The Co-operative Bank Limited

# Disclosure Statement for the 9 months ended 31 December 2011

Bank like you own the place

# Contents

This Disclosure Statement has been issued by The Co-operative Bank Limited (referred to either by its full name or as "the Registered Bank") for the nine months ended 31 December 2011 in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No 4) 2011 (the "Order").

The condensed consolidated Financial Statements of the Registered Bank for the period ended 31 December 2011 form part of and should be read in conjunction with this Disclosure Statement.

This Disclosure Statement is available on the Registered Bank's website www.co-operativebank.co.nz. In addition, any person can request a hard copy of the Registered Bank's Disclosure Statements at no charge. The copy will be provided by the end of the second working day after the day on which the request is received.

On 26 October 2011, the date of bank registration, the Registered Bank changed its name from PSIS Limited to The Co-operative Bank Limited. PSIS Life Limited and PSIS PIE Term Fund also changed their names on 26 October 2011 to Co-operative Life Limited and Co-operative PIE Term Fund respectively.

Words and phrases defined in the Order have the same meanings when used in this Disclosure Statement.

# The Co-operative Bank Limited Disclosure Statement
for the nine months ended 31 December 2011.

## General Information

The name of the Registered Bank is The Co-operative Bank Limited and the address for service is Level 12, PSIS House, corner of Featherston and Ballance Streets, Wellington. All controlled entities are incorporated in New Zealand.

The Co-operative Bank Limited is a profit-oriented entity incorporated in New Zealand under the Companies Act 1993 and is registered under the Co-operative Companies Act 1996.

The reporting Group is The Co-operative Bank Limited and its subsidiaries (referred to as the "Banking Group").

## Guarantee Arrangements

As at the date the Registered Bank's Directors signed this Disclosure Statement, Co-operative Life Limited guaranteed the obligations of the Registered Bank to all depositors who were depositors before the time and date of bank registration. The guarantee does not apply to deposits made after the time and date of bank registration and will cease to apply to each deposit made prior to that time and date once the deposit matures and is either withdrawn or reinvested.

Co-operative Life Limited is a member of the Banking Group.  Its address for service is Co-operative Life Limited, PSIS House, corner of Featherston and Ballance Streets, Wellington. Co-operative Life Limited does not have any credit rating applicable to its long term senior unsecured obligations.

Further details on this guarantee arrangement can be found in the Registered Bank's full year Disclosure Statement as at 31 March 2011. The Registered Bank's full year Disclosure Statement as at 31 March 2011 is available on the Registered Bank's website www.co-operativebank.co.nz.  There have been no changes in the terms of the guarantee since the last full year Disclosure Statement.

## Directors

Two new directors, Steven Fyfe and Ross Wilson, were appointed on 27 October 2011.

Effective from 1 April 2012 Sir David Gascoigne will resign from the position of Chairman of the Board with Steven Fyfe being appointed to that position and Paul Goulter being appointed Deputy Chairman of the Board.

## Key Management Changes

Effective from 24 February 2012 Dr Girol Karacaoglu will resign from the position of Chief Executive with Gareth Fleming appointed as Acting Chief Executive from this date.

## Conditions of Registration

With effect from 25 November 2011, there has been the following change to the Conditions of Registration:

The "Liquidity Policy Annex: Liquid Assets" (BS13A) dated March 2010 referred to in section 11 of the Conditions of Registration has been replaced with "Liquidity Policy Annex: Liquid Assets" (BS13A) dated November 2011.

## Pending Proceedings or Arbitration

There are no pending proceedings or arbitrations that may have a material adverse effect on the Registered Bank or its Banking Group.

## Credit Rating

As at 31 December 2011 and up until the date of the signing this Disclosure Statement, the Registered Bank was rated BBB-[1] by Standard & Poor's Rating Services ("S&P's"). This credit rating is applicable to long term unsecured obligations payable in New Zealand. The Registered Bank's credit rating of BBB- was obtained on 27 May 2011. On 6 December 2011 Standard & Poor's revised The Co-operative Bank's rating outlook from stable to positive.

## Insurance Business

The Banking Group conducts insurance business through its wholly-owned subsidiary company, Co-operative Life Limited. The total assets of Co-operative Life Limited at 31 December 2011 were $12.5 million (31 March 2011: $14.7 million) which is 0.9% of the total assets of the Banking Group (31 March 2011: 1.0%).

## Securitisation

Until the Date of Registration, the Registered Bank was the trust manager, servicer, beneficiary and final beneficiary of each of the PSIS Warehouse Trust and the PSIS RMBS Trust 2010-1. The Registered Bank resigned as trust manager of these Trusts, and AMAL New Zealand Limited was appointed as the trust manager of these Trusts with effect from the Date of Registration. From the Date of Registration, the Registered Bank is the servicer of these Trusts. The final beneficiary of these Trusts is The New Zealand Federation of Family Budgeting Services Incorporated. AMAL New Zealand Limited is the trust manager, but has delegated its trust manager's role substantially to the Registered Bank. Further information about the PSIS Warehouse Trust and the PSIS RMBS Trust 2010-1 for the period ended 31 March 2011 is available in the Registered Bank's most recent full year Disclosure Statement.

## Risk Management Policies

There have been no material changes in the Banking Group's policies for managing credit risk, interest rate risk, liquidity risk, funding risk and operational risk.

## Other Material Matters

The Registered Bank's directors are of the opinion that there are no other matters relating to the business or affairs of the Registered Bank or the Banking Group which would, if disclosed in this Disclosure Statement, materially adversely affect the decision of a person to subscribe for debt securities of which the Registered Bank or any members of the Banking Group is the issuer.

1 S&P's defines its BBB rating to mean the obligor "has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments."

The reference to "-" as a modifier indicates the relative standing of the Registered Bank's credit rating within the "BBB" category of rating.

## Directors' Statements

Each Director of the Registered Bank states that he or she believes, after due enquiry, that:

1. As at the date on which the Disclosure Statement is signed:
   (a) the Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No 4) 2011 (the "Order"); and
   (b) the Disclosure Statement is not false or misleading.

2. From the date of registration to the date of this Disclosure Statement:
   (a) the Registered Bank has complied with all conditions of the registration;
   (b) credit exposure to connected persons were not contrary to the interests of the Banking Group; and
   (c) the Registered Bank had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

This Disclosure Statement is dated 24 February 2012 and has been signed by or on behalf of all the Directors:

Sir David Gascoigne, (Chairman)

Peter Ellis

Steven Fyfe

Paul Goulter

John Isles

Dianne Kidd

Joanna Perry

Sam Robinson

Ross Wilson

## Condensed Statement of Comprehensive Income
for the nine months ended 31 December 2011

| | Note | Consolidated | |
|---|---|---|---|
| | | Unaudited | Unaudited |
| | | 9 months | 9 months |
| | | 31/12/2011 | 31/12/2010 |
| | | $000 | $000 |
| Interest Income | 3 | 73,249 | 78,402 |
| Interest Expense | 4 | (43,162) | (45,349) |
| Net Interest Income | | 30,087 | 33,053 |
| Insurance and Loan Care Underwriting Income | | 5,465 | 5,438 |
| Fees and Other Operating Income | | 8,954 | 8,748 |
| Net Operating Income | | 44,506 | 47,239 |
| Insurance and Loan Care Underwriting Expense | | (2,968) | (2,804) |
| Impairment Losses | 10 | (1,026) | (1,634) |
| Employee Entitlements | | (15,634) | (14,844) |
| Occupancy | | (3,976) | (4,186) |
| Information Technology | | (2,848) | (2,606) |
| Marketing | | (1,180) | (1,903) |
| Administration | | (2,194) | (1,258) |
| Other Operating Expenses | 5 | (10,733) | (9,103) |
| Operating Expenses | | (40,559) | (38,338) |
| Profit Before Fair Value Adjustments | | 3,947 | 8,901 |
| Fair Value Gain/(Loss) | 6 | 598 | 57 |
| Profit before Taxation | | 4,545 | 8,958 |
| Taxation | | (1,136) | (2,150) |
| Profit after Taxation Attributable to Members | | 3,409 | 6,808 |
| Other Comprehensive Income | | | |
| Fair Value Movement on Available for Sale Financial Instruments | | (69) | (14) |
| Income Tax relating to Fair Value Movement on Available for Sale Financial Instruments | | 21 | 5 |
| Other Comprehensive Income | | (48) | (9) |
| Total Comprehensive Income | | 3,361 | 6,799 |

## Condensed Statement of Changes in Members' Reserves
for the nine months ended 31 December 2011

| | Note | Consolidated | |
|---|---|---|---|
| | | Unaudited | Unaudited |
| | | 9 months | 9 months |
| | | 31/12/2011 | 31/12/2010 |
| | | $000 | $000 |
| Opening Balance of Members' Reserves | | 124,004 | 116,872 |
| Profit after Taxation Attributable to Members | | 3,409 | 6,808 |
| Other Comprehensive Income | | (48) | (9) |
| Closing Balance of Members' Reserves | | 127,365 | 123,671 |

The Statement of Accounting Policies and Notes to the Condensed Interim Financial Statements form part of, and are to be read in conjunction with, these Financial Statements.

## Condensed Balance Sheet as at 31 December 2011

| | Note | Consolidated Unaudited 9 months 31/12/2011 $000 | Consolidated Audited 12 months 31/03/2011 $000 |
|---|---|---|---|
| Assets | | | |
| Cash and Cash Equivalents | 7 | 6,196 | 5,597 |
| Short Term Deposits | 8 | 66,166 | 83,781 |
| Investment Securities | 9 | 43,691 | 33,657 |
| Other Financial Assets | | 124,962 | 149,748 |
| Tax Receivable | | 2,292 | 713 |
| Trade and Other Receivables | | 2,235 | 1,459 |
| Loans and Advances | 10 | 1,200,330 | 1,163,898 |
| Property, Plant and Equipment | | 6,349 | 7,240 |
| Intangible Assets | | 4,630 | 3,576 |
| Derivatives | | 331 | 490 |
| Deferred Tax Asset | | 1,882 | 1,774 |
| Total Assets | | 1,459,064 | 1,451,933 |
| | | | |
| Liabilities | | | |
| Deposits | | 1,215,825 | 1,162,803 |
| Secured Borrowings | 11 | 89,829 | 138,842 |
| PIE Term Fund Borrowings | | 4,510 | 4,577 |
| Tax Payable | | - | - |
| Derivatives | | 1,875 | 1,893 |
| Trade and Other Payables | | 4,583 | 5,470 |
| Employee Entitlements | | 2,227 | 1,693 |
| Life Insurance Net Policy Liabilities | | 6,030 | 5,976 |
| Capital Notes | | 6,820 | 6,675 |
| Total Liabilities | | 1,331,699 | 1,327,929 |
| Net Assets | | 127,365 | 124,004 |
| | | | |
| Members' Reserves | | | |
| Available for Sale Reserve | | 1 | 48 |
| Retained Earnings | | 127,364 | 123,956 |
| Total Members' Reserves | | 127,365 | 124,004 |

The Statement of Accounting Policies and Notes to the Condensed Interim Financial Statements form part of, and are to be read in conjunction with, these Financial Statements.

## Condensed Statement of Cash Flows for the nine months ended 31 December 2011

| | Note | Consolidated Unaudited 9 months 31/12/2011 $000 | Consolidated Unaudited 9 months 31/12/2010 $000 |
|---|---|---|---|
| Cash Flows from Operating Activities | | | |
| Interest Income | | 74,214 | 77,633 |
| Other Income | | 14,405 | 12,880 |
| Payments to Suppliers and Employees | | (39,291) | (37,630) |
| Interest Expense | | (43,364) | (41,958) |
| Taxation Payments | | (2,803) | (1,278) |
| Net Cash Flow from Operating Activities before Changes in Operating Assets and Liabilities | | 3,161 | 9,647 |
| Loans and Advances* | | (36,722) | (38,382) |
| Short Term Deposits* | | 10,796 | 24,541 |
| Investment Securities | | 3,110 | - |
| Other Financial Assets* | | 18,976 | (38,865) |
| Members' Deposits* | | 53,540 | 34,388 |
| PIE Term Fund Borrowings* | | (94) | 2,348 |
| Secured Borrowings Raised | | - | 18,500 |
| Repayment of Secured Borrowings | | (48,703) | - |
| Cost of Raising Secured Borrowings | | - | (572) |
| Cost of Securitisation Trust Restructure | | (453) | - |
| Changes in Operating Assets and Liabilities | | 450 | 1,958 |
| Net Cash Flow from Operating Activities | 13 | 3,611 | 11,605 |
| Cash Flows from Investing Activities | | | |
| Purchase of Property, Plant and Equipment | | (1,307) | (998) |
| Purchase of Intangible Assets | | (1,705) | (1,329) |
| Net Cash Flow from Investing Activities | | (3,012) | (2,327) |
| | | | |
| Net Movement in Cash and Cash Equivalents | | 599 | 9,278 |
| Opening Balance of Cash and Cash Equivalents | | 5,597 | 2,139 |
| Closing Balance of Cash and Cash Equivalents | | 6,196 | 11,417 |

* Net movement of the operating assets and liabilities, and interest income and expense exclude accrued interest income and expense.

The Statement of Accounting Policies and Notes to the Condensed Interim Financial Statements form part of, and are to be read in conjunction with, these Financial Statements.

# Notes to the Financial Statements for the nine months ended 31 December 2011

## 1. Statement of Accounting Policies

### (1) Reporting Entity

The Co-operative Bank Limited (the "Registered bank") is a profit-oriented entity incorporated in New Zealand under the Companies Act 1993 and is registered under the Co-operative Companies Act 1996. The Registered Bank is an integrated financial services co-operative providing a number of financial products to its Members including loans, current accounts, other deposits and insurance. The Registered Bank is an issuer for the purposes of the Financial Reporting Act 1993. The Banking Group ("the Banking Group") consists of The Co-operative Bank Limited; Co-operative Life Limited (wholly owned subsidiary), whose principal business activities include the provision and underwriting of life and trauma insurance; PSIS Warehouse Trust and PSIS RMBS Trust 2010-1 (accounting but not legal subsidiaries), special purpose entities that facilitate the securitisation of mortgage loans; Co-operative PIE Term Fund, a Portfolio Investment Entity that manages fund investment with special tax rules; and PSIS Limited (wholly owned subsidiary) which is a dormant company. The registered office is PSIS House, Corner of Featherston and Ballance Streets, Wellington.

### (2) Accounting Policies

(a) Basis of Preparation

The financial statements of the Banking Group incorporated in this Disclosure Statement have been prepared in accordance with the New Zealand equivalent to International Accounting Standard 34 Interim Financial Reporting, IAS 34 Interim Financial Reporting and the Order, and should be read in conjunction with the Disclosure Statement for the year ended 31 March 2011.

The Registered Bank has chosen to early adopt the amendments to NZ IAS 34 Interim Financial Reporting, as outlined in The Harmonisation Amendments (April 2011), and early adopt FRS 44 Additional New Zealand Disclosures. Adoption of these amendments and standard have not resulted in any significant impact on the Banking Group's reported results or financial position.

All other accounting policies and methods have been applied on a basis consistent with that used in the financial year ended 31 March 2011.

Certain comparatives have been reclassified to conform with the current reporting period's presentation.

These financial statements were authorised for issue by the Board of Directors on 24 February 2012.

(b) Presentation Currency and Rounding

The functional and presentation currency of the Banking Group is New Zealand dollars. All amounts contained in the financial statements are presented in thousands of New Zealand dollars, unless otherwise stated.

| 2. Underlying Profit before tax | Consolidated | |
|---|---|---|
| | Unaudited<br>9 months<br>31/12/2011<br>$000 | Unaudited<br>9 months<br>31/12/2010<br>$000 |
| Profit before Tax | 4,545 | 8,958 |
| Adjustments for: | | |
| FIP fair value (gain)/loss | (280) | (2,191) |
| FIP swap fair value (gain)/loss | 705 | 845 |
| Bank registration and rebranding costs | 1,418 | - |
| Underlying Profit before tax | 6,388 | 7,612 |

2 Underlying Profit before tax (continued)

The underlying profit before tax provides additional useful information for members on financial performance. This measure is used for internal performance analysis and is not defined by NZ IFRS. It is not intended to be a substitute for, or superior to NZ IFRS measurements of profit. The on-going volatility in the global markets continues to impact the fair value of the FIP investment held by the Banking Group, increasing our profits when markets are strong and having a negative impact when markets are weak. These unrealised gains and losses along with the fair value movement of the swap that hedges this investment are not a reflection of The Co-operative Bank's underlying performance. This investment is capital guaranteed on maturity and The Co-operative Bank expects to receive face value in June 2014.

Profit before tax has been adjusted to remove the fair value (gain)/loss of the FIP investment, the fair value (gain)/loss of the swap that hedges this investment and the one-off cost for the nine months ended 31 December 2011 incurred in relation to bank registration and rebranding.

| | Consolidated | |
|---|---|---|
| 3. Interest Income | Unaudited 9 months 31/12/2011 $000 | Unaudited 9 months 31/12/2010 $000 |
| Short Term Deposits | 2,667 | 1,956 |
| Investment Securities | 382 | 59 |
| Other Financial Assets | 4,207 | 5,197 |
| Loans and Advances | 65,291 | 69,302 |
| Interest Rate Derivative Income | 583 | 1,769 |
| Other Interest Income | 119 | 119 |
| | 73,249 | 78,402 |
| 4. Interest Expense | | |
| Secured Borrowings | 4,861 | 5,224 |
| Deposits | 36,145 | 36,137 |
| PIE Term Fund Borrowings | 235 | 242 |
| Capital Notes | 419 | 421 |
| Interest Rate Derivative Expense | 1,502 | 3,325 |
| | 43,162 | 45,349 |
| 5. Other Operating Expenses | | |
| Remote Channels | 4,680 | 4,175 |
| Bank Charges | 883 | 898 |
| Communications | 1,842 | 1,489 |
| Professional Fees | 1,503 | 531 |
| Other Expenses | 1,825 | 2,010 |
| | 10,733 | 9,103 |

| 6. Fair Value Gain/(Loss) | Consolidated | |
|---|---|---|
| | Unaudited | Unaudited |
| | 9 months | 9 months |
| | 31/12/2011 | 31/12/2010 |
| | $000 | $000 |
| Unrealised fair value gain/(loss) are recognised with respect to the following financial instruments measured at fair value through profit or loss: | | |
| Assets backing Life Insurance Contracts[2] | 388 | 15 |
| FIP Investment[3] | 280 | 1,965 |
| PINS 2005 Investment[3] | 41 | 160 |
| PINS 2006 Investment[3] | 29 | 66 |
| Derivatives[4] | (140) | (2,149) |
| | 598 | 57 |

| 7. Cash and Cash Equivalents | Consolidated | |
|---|---|---|
| | Unaudited | Audited |
| | 9 months | 12 months |
| | 31/12/2011 | 31/03/2011 |
| | $000 | $000 |
| Cash on hand | 1,211 | 1,504 |
| Cash held at registered banks | 4,985 | 4,093 |
| | 6,196 | 5,597 |

| 8. Short Term Deposits | | |
|---|---|---|
| Call Deposits | 13,147 | 8,621 |
| Short Term Deposits with Registered Banks | 18,548 | 46,334 |
| Rated Commercial Paper | 34,471 | 28,826 |
| | 66,166 | 83,781 |

| 9. Investment Securities | | |
|---|---|---|
| Assets backing Life Insurance Contracts | 10,943 | 1,258 |
| FIP Investment | 29,524 | 29,244 |
| PINS 2005 Investment | 2,335 | 2,294 |
| PINS 2006 Investment | 889 | 861 |
| | 43,691 | 33,657 |

See note 6 for additional information regarding fair value gain/(loss) on Investment Securities. Changes in value of the FIP Investment, PINS 2005 Investment and PINS 2006 Investment are solely fair value movements.

2 The fair value of these investments have been determined directly by reference to published price quotations in an active market. Assets backing Life Insurance Contracts include government stock, term deposits, local government bonds and bank bonds.

3 These investments have been fair valued using the net present value of receiving the capital face value ($38.5 million) at maturity and assuming no coupon interest will be received to maturity. The interpolated swap interest rate applicable to the maturity of each security, plus the credit risk margins, have been applied as the discount rate for the maturity amounts. The credit risk margin increase/(decrease) for the nine months to 31 December 2011 is $1,600,000, which adversely affects the value of these investments (31 March 2011: ($675,000)).

4 Derivatives comprise interest rate swaps which are measured at the present value of future cash flows estimated and discounted based on the closing market NZD interest swap rates.

## 10. Loans and Advances [5]

| | Consolidated | |
|---|---|---|
| | Unaudited | Audited |
| | 9 months | 12 months |
| | 31/12/2011 | 31/03/2011 |
| | $000 | $000 |
| Advances to Members | 1,204,230 | 1,168,249 |
| Provisions for Impairment | (3,900) | (4,351) |
| Total Loans and Advances | 1,200,330 | 1,163,898 |
| Asset Quality and Provision for Impairment Losses | | |
| Gross Impaired Assets | 4,162 | 5,206 |
| Specific Provisions | (1,119) | (1,104) |
| Collective Provision | (2,780) | (3,247) |
| Aggregate amount of assets that are at least 90 days past due but not impaired | 1,351 | 1,193 |

| Impairment Losses Charged to Profit before Taxation | Consolidated | |
|---|---|---|
| | Unaudited | Unaudited |
| | 9 months | 9 months |
| | 31/12/2011 | 31/12/2010 |
| | $000 | $000 |
| Movement in Collective Provision | (467) | (479) |
| Movement in Specific Provisions | 15 | 357 |
| Bad Debts Written Off | 1,793 | 2,009 |
| Bad Debts Recovered | (315) | (253) |
| Total Impairment Losses Charged to Profit before Taxation | 1,026 | 1,634 |

## 11. Secured Borrowings

| | Consolidated | |
|---|---|---|
| | Unaudited | Audited |
| | 9 months | 12 months |
| | 31/12/2011 | 31/03/2011 |
| | $000 | $000 |
| PSIS Warehouse Trust | 23,088 | 54,384 |
| PSIS RMBS Trust 2010-1 | 66,741 | 84,458 |
| | 89,829 | 138,842 |

The Warehouse Trust was established solely for the purpose of purchasing mortgages from The Co-operative Bank and funding the same by wholesale funding from Westpac Banking Corporation. The PSIS RMBS Trust 2010-1 was established solely for the purpose of purchasing mortgages from the PSIS Warehouse Trust and funding the same from institutional investors. The PSIS Warehouse Trust used the sale proceeds to repay money owing to the Westpac Banking Corporation. The securitised receivables of $162.9 million (31 March 2011: $170.0 million) secure these borrowings by the security trust deeds in favour of security trustees who hold those securities for the benefit of the investors and are included in total Loans and Advances disclosed in note 10.

The Co-operative Banks' interests in the securitised receivables rank behind the security interests of the security trustees.

5. Total Loans and Advances include securitised receivables of $162.9 million (31 March 2011: $170.0 million). These Loans and Advances are subject to one or other of the securities referred to in note 11.

## Notes to the Financial Statements for the nine months ended 31 December 2011

| 12. Interest Earning Assets and Interest Bearing Liabilities | Consolidated | |
|---|---|---|
| | Unaudited | Audited |
| | 9 months | 12 months |
| | 31/12/2011 | 31/03/2011 |
| | $000 | $000 |
| Total interest earning and discount bearing assets | 1,440,134 | 1,431,084 |
| Total interest earning and discount bearing liabilities | 1,316,984 | 1,312,897 |

| 13. Reconciliation of Profit after Taxation with Net Cash Flow | Consolidated | |
|---|---|---|
| from Operating Activities | Unaudited | Unaudited |
| | 9 months | 9 months |
| | 31/12/2011 | 31/12/2010 |
| | $000 | $000 |
| Net Profit after Taxation | 3,409 | 6,808 |
| Add/(Less) Non-Cash Items | | |
| Depreciation | 2,188 | 2,353 |
| Amortisation | 651 | 441 |
| Securities Capital Value | - | (5) |
| Movement in Collective/Specific Impairment | (452) | (122) |
| Fair Value Movement on Investments | (598) | (57) |
| Unrealised Derivative Settlement Movement | (67) | (177) |
| Deferred Tax Expense | (88) | - |
| Amortised Financing Costs | 261 | 137 |
| Loss on Disposal | 11 | 24 |
| | 1,906 | 2,594 |
| Add/(Less) Movements in Assets/Liabilities: | | |
| Loans and Advances | (35,981) | (38,355) |
| Short Term Deposits | 11,040 | 24,682 |
| Investment Securities | 3,014 | 18 |
| Other Financial Assets | 19,052 | (39,816 |
| Tax Payable / Receivable | (1,579) | 873 |
| Trade and Other Receivables | (776) | 66 |
| Deposits | 53,023 | 37,601 |
| PIE Term Fund Borrowings | (116) | 2,470 |
| Secured Borrowings | (49,220) | 17,708 |
| Employee Entitlements | 534 | 338 |
| Loan Care Claims Provision | - | (95) |
| Life Insurance Net Policy Liabilities | 54 | (1,034) |
| Trade and Other Payables | (887) | (2,391) |
| Capital Notes | 138 | 138 |
| | (1,704) | 2,203 |
| Net Cash Flow from Operating Activities | 3,611 | 11,605 |

* Net movement of operating assets and liabilities exclude accrued interest income and expense.

## 14. Contingent Liabilitiess

The Banking Group has approved $36.1 million of loans and advances which had not been paid out at reporting date (31 March 2011: $33.6 million).

## 15. Financial Instruments

### (a) Contractual Maturity Analysis

The following tables analyse the assets and liabilities into relevant maturity groupings based on the remaining period at the balance date to the contractual maturity date. The tables include interest and principal cash flows, as well as the commitment to make amounts available in instalment. The total amount is different from the amount on the Balance Sheet. Such cash flows are undiscounted cash flows.

The majority of the longer term Loans and Advances are housing loans, which are likely to be repaid earlier than their contractual terms. Deposits include substantial Member savings deposits and cheque accounts, which are at call. History demonstrates that such accounts provide a stable source of long term funding.

The contractual maturity analysis is not used by the Banking Group to manage liquidity. Instead cash flow mismatch analysis is used, as outlined on page 16.

| As at 31 December 2011 | | Consolidated | | | | | |
|---|---|---|---|---|---|---|---|
| | On Demand | Within 6 months | 6–12 months | 1-2 Years | Over 2 Years | No Maturity | Total |
| Assets | | | | | | | |
| Cash and Cash Equivalents | 6,196 | - | - | - | - | - | 6,196 |
| Short Term Deposits | 13,147 | 37,097 | 17,218 | - | - | - | 67,462 |
| Investment Securities | - | 2,903 | 2,110 | 3,849 | 41,884 | - | 50,746 |
| Other Financial Assets | - | 27,575 | 38,014 | 32,345 | 35,428 | - | 133,362 |
| Trade and Other Receivables | - | 2,235 | - | - | - | - | 2,235 |
| Loans and Advances | - | 78,812 | 40,863 | 78,535 | 1,770,484 | - | 1,968,694 |
| Derivatives | - | 219 | 23 | 46 | 46 | - | 334 |
| Total Financial Assets | 19,343 | 148,841 | 98,228 | 114,775 | 1,847,842 | - | 2,229,029 |
| | | | | | | | |
| Liabilities | | | | | | | |
| Deposits | 375,980 | 590,581 | 178,695 | 53,309 | 36,879 | - | 1,235,444 |
| Secured Borrowings | - | 42,642 | 1,673 | 3,346 | 167,498 | - | 215,159 |
| PIE Term Fund Borrowings | - | 3,816 | 732 | 189 | - | - | 4,737 |
| Derivatives | - | 789 | 378 | 495 | 230 | - | 1,892 |
| Trade and Other Payables | - | 4,583 | - | - | - | - | 4,583 |
| Employee Entitlements | - | 2,227 | - | - | - | - | 2,227 |
| Life Insurance Net Policy Liabilities | | - | - | - | - | 6,030 | 6,030 |
| Capital Notes | - | 275 | 3,696 | 276 | 3,681 | - | 7,928 |
| Total Financial Liabilities | 375,980 | 644,913 | 185,174 | 57,615 | 208,288 | 6,030 | 1,478,000 |
| Undrawn Commitments | 22,752 | 13,379 | - | - | - | - | 36,131 |

**(b) Cash Flow Mismatch Analysis**

The Banking Group manages cash flow mismatches by modelling cash flows on a monthly basis to ensure, subject to conservative reinvestment and other assumptions, that cumulative cash outflows are no more than cumulative cash inflows, over a 6 month period. The 7-12 month cash flows are also monitored to assess the Group's future ability to meet this requirement.

The cash flow mismatch analysis has been derived from the concepts outlined in the Reserve Bank of New Zealand document entitled "Liquidity Policy" (BS13).

The following table quantifies the Banking Group's inflows and outflows. The key assumptions in preparing this table are:

- Borrowing and lending amounts are based on undiscounted principal cash flows. The majority of loans are expected to be repaid earlier than their contractual term.
- Retail deposits are primarily term deposits. The expected maturities of both call and term deposits are derived using appropriate reinvestment rates.
- Most Short Term Deposits, Investment Securities and Other Financial Assets are considered to be realisable within 1 month.
- Other inflows and outflows include cash flows from other assets and liabilities, interest and non-interest income, as well as interest costs and other expenses.

Additionally our cash flow management incorporates off Balance Sheet cash flows such as the unutilised wholesale facility and undrawn loan commitments.

| 31 December 2011 | | Consolidated | |
|---|---|---|---|
| | Within 1 month $000 | 1-6 months $000 | 7-12 months $000 |
| Assets | | | |
| Cash on hand and at registered banks | 17,945 | - | - |
| Short Term Deposits, Investment Securities and Other Financial Assets | 204,868 | 3,335 | - |
| Loans and Advances | 12,149 | 60,744 | 72,892 |
| Undrawn Wholesale Funding | 76,275 | - | - |
| Other Inflows | 10,169 | 48,246 | 53,120 |
| Cash Inflows | 321,406 | 112,325 | 126,012 |
| Cumulative Inflows | 321,406 | 433,731 | 559,743 |
| Liabilities | | | |
| Deposits | 32,799 | 172,542 | 123,986 |
| Wholesale Funding | - | 10,886 | 9,137 |
| Capital Notes | - | - | 3,493 |
| Other outflows | 10,403 | 49,218 | 54,378 |
| Undrawn Commitments | 10,285 | - | - |
| Cash Outflows | 53,487 | 232,646 | 190,994 |
| Cumulative Outflows | 53,487 | 286,133 | 477,127 |
| Net Cumulative Inflow | 267,919 | 147,598 | 82,616 |

**(c) Concentration of Credit Exposures**

| | Consolidated |
|---|---|
| | Unaudited |
| | 9 months |
| | 31/12/2011 |
| | $000 |
| Cash on hand | 1,211 |
| Government, Local Authority and State Owned Enterprises | 79,235 |
| Registered Banks – subordinated debt | 3,256 |
| Registered Banks - other | 109,733 |
| Other Corporate Investments | 47,580 |
| Residential Mortgage Lending – 1st mortgage | 1,070,554 |
| Residential Mortgage Lending – other security | 21,347 |
| Secured Consumer Loans | 57,970 |
| Unsecured Loans | 50,459 |
| Trade and Other Receivables | 2,235 |
| Undrawn Commitments | 36,131 |
| | 1,479,711 |

The credit exposures shown are based on actual credit exposures and are calculated net of allowances for impairment loss. The unutilised balances of Member credit facilities (overdrafts, creditline accounts and revolving credit mortgages) have been disclosed as Undrawn Commitments.

Other Corporate Investments include investments in instruments issued by Financial Institutions.

The majority of the Banking Group's mortgage portfolio is owner occupied residential properties.

As at the reporting date, of the drawn balances on credit facilities with undrawn commitments, there are none that are classified as individually impaired, or balances under administration.

| Peak end of day credit exposures: | | Unaudited During the 9 months ended 31 December 2011 |
|---|---|---|
| Percentage of Members' | Number of Counterparties | |
| reserves and funds | Bank | Other |
| 10% to 14% | - | 3 |
| 15% to 19% | - | - |
| 20% to 24% | - | - |
| 25% to 29% | - | 1 |

Peak end of day credit exposure is calculated by determining the maximum end-of-day aggregate amount of credit exposure over the financial period for individual counterparties, and then dividing that amount by the Banking Group's Reserves as at the reporting date.

**As at Reporting Date:**

| | Unaudited As at 31 December Number of Counterparties | |
|---|---|---|
| Percentage of Members' reserves and funds | Bank | Other |
| 10% to 14% | - | 2 |
| 15% to 19% | - | - |
| 20% to 24% | - | - |
| 25% to 29% | - | 1 |

The above tables have been compiled using gross exposures and do not include any guarantee arrangements.

Individual counterparties in the "Bank" category exclude credit exposures to any bank with a Standard & Poor's investment grade rating of A- or short term investment grade rating of A3 or above, or its equivalent.

Individual counterparties in the "Other" category include non-banks that have a long term Standard & Poor's investment grade rating of A- or short term investment grade rating of A3 or above, or its equivalent.

## 16.Segment Reporting

All revenues are derived from Members and financial institutions within New Zealand. All assets, other than certain financial instruments, are held in New Zealand.

The Banking Group does not generate in excess of 10% of its total revenue from any single Member.

Revenues from Members for each product and service are not reported, as such information is not readily available and the cost to develop it would be excessive.

For the Registered Bank, the Chief Executive is the chief operating decision maker.

**The segment information for the nine months ended 31 December 2011 is as follows:**

| | Banking $000 | Insurance $000 | Total $000 |
|---|---|---|---|
| Interest Income | 72,861 | 388 | 73,249 |
| Interest Expense | 43,162 | - | 43,162 |
| Reportable Segment Revenue | 83,512 | 4,156 | 87,668 |
| Depreciation and Amortisation | 2,838 | - | 2,838 |
| Fair Value Movement on Investments | 210 | 388 | 598 |
| Reportable Segment Net Profit/(Loss) Before Taxation | 3,137 | 1,408 | 4,545 |
| Total Assets | 1,446,523 | 12,541 | 1,459,064 |
| Total Liabilities | 1,326,094 | 5,605 | 1,331,699 |

17. Capital Adequacy

The Reserve Bank has set minimum regulatory capital requirements for banks that are consistent with the international agreed framework developed by the Basel Committee on Banking Supervision. The Banking Group must comply with the Reserve Bank minimum capital adequacy ratio as determined in its Conditions of Registration which are as follows:

- Total qualifying capital must not be less than 8% of risk weighted exposures;
- Tier one capital must not be less than 4% of risk weighted exposures;
- Capital must not be less than NZ $30 million.

The Banking Group has adopted the Basel II "standardised approach" as per BS2A to calculate regulatory capital requirements. Basel II consists of 3 pillars; Pillar One covers the capital requirements for the Banking Group's credit, operational, and market risks; Pillar Two covers capital for other risks and overall capital adequacy; Pillar Three relates to market disclosure.

Pillar Two of Basel II is intended to ensure that the Banking Group has adequate capital to support all material risks inherent in its business activities and includes the requirement on the Banking Group to have an ICAAP for assessing its overall capital adequacy in relation to their risk profile and a strategy for maintaining adequate capital to support risk. The Banking Group has identified other areas of risks which require an internal capital allocation against them. These risks include but not limited to:

| Risk | Description |
|---|---|
| Earnings risk | The risk around future reported earnings arising from adverse changes in the business environment and from adverse business decisions. |
| Liquidity risk | The risk that the Banking Group cannot meet or generate sufficient cash resources to meet its obligations as they fall due. This could arise from:<br>1) insufficient funding for normal operating conditions; or<br>2) a liquidity crisis resulting from a specific Banking Group event or systemic failure of New Zealand financial system. |
| Access to Capital | The risk that the Banking Group is unable to raise additional capital as required in a timely manner. |
| Reputational / Strategic risk | The risk that the Banking Group is placed under stress through damage to its reputation, or through its strategy. |

The Banking Group has made an internal capital allocation of $49.7 million (31 March 2011: $48.7 million) to cover these risks. This internal capital allocation is in addition to the minimum capital required by the Reserve Bank.

| | Banking Group |
|---|---|
| | Unaudited<br>31/12/2011<br>$000 |
| (a) Capital | |
| Tier one capital (before deduction) | 125,705 |
| Total tier one capital (net of all deductions and adjustments) | 121,074 |
| Total tier two capital | 5,393 |
| Total of tier one capital and tier two capital | 126,467 |
| Deductions from total capital and other adjustments | (1,715) |
| Capital | 124,752 |

17. Capital Adequacy

| (b) Pillar One capital requirements | Banking Group | | |
|---|---|---|---|
| | Total exposure after credit risk mitigation | Risk weighted exposure | Minimum pillar one capital requirement |
| | 31/12/2011 | 31/12/2011 | 31/12/2011 |
| On balance sheet credit risk: | $000 | $000 | $000 |
| Cash | 1,211 | - | - |
| Sovereigns and central banks | 1,420 | - | - |
| Public Sector Entities | 77,815 | 19,175 | 1,534 |
| Banks | 112,989 | 26,732 | 2,139 |
| Corporate | 47,580 | 23,330 | 1,866 |
| Residential mortgages (< 80% loan to value ratio) | 1,015,132 | 355,296 | 28,424 |
| Residential mortgages (80 - 90% loan to value ratio) | 54,988 | 27,494 | 2,199 |
| Residential mortgages (90 - 100% loan to value ratio) | 17,117 | 12,838 | 1,027 |
| Residential mortgages (> 100% loan to value ratio) | 1,579 | 1,579 | 126 |
| Past due residential mortgages | 3,085 | 3,085 | 247 |
| Other assets | 121,187 | 121,187 | 9,695 |
| Non-risk weighted assets | 4,961 | - | - |
| Total on balance sheet credit risk | 1,459,064 | 590,716 | 47,257 |
| Other capital requirements | | | |
| Off-balance sheet credit exposures | 463,729 | 14,150 | 1,132 |
| Operating risk | n/a | 90,356 | 7,229 |
| Market risk | n/a | 15,730 | 1,258 |
| Total other capital requirements | 463,729 | 120,236 | 9,619 |
| Total Pillar One capital requirements | 1,922,793 | 710,952 | 56,876 |

| (c) Banking Group's Capital Ratios | | |
|---|---|---|
| | 31/12/2011 | 31/03/2011 |
| Tier one capital ratio | 17.0% | 16.9% |
| Total capital ratio | 17.5% | 17.3% |

18. Subsequent Events

There were no events subsequent to the reporting date which would materially affect the financial statements