	14.65%	14.60%
Buffer ratio	2.5%	6.54%	6.65%	6.60%

11.2 Capital

	2017 31 December Unaudited Basel III
Tier 1 capital	
Common equity tier 1 ("CET1") capital	
Issued and fully paid up share capital	10,000
Retained earnings	553,226
Current period's unaudited retained earnings	37,473
Available for sale investment revaluation reserve	14,119
Cash flow hedge reserve	(3,581)
	611,237
Less deductions from CET1 capital	
Intangible assets	8,786
Cash flow hedge reserve	(3,581)
Deferred tax asset	3,910
	9,115
Total common equity tier 1 capital	602,122
Additional tier 1	-
Total tier 1 capital	602,122
Tier 2 capital	-
Total capital	602,122

11 Capital Adequacy (continued)

11.3 Total Risk Weighted Exposures – December 2017

	Risk Weight	Total Exposure after Credit risk mitigation	Risk Weight Exposure	Minimum Pillar One Capital Requirement
		Dec-17 Unaudited \$000	Dec-17 Unaudited \$000	Dec-17 Unaudited \$000
On balance sheet exposures				
Cash	0%	8,167	-	-
Sovereigns & central banks	0%	515,740	-	-
Multilateral development banks	0%	263,241	-	-
	20%	56,847	11,369	910
Public sector entities	20%	384,196	76,839	6,147
Banks	20%	135,430	27,086	2,167
	50%	421,859	210,930	16,874
Corporate	20%	37,924	7,585	607
	50%	82,685	41,343	3,307
	100%	972,616	972,616	77,809
Residential mortgages not past due				
Non property-investment residential <80% LVR *	35%	2,606,627	912,319	72,986
Non property-investment residential 80%<90% LVR *	50%	229,335	114,668	9,173
Non property-investment residential 90%<100% LVR *	75%	23,944	17,958	1,437
Non property-investment residential >100% LVR *	100%	785	785	63
Property investment residential <80% LVR *	40%	1,222,658	489,063	39,125
Property investment residential 80%<90% LVR *	70%	12,084	8,459	677
Property investment residential 90%<100% LVR *	90%	302	272	22
Welcome Home <80% LVR *	35%	3,200	1,120	90
Welcome Home 80%<90% LVR *	35%	61,150	21,403	1,712
Welcome Home 90%<100% LVR *	50%	65,352	32,676	2,614
Welcome Home >100% LVR *	100%	4,691	4,691	375
Reverse mortgages <60% LVR *	50%	10,628	5,314	425
Reverse mortgages 60%<80% LVR *	80%	115	92	7
Reverse mortgages >80% LVR *	100%	26	26	2
Past due residential mortgages *	100%	5,851	5,851	468
Other past due assets	150%	7,595	11,393	911
Other lending	100%	112,348	112,348	8,988
Other assets	100%	19,984	19,984	1,599
Non-risk weighted assets	0%	12,696	-	-
Total on-balance sheet exposures		7,278,076	3,106,190	248,495

* Total exposure of residential mortgages is \$4,246,748.

11 Capital Adequacy (continued)

	Total Exposure Dec 2017 \$000's	Credit Conversion Factor	Credit Equivalent Amount Dec 2017 \$000's	Average Risk Weight	Risk Weighted Exposure Dec 2017 \$000's	Minimum Pillar One Capital Requirement Dec 2017 \$000's
Off Balance Sheet Exposures						
Commitments that can be cancelled unconditionally	580,938	0%	-	N/A	-	-
Commitment with certain drawdown	139,876	100%	139,876	44%	61,860	4,949
Market related contracts						
Foreign exchange contracts	63	Various	3	50%	2	-
Interest rate contracts *	987,207	Various	3,241	43%	1,394	111
Credit valuation adjustment (CVA)	-		-		695	56
Total off-balance sheet exposures	1,708,084		143,120		63,951	5,116

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

11.4 Residential Mortgages by Loan-to-Valuation Ratio (LVR)

LVR Range	0% - 80% \$000's	80% - 90% \$000's	90% - 100% \$000's	>100% \$000's	Total \$000's
On balance sheet exposures	3,860,279	303,975	90,040	5,508	4,259,802
Past due and impaired	5,575	285	419	150	6,429
Total value on balance sheet exposures	3,865,854	304,260	90,459	5,658	4,266,231
Less: Provisions:					
Collective	17,534	1,380	441	33	19,388
Specific	95	-	-	-	95
Total residential mortgages	3,848,225	302,880	90,018	5,625	4,246,748
Off balance sheet exposures	465,126	12,270	1,969	-	479,365
Total residential mortgages	4,313,351	315,150	91,987	5,625	4,726,113

11.5 Capital for other material risks

	Total Exposure after credit risk mitigation \$000's	Risk Weighted Exposure or Implied RWE \$000's	Capital Requirement \$000's
Total Capital Requirements			
Total credit risk plus equity	7,421,196	3,170,141	253,611
Operational risk	N/A	439,001	35,120
Implicit risk	N/A	285,230	22,818
Market risk	N/A	245,689	19,655
Total		4,140,061	331,204

11 Capital Adequacy (continued)

		Implied Risk Weighted Exposure \$000's	Aggregate Capital Charge \$000's	Aggregate Capital Charge as % of Banks's Equity	Bank's Equity \$000's
Market Risk					
End of period capital charges	Interest risk	245,689	19,655	3.26%	602,122
Peak end of day capital charges	Interest risk	245,689	19,655	3.26%	602,122

In accordance with clause 9 of Schedule 9 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended), 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).

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

The Bank has no involvement with any securitisation, custodial, or other fiduciary activities. The Bank does not conduct any insurance business, however; general insurance, life insurance, and KiwiSaver products are marketed through the Bank's branch network. These have been provided on arm's 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. The Bank markets Fisher Funds KiwiSaver products through the Bank's branch network. Refer to note 14 in regards to the related party loan to TSB Group Limited.

TSB Bank Limited is the manager and promoter of the TSB Bank PIE Unit Trust, and the New Zealand Guardian Trust Company Limited is the Trustee. Units in the fund do not directly represent deposits or other liabilities of TSB Bank. However, the Trust Deed stipulates that the TSB Bank PIE Unit Trust is invested exclusively in TSB Bank debt securities. As at 31 December 2017, the TSB Bank PIE Unit Trust had \$21.9m (31 December 2016 \$31.1m; 31 March 2017, \$29.1m) invested with the Bank.

13 Commitments and Contingent Liabilities

	2017 31 December Unaudited \$000's	2016 31 December Unaudited \$000's	2017 31 March Audited \$000's
Lending commitments			
Commitments approved to advance less than one year	107,278	118,150	101,276
Commitments approved to advance greater than one year *	613,534	597,053	597,669
Total lending commitments	720,812	715,203	698,945
Other commitments			
Rental/lease commitments less than one year	2,834	3,164	3,095
Rental/lease commitments great than one year	11,302	12,279	11,528
Capital commitments	1,542	1,691	878
Total other commitments	15,678	17,134	15,501
Total commitments and contingent liabilities	736,490	732,337	714,446

* Includes \$12.986m (31 December 2016 \$21.488m; 31 March 2017 \$32.173m) related to the facility granted to TSB Group Limited, a related entity.

There are no material contingent liabilities and outstanding claims known by the Directors as at 31 December 2017 that would impact on the financial statements.

14 Related Parties

The Bank is wholly owned by the TSB Community Trust through the Trust's fully owned subsidiary, TSB Group Limited. During the period the Trust operated normal bank account facilities which were on normal customer terms and conditions. As at 31 December 2017 the Trust had \$17.569m invested with the Bank at market rates, with interest accrued of \$0.145m (31 December 2016, \$20.909m with interest accrued of \$0.487m; and 12 months to 31 March 2017, \$17.009m invested with interest accrued of \$0.192m). Interest paid to the Trust for the 9 months to 31 December 2017 was \$0.510m (31 December 2016, \$0.537m; and 12 months to 31 March 2017, \$0.633m).

Loans and advances (Note 7) include a commercial loan to TSB Group Limited of \$70.614m with a total facility limit of \$83.600m on normal customer terms and conditions (31 December 2016 \$48.512m; 31 March 2017, \$46.327m). Income received from TSB Group Limited for the 9 months ended 31 December 2017 totalled \$1.642m (31 December 2016, \$1.540m; and 12 months to 31 March 2017, \$1.974m). TSB Group Limited received dividends as detailed in Note 10. Subvention payments were made to TSB Group Limited of \$1.122m (31 December 2016 \$0.990m), TSB Group Capital Limited of \$0.104m (30 December 2016 \$0.047m) and TSB Group Investments Limited of \$0.022m (31 December 2016 Nil).

The Bank markets Fisher Funds KiwiSaver products through the Bank's Branch Network. For the 9 months ended 31 December 2017 commissions received from Fisher Funds totalled \$0.351m (31 December 2016, \$0.257m; and 12 months to 31 March 2017, \$0.336m).

15 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.

Apart from the items outlined below, there have been no material changes to the risk management policies since publication of the previous Disclosure Statement. The changes below are either refinements to existing policies or centralisation of existing risk management processes to reflect the updated ERMF and changes in the overall Board risk appetite in these areas:

- Business and Commercial Credit Policy

A prior internal audit report found that, while the Bank has a regulatory compliance policy and frameworks; a register of key legislative and regulatory mandates and sub-mandates; as well as a core obligation training programme, the various frameworks to monitor the performance of the obligations against the mandates and sub-mandates are still under development. On-going development continues to enable this finding to be addressed.

16 Subsequent Events

On 8 November 2017 TSB's Chief Executive Officer and Managing Director, Kevin Murphy announced his retirement from the bank. Mr Murphy was CEO of TSB for almost a decade and with the company for nearly forty years. His last day with TSB was 31 January 2018.

An executive search is underway for a new Chief Executive through Caldwell Partners. Current TSB Director, Murray Bain, is Interim Managing Director to ensure continuity and a seamless transition for employees and customers. Mr Bain has significant banking experience with a community orientated bank as well as time as Assistant Governor of the Reserve Bank of New Zealand.

Directory

Directors

J.J. (John) Kelly, Chair
M.I. (Murray) Bain, MCom (Hons), BSc, C.F.Inst.D, Acting Managing Director
M.A. (Anne) Blackburn, MA, BA
K.M. (Kelly) Marriner, LLB, BA
N. (Natalie) Pearce, BCom
P.M. (Peter) Schuyt, BCom, C.F.Inst.D
D.J. (Dion) Tuuta
H.P.W. (Hayden) Wano

Executive Management

M.I. (Murray) Bain, MCom (Hons), BSc, C.F.Inst.D, Acting Managing Director
C.L. (Charles) Duke, Deputy Chief Executive
R.G. (Roddy) Bennett, BSc, ACA, GM Finance
M.D. (Marie) Collins, GM Technology & Support
S.L. (Steve) O'Shea, Dip Bank, MBA, FFin, GM Customer Sales & Service
D.R. (Doug) Widdowson, MCom, CA, GM Risk
B.A. (Brent) Woodhead, MBA, GM Marketing
A.A. (Audrey) Young, BSc (Hons), GM People & Culture

Registered Office

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Principal Solicitors to the Company

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Auditor

KPMG
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