



The Co-operative Bank Limited

# Disclosure Statement for the 3 months ended 30 June 2011

# The Co-operative Bank Limited Disclosure Statement

for the three months ended 30 June 2011

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## The Co-operative Bank Limited Disclosure Statement for the three months ended 30 June 2011

This Disclosure Statement has been issued by The Co-operative Bank Limited (“the Registered Bank”) for the three months ended 30 June 2011 in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No 3) 2011 (the ‘Order’).

The condensed Financial Statements of PSIS Limited (as the Registered bank was formerly named) for the period ended 30 June 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](http://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.

At 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.

# The Co-operative Bank Limited Disclosure Statement

## for the three months ended 30 June 2011

In this Disclosure Statement,

- (a) "The Co-operative Bank", the "Bank", the "Registered Bank", or the "Parent" means The Co-operative Bank Limited;
- (b) "Banking Group" and "Group" means The Co-operative Bank financial reporting group, which consists of:
  - a. The Co-operative Bank Limited;
  - b. Co-operative Life Limited;
  - c. PSIS Warehouse Trust;
  - d. PSIS RMBS Trust 2010-1; and
  - e. Co-operative PIE Term Fund; and
- (c) words and phrases defined in the Order have the same meanings when used in this Disclosure Statement.

### 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 entity is The Co-Operative Bank Limited and its subsidiaries (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. The net tangible assets of Co-operative Life Limited are \$11.3 million as at 30 June 2011.

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 from the Registered Bank's full year Disclosure Statement as at 31 March 2011. There have been no changes in the terms of the guarantee since the last full year Disclosure Statement.

### Directors

There have been no changes in the composition of the Board of Directors since 31 March 2011, the balance date for the Registered Bank's most recent full year Disclosure Statement, and up to the date of this statement.

### Conditions of Registration

As the Bank was registered on 26 October 2011, there have been no changes to the Registered Bank's conditions of registration.

### 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.

# The Co-operative Bank Limited Disclosure Statement

## for the three months ended 30 June 2011

### Credit Rating

As at 30 June 2011 and up until the date of the signing this Disclosure Statement, PSIS Limited was rated BBB<sup>1</sup> by Standard & Poor's Rating Services ("S&P's"). The rating is not subject to any qualification. 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.

### 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 30 June 2011 are \$11.3 million (30 June 2010: \$14.4 million; 31 March 2011: \$14.7 million) which is 0.7% of the total assets of the Banking Group (30 June 2010: 1.0%; 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 Disclosure Statement for the year ended 31 March 2011.

### Risk Management Policies

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

### Other Material Matters

There have been several significant earthquakes in the Canterbury region since September 2010. The impacts of the Canterbury earthquakes are closely and regularly monitored by the Registered Bank's management team. The estimated incurred losses resulting from these events have been provided for in the full year financial statements as at 31 March 2011.

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.

S&P's rating outlook assesses the potential direction of a long-term credit rating over the intermediate term (typically six months to two years). S&P's provides that an outlook of "stable" indicates that the Registered Bank's credit rating is not likely to change.

# The Co-operative Bank Limited Disclosure Statement

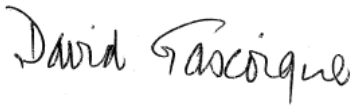
for the three months ended 30 June 2011

## 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 3) 2011 (the 'Order'); and
  - (b) the Disclosure Statement is not false or misleading.
2. Each Director of the Registered Bank believes, after due enquiry, that, 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 26 October 2011 and has been signed by or on behalf of all the Directors:



Sir David Gascoigne (Chairman)



Peter Ellis



Paul Goulter



John Isles



Dianne Kidd



Joanna Perry



Sam Robinson

## Statement of Comprehensive Income

for the three months ended 30 June 2011

	Note	Consolidated		
		Unaudited 3 months 30/06/2011 \$000	Unaudited 3 months 30/06/2010 \$000	Audited 12 months 31/03/2011 \$000
Interest Income	2	24,523	25,989	103,745
Interest Expense	3	(14,720)	(14,888)	(60,722)
Net Interest Income		9,803	11,101	43,023
Insurance and Loan Care Underwriting Income		1,733	1,754	6,820
Fees and Other Operating Income		2,994	2,895	11,582
Net Operating Income		14,530	15,750	61,425
Insurance and Loan Care Underwriting Expense		(753)	(878)	(3,731)
Impairment Losses	8	(433)	(585)	(3,550)
Employee Entitlements		(5,037)	(4,858)	(19,475)
Occupancy		(1,357)	(1,492)	(5,634)
Information Technology		(1,000)	(843)	(3,503)
Marketing		(384)	(482)	(2,736)
Administration		(833)	(452)	(1,799)
Other Operating Expenses	4	(3,581)	(2,788)	(12,348)
Operating Expenses		(13,378)	(12,378)	(52,776)
Profit Before Fair Value Adjustments		1,152	3,372	8,649
Fair Value Gain/(Loss)	5	584	(191)	696
Profit before Taxation		1,736	3,181	9,345
Taxation		(434)	(763)	(2,243)
Profit after Taxation Attributable to Members		1,302	2,418	7,102
<b>Other Comprehensive Income</b>				
Fair Value Movement on Available for Sale Financial Instruments		(42)	(43)	41
Income Tax relating to Fair Value Movement on Available for Sale Financial Instruments		12	13	(11)
Other Comprehensive Income		(30)	(30)	30
Total Comprehensive Income		1,272	2,388	7,132

## Statement of Changes in Members' Reserves

for the three months ended 30 June 2011

	Note	Consolidated		
		Unaudited 3 months 30/06/2011 \$000	Unaudited 3 months 30/06/2010 \$000	Audited 12 months 31/03/2011 \$000
Opening Balance of Members' Reserves		124,004	116,872	116,872
Profit after Taxation Attributable to Members		1,302	2,418	7,102
Other Comprehensive Income		(30)	(30)	30
Closing Balance of Members' Reserves		125,276	119,260	124,004

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

# Balance Sheet

for the three months ended 30 June 2011

	Note	Consolidated		
		Unaudited 3 months 30/06/2011 \$000	Unaudited 3 months 30/06/2010 \$000	Audited 12 months 31/03/2011 \$000
<b>Assets</b>				
Cash and Cash Equivalents		5,022	2,969	5,597
Short Term Deposits	6	111,583	86,228	83,781
Investment Securities	7	34,136	31,041	33,657
Other Financial Assets		115,076	137,118	149,748
Tax Receivable		1,899	-	713
Trade and Other Receivables		947	833	1,459
Loans and Advances	8	1,176,315	1,136,189	1,163,898
Property, Plant and Equipment		6,923	8,457	7,240
Intangible Assets		3,940	2,616	3,576
Derivatives		335	2,295	490
Deferred Tax Asset		1,718	1,952	1,774
<b>Total Assets</b>		<b>1,457,894</b>	<b>1,409,698</b>	<b>1,451,933</b>
<b>Liabilities</b>				
Deposits		1,173,317	1,123,809	1,162,803
Secured Borrowings	9	133,769	140,048	138,842
PIE Term Fund Borrowings		5,195	4,664	4,577
Tax Payable		-	162	-
Derivatives		1,656	2,099	1,893
Trade and Other Payables		4,291	4,627	5,470
Employee Entitlements		2,006	1,634	1,693
Life Insurance Net Policy Liabilities		5,571	6,590	5,976
Capital Notes		6,813	6,805	6,675
<b>Total Liabilities</b>		<b>1,332,618</b>	<b>1,290,438</b>	<b>1,327,929</b>
<b>Net Assets</b>		<b>125,276</b>	<b>119,260</b>	<b>124,004</b>
<b>Members' Reserves</b>				
Available for Sale Reserve		18	(12)	48
Retained Earnings		125,258	119,272	123,956
<b>Total Members' Reserves</b>		<b>125,276</b>	<b>119,260</b>	<b>124,004</b>

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



# Statement of Cash Flows

for the three months ended 30 June 2011

	Note	Consolidated		
		Unaudited 3 months 30/06/2011 \$000	Unaudited 3 months 30/06/2010 \$000	Audited 12 months 31/03/2011 \$000
<b>Cash Flows from Operating Activities</b>				
Interest Income		25,418	25,560	100,973
Other Income		4,285	4,209	17,324
Payments to Suppliers and Employees		(12,645)	(12,560)	(49,153)
Interest Expense		(15,029)	(14,745)	(56,338)
Taxation Payments		(1,550)	(45)	(2,248)
Net Cash Flow from Operating Activities before Changes in Operating Assets and Liabilities		479	2,419	10,558
Loans and Advances*		(13,385)	(14,251)	(42,579)
Short Term Deposits*		(27,539)	14,026	16,542
Other Financial Assets*		34,370	(17,992)	(30,402)
Members' Deposits*		10,954	6,071	42,798
PIE Term Fund Borrowings*		663	1,522	1,343
Secured Borrowings Raised		-	10,000	88,500
Repayment of Secured Borrowings		(5,112)	-	(79,167)
Cost of Raising Secured Borrowings		-	-	(689)
Changes in Operating Assets and Liabilities		(49)	(624)	(3,654)
Net Cash Flow from Operating Activities	11	430	1,795	6,904
<b>Cash Flows from Investing Activities</b>				
Purchase of Property, Plant and Equipment		(436)	(515)	(1,583)
Purchase of Intangible Assets		(569)	(450)	(1,863)
Net Cash Flow from Investing Activities		(1,005)	(965)	(3,446)
Net Movement in Cash and Cash Equivalents		(575)	830	3,458
Opening Balance of Cash and Cash Equivalents		5,597	2,139	2,139
Closing Balance of Cash and Cash Equivalents		5,022	2,969	5,597

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

# Notes to the Financial Statements

## for the three months ended 30 June 2011

### 1. Statement of Accounting Policies

#### (a) Basis of Preparation

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

All 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 26 October 2011.

#### (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.

#### (c) Consolidation

The Banking Group financial statements consolidate PSIS Limited and the following entities:

- PSIS Life Limited (wholly owned subsidiary) – life insurance and related products;
- PSIS Warehouse Trust (in substance subsidiary) – special purpose vehicle holding securitised loans purchased from PSIS Limited; and
- PSIS RMBS Trust 2010-1 (in substance subsidiary) – special purpose vehicle holding securitised loans purchased from PSIS Limited

2. Interest Income	Consolidated		
	Unaudited 3 Months 30/06/2011 \$000	Unaudited 3 Months 30/06/2010 \$000	Audited 12 Months 31/03/2011 \$000
Short Term Deposits	911	660	2,701
Investment Securities	19	20	78
Other Financial Assets	1,536	1,452	7,067
Loans and Advances	21,811	22,900	91,873
Interest Rate Derivative Income	213	940	1,862
Other Interest Income	33	17	164
<b>Total Interest Income</b>	<b>24,523</b>	<b>25,989</b>	<b>103,745</b>

3. Interest Expense			
Secured Borrowings	1,709	1,630	7,192
Deposits	12,275	11,376	48,742
PIE Term Fund Borrowings	74	66	321
Capital Notes	138	139	560
Interest Rate Derivative Expense	524	1,677	3,907
<b>Total Interest Expense</b>	<b>14,720</b>	<b>14,888</b>	<b>60,722</b>

# Notes to the Financial Statements

## for the three months ended 30 June 2011

4. Other Operating Expenses	Consolidated		
	Unaudited	Unaudited	Audited
	3 Months	3 Months	12 Months
	30/06/2011	30/06/2010	31/03/2011
	\$000	\$000	\$000
- Remote Channels	1,490	1,430	5,532
- Bank Charges	284	276	1,200
- Communications	627	432	2,085
- Other Expenses	1,180	650	3,531
	3,581	2,788	12,348

5. Fair Value Gain/(Loss)			
Unrealised fair value gain/(loss) are recognised with respect to the following financial instruments measured at fair value through profit or loss:			
- Government Stock backing Insurance Products (i)	54	68	24
- FIP Investment (ii)	412	818	3,200
- PINS 2005 Investment (ii)	18	52	233
- PINS 2006 Investment (ii)	12	25	100
- Derivatives (iii)	88	(1,154)	(2,861)
	584	(191)	696

(i) Government Stock fair value has been determined directly by reference to published price quotations in an active market.

(ii) These investments have been valued at fair value using the net present value of receiving the capital face value (\$38.5m) 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 movement for the 30 June 2011 is \$20,000 (30 June 2010: \$7,000; 31 March 2011: \$675,000)

(iii) 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.

(iv) Since 30 June 2011, the credit default swap margins of European banks have widened significantly resulting in fair value losses being recognised by PSIS in subsequent months. However, the FIPS investment is capital protected and there is no evidence to suggest that PSIS will not receive face value for this investment upon maturity in June 2014.

6. Short Term Deposits			
Call Deposits	2,897	15,084	8,621
Short Term Deposits with Registered Banks	55,469	935	46,334
Rated Commercial Paper	53,217	70,209	28,826
Total	111,583	86,228	83,781

7. Investment Securities			
- Government Stock	1,295	1,281	1,258
- FIP Investment	29,656	26,862	29,244
- PINS 2005 Investment	2,313	2,113	2,294
- PINS 2006 Investment	872	785	861
	34,136	31,041	33,657

See note 5 for additional information regarding fair value gain/(loss) on Investment Securities.

# Notes to the Financial Statements

## for the three months ended 30 June 2011

8. Loans and Advances <sup>2</sup>	Consolidated		
	Unaudited	Unaudited	Audited
	3 Months	3 Months	12 Months
	30/06/2011	30/06/2010	31/03/2011
	\$000	\$000	\$000
Advances to Members	1,180,794	1,139,751	1,168,249
Provisions for Impairment	(4,479)	(3,562)	(4,351)
<b>Total Loans and Advances</b>	<b>1,176,315</b>	<b>1,136,189</b>	<b>1,163,898</b>
<b>Asset Quality and Provision for Impairment Losses</b>			
Gross Impaired Assets	5,350	3,964	5,206
Specific Provisions	(1,356)	(731)	(1,104)
Collective Provision	(3,123)	(2,831)	(3,247)
Aggregate amount of assets that are at least 90 days past due but not impaired	2,746	4,065	1,193
<b>Impairment Losses Charged to Profit before Taxation</b>			
Movement in Collective Provisions	(124)	(208)	208
Movement in Specific Provision	252	346	719
Bad Debts Written Off	383	536	2,954
Bad Debts Recovered	(78)	(89)	(331)
<b>Total Impairment Losses Charged to Profit before Taxation</b>	<b>433</b>	<b>585</b>	<b>3,550</b>

9. Secured Borrowings			
PSIS Warehouse Trust	53,604	140,048	54,384
PSIS RMBS Trust 2010-1	80,165	-	84,458
	<b>133,769</b>	<b>140,048</b>	<b>138,842</b>

Both securitisation trusts are established solely for the purpose of purchasing mortgages from PSIS and funding the same by wholesale funding from Westpac Banking Corporation and institutional investors. The securitised receivables of \$161.6m (30 June 2010: \$180.8m; 31 March 2011: \$170.0m) secure these borrowings by the security trust deeds in favour of security trustees who hold those securities for the benefit of the investors

PSIS' interests in the securitised receivables rank behind the security interests of the security trustees.

10. Interest Earning Assets and Interest Bearing Liabilities			
Total interest earning and discount bearing assets	1,437,445	1,390,576	1,431,084
Total interest earning and discount bearing liabilities	1,319,094	1,275,326	1,312,897

<sup>2</sup> Total Loans and Advances include securitised receivables of \$161.6m (30 June 2010: \$180.8m; 31 March 2011: \$170.0m). These Loans and Advances are subject to one or other of the securities referred to in note 9.

# Notes to the Financial Statements

## for the three months ended 30 June 2011

11. Reconciliation of Profit after Taxation with Net Cash Flow from Operating Activities	Consolidated		
	Unaudited	Unaudited	Audited
	3 Months	3 Months	12 Months
	30/06/2011	30/06/2010	31/03/2011
	\$000	\$000	\$000
Net Profit after Taxation	1,302	2,418	7,102
<b>Add/(Less) Non-Cash Items</b>			
Depreciation	753	795	3,084
Amortisation	205	150	603
Securities Capital Value	(2)	(3)	(6)
Movement in Collective/Specific Impairment	128	137	927
Fair Value Movement on Investments	(584)	191	(694)
Unrealised Derivative Settlement Movement	(36)	(108)	(133)
Deferred Tax Expense	70	72	227
Amortised Financing Costs	78	44	214
Loss on Disposal	-	34	31
	612	1,312	4,253
<b>Add/(Less) Movements in Assets/Liabilities:</b>			
Loans and Advances	(12,545)	(14,045)	(42,543)
Short Term Deposits	(27,802)	14,054	16,501
Investment Securities	18	18	-
Other Financial Assets	34,672	(18,672)	(31,302)
Tax Payable / Receivable	(1,186)	647	(228)
Trade and Other Receivables	512	324	(303)
Deposits	10,514	6,320	45,314
PIE Term Fund Borrowings	601	1,560	1,423
Secured Borrowings	(5,132)	9,676	8,353
Employee Entitlements	313	(182)	(123)
Loan Care Claims Provision	-	-	(95)
Life Insurance Net Policy Liabilities	(405)	(331)	(851)
Trade and Other Payables	(1,179)	(1,440)	(597)
Capital Notes	135	136	-
	(1,484)	(1,935)	(4,451)
Net Cash Flow from Operating Activities	430	1,795	6,904

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

## 12. Contingent Liabilities

The Banking Group has approved \$34.3m of loans and advances which had not been paid out at reporting date (30 June 2010: \$32.1m; 31 March 2011: \$33.6m).

# Notes to the Financial Statements

## for the three months ended 30 June 2011

13. Directors' Remuneration	Consolidated		
	Unaudited	Unaudited	Audited
	3 Months	3 Months	12 Months
	30/06/2011	30/06/2010	31/03/2011
	\$000	\$000	\$000
The name of each person holding office as a director of PSIS throughout the financial period ended 30 June 2011 and the total remuneration received by each director were as follows:			
Sir David Gascoigne	17	16	66
C W Hicks*	-	12	38
J K W Isles	10	9	39
J M G Perry	10	10	41
S A Robinson	10	9	36
D J Kidd	9	9	36
P J Ellis	9	9	36
P S Goulter	9	9	36
	74	83	328

\* As at 27 October 2010, the date of his death, Colin Hicks ceased to hold office as a Director.

### 14. 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 Group to manage liquidity. Instead cash flow mismatch analysis is used, as outlined on pages 16 and 17.

As at 30 June 2011	Consolidated						
	On Demand	Within 6 Months	6-12 Months	1-2 Years	2-5 Years	Over 5 Years	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>Assets</b>							
Cash and Cash Equivalents <sup>3</sup>	5,022	-	-	-	-	-	5,022
Short Term Deposits	2,897	109,891	-	-	-	-	112,788
Investment Securities	-	45	36	2,572	36,216	1,552	40,421
Other Financial Assets	-	32,538	18,188	41,530	23,902	7,363	123,521
Trade and Other Receivables	-	947	-	-	-	-	947
Loans and Advances	-	79,544	41,616	79,681	192,761	1,565,746	1,959,348
Derivatives	-	83	56	113	91	-	343
<b>Total Financial Assets</b>	<b>7,919</b>	<b>223,048</b>	<b>59,896</b>	<b>123,896</b>	<b>252,970</b>	<b>1,574,661</b>	<b>2,242,390</b>

# Notes to the Financial Statements

for the three months ended 30 June 2011

## 14. Financial Instruments (continued)

As at 30 June 2011	Consolidated						Total \$000
	On Demand \$000	Within 6 Months \$000	6-12 Months \$000	1-2 Years \$000	2-5 Years \$000	Over 5 Years \$000	
<b>Liabilities</b>							
Deposits	357,748	547,988	202,986	55,786	28,690	-	1,193,198
Secured Borrowings	-	2,837	2,599	57,169	10,093	166,022	238,720
PIE Term Fund Borrowings	-	3,320	2,002	213	-	-	5,535
Derivatives	-	633	490	397	150	-	1,670
Trade and Other Payables	-	4,291	-	-	-	-	4,291
Employee Entitlements	-	2,006	-	-	-	-	2,006
Life Insurance Net Policy Liabilities	5,571	-	-	-	-	-	5,571
Capital Notes	-	273	273	3,833	2,204	1,615	8,198
<b>Total Financial Liabilities</b>	<b>363,319</b>	<b>561,348</b>	<b>208,350</b>	<b>117,398</b>	<b>41,137</b>	<b>167,637</b>	<b>1,459,189</b>
Undrawn Commitments	21,225	13,143	-	-	-	-	34,368

As at 30 June 2010	Consolidated						Total \$000
	On Demand \$000	Within 6 Months \$000	6-12 Months \$000	1-2 Years \$000	2-5 Years \$000	Over 5 Years \$000	
<b>Assets</b>							
Cash and Cash Equivalents <sup>3</sup>	2,969	-	-	-	-	-	2,969
Short Term Deposits	15,084	72,204	-	-	-	-	87,288
Investment Securities	-	45	36	72	38,716	1,624	40,493
Other Financial Assets	-	23,299	63,579	27,078	24,448	10,727	149,131
Trade and Other Receivables	-	833	-	-	-	-	833
Loans and Advances	-	81,085	42,115	84,156	199,977	1,574,300	1,981,633
Derivatives	-	1,566	448	337	205	-	2,556
<b>Total Financial Assets</b>	<b>18,053</b>	<b>179,032</b>	<b>106,178</b>	<b>111,643</b>	<b>263,346</b>	<b>1,586,651</b>	<b>2,264,903</b>
<b>Liabilities</b>							
Deposits	359,939	527,546	224,246	23,911	10,153	-	1,145,795
Secured Borrowings	-	2,809	2,584	145,182	-	-	150,575
PIE Term Fund Borrowings	-	2,165	2,902	5	-	-	5,072
Derivatives	-	1,453	670	189	20	-	2,332
Trade and Other Payables	-	4,627	-	-	-	-	4,627
Employee Entitlements	-	1,633	-	-	-	-	1,633
Life Insurance Net Policy Liabilities	6,590	-	-	-	-	-	6,590
Capital Notes	-	275	275	549	5,905	1,750	8,754
<b>Total Financial Liabilities</b>	<b>366,529</b>	<b>540,508</b>	<b>230,677</b>	<b>169,836</b>	<b>16,078</b>	<b>1,750</b>	<b>1,325,378</b>
Undrawn Commitments	21,593	10,485	-	-	-	-	32,078

# Notes to the Financial Statements

## for the three months ended 30 June 2011

### 14. Financial Instruments (continued)

As at 31 March 2011	Consolidated						
<b>Assets</b>							
Cash and Cash Equivalents <sup>3</sup>	5,597	-	-	-	-	-	5,597
Short Term Deposits	8,621	72,640	3,507	-	-	-	84,768
Investment Securities	-	63	36	2,572	36,216	1,569	40,456
Other Financial Assets	-	82,931	13,125	31,364	26,169	5,322	158,911
Trade and Other Receivables	-	1,459	-	-	-	-	1,459
Loans and Advances	-	80,140	41,591	81,288	194,986	1,582,500	1,980,505
Derivatives	-	217	54	110	118	-	499
<b>Total Financial Assets</b>	<b>14,218</b>	<b>237,450</b>	<b>58,313</b>	<b>115,334</b>	<b>257,489</b>	<b>1,589,391</b>	<b>2,272,195</b>
<b>Liabilities</b>							
Deposits	356,319	546,415	227,579	42,082	10,578	-	1,182,973
Secured Borrowings	-	2,972	2,714	59,833	10,702	176,585	252,806
PIE Term Fund Borrowings	-	3,816	1,022	47	-	-	4,885
Derivatives	-	729	477	551	154	-	1,911
Trade and Other Payables	-	5,470	-	-	-	-	5,470
Employee Entitlements	-	1,693	-	-	-	-	1,693
Life Insurance Net Policy Liabilities	5,976	-	-	-	-	-	5,976
Capital Notes	-	273	273	3,901	2,239	1,648	8,334
<b>Total Financial Liabilities</b>	<b>362,295</b>	<b>561,368</b>	<b>232,065</b>	<b>106,414</b>	<b>23,673</b>	<b>178,233</b>	<b>1,464,048</b>
Undrawn Commitments	21,281	12,326	-	-	-	-	33,607

<sup>3</sup> At 30 June 2011, Cash and Cash Equivalents consists of cash on hand \$1,507,000 (30 June 2010: \$524,000; 31 March 2011: \$1,504,000) and cash held with registered banks \$3,515,000 (30 June 2010: \$2,445,000; 31 March 2011: \$4,093,000).

#### (b) Cash Flow Mismatch Analysis

The 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 cash flow mismatch analysis has been derived from the concepts outlined in the Reserve Bank of New Zealand document entitled "Liquidity Policy" (BS13). The Group has monitored the cash flow mismatch in this manner since November 2010 and therefore comparable disclosures are not available for 30 June 2010.

The following table quantifies the 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, subject to appropriate haircuts being applied.
- 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.
- Our cash flow management is adjusted for off Balance Sheet cash flows such as the unutilised wholesale facility and undrawn loan commitments.



# Notes to the Financial Statements

for the three months ended 30 June 2011

## 14. Financial Instruments (continued)

30 June 2011	Consolidated		
	Within 1 Month \$000	2 - 6 Months \$000	7 - 12 Months \$000
<b>Assets</b>			
Cash	1,507	-	-
Short Term Deposits, Investment Securities and Other Financial Assets	232,131	8,894	-
Loans and Advances	12,057	72,342	72,342
Undrawn Wholesale Funding	72,150	-	-
Other Inflows	10,262	49,070	53,039
Cash Inflows	328,107	130,306	125,381
Cumulative Inflows	328,107	458,413	583,794
<b>Liabilities</b>			
Deposits	30,374	161,326	124,277
Wholesale Funding	-	7,861	7,096
Capital Notes	-	-	-
Other outflows	10,850	52,553	57,319
Undrawn Commitments	3,183	-	-
Cash Outflows	44,407	221,740	188,692
Cumulative Outflows	44,407	266,147	454,839

31 March 2011	Consolidated		
	Within 1 Month \$000	2 - 6 Months \$000	7 - 12 Months \$000
<b>Assets</b>			
Cash	2,054	-	-
Short Term Deposits, Investment Securities and Other Financial Assets	245,614	7,647	-
Loans and Advances	12,004	60,018	72,022
Undrawn Wholesale Funding	71,700	-	-
Other Inflows	10,132	49,477	54,779
Cash Inflows	341,504	117,142	126,801
Cumulative Inflows	341,504	458,646	585,447
<b>Liabilities</b>			
Deposits	33,414	155,219	128,141
Wholesale Funding	-	8,275	7,469
Capital Notes	-	-	-
Other outflows	10,917	53,073	59,242
Undrawn Commitments	3,081	-	-
Cash Outflows	47,412	216,567	194,852
Cumulative Outflows	47,412	263,979	458,831

# Notes to the Financial Statements

## for the three months ended 30 June 2011

### 14. Financial Instruments (continued)

#### (c) Concentration of Credit Exposures

	Consolidated		
	Unaudited	Unaudited	Audited
	3 Months	3 Months	12 Months
	30/06/2011	30/06/2010	31/03/2011
	\$000	\$000	\$000
Cash and Cash Equivalents	5,022	2,969	5,597
Government, Local Authority and State Owned Enterprises	1,295	1,281	1,258
Registered Banks – Subordinated Debt	25,815	15,733	25,659
Registered Banks – Other	145,410	153,776	196,553
Other Corporate Investments	88,275	83,597	43,716
Residential Mortgage Lending – 1st Mortgage	1,058,748	1,006,313	1,030,488
Residential Mortgage Lending – Other Security	3,833	6,778	16,437
Secured Consumer Loans	62,475	68,907	64,715
Unsecured Loans	51,259	54,191	52,259
Undrawn Commitments	34,368	32,078	33,607
	1,476,500	1,425,623	1,470,289

The credit exposures shown are based on actual credit exposures and are calculated net of allowances for impairment loss. Other credit exposures represent the unutilised balances of Member credit facilities (overdrafts, creditline accounts and revolving credit mortgages) which have been disclosed as un-drawn commitments.

Peak end of day credit exposures:	During the year ended 30 June 2011		During the year ended 30 June 2010		During the year ended 31 March 2011	
	Number of Counterparties		Number of Counterparties		Number of Counterparties	
	Bank	Other	Bank	Other	Bank	Other
Percentage of Members' reserves and funds						
10% to 14%	-	-	1	-	1	-
15% to 19%	-	1	-	1	1	-
20% to 24%	4	-	1	-	-	-
25% to 29%	-	-	-	-	3	-
30% to 34%	-	-	-	1	1	-
35% to 39%	-	-	1	-	-	-
40% to 44%	-	-	1	-	-	-
45% to 49%	-	-	-	-	1	-
55% to 59%	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 Group's Reserves as at the reporting date.

# Notes to the Financial Statements

## for the three months ended 30 June 2011

### 14. Financial Instruments (continued)

As at Reporting Date: Percentage of Members' reserves and funds	As at 30 June 2011		As at 30 June 2010		As at 31 March 2011	
	Number of Counterparties		Number of Counterparties		Number of Counterparties	
	Bank	Other	Bank	Other	Bank	Other
10% to 14%	-	-	1	1	-	-
15% to 19%	-	1	-	-	2	-
20% to 24%	2	-	1	-	1	-
25% to 29%	1	-	-	1	2	-
30% to 34%	-	-	-	-	1	-
35% to 39%	1	-	2	-	-	-
40% to 44%	-	-	-	-	1	-

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

All of the individual counterparties included in the above tables have a long term Standard & Poor's investment grade rating equivalent to A- or short term investment grade rating of A1 or above, or its equivalent.

#### (d) Credit Exposures to Connected Persons

	Unaudited 3 Months 30/06/2011	Unaudited 3 Months 30/06/2010	Audited 12 Months 31/03/2011
As at the reporting date			
• Amount	-	521,741	-
• Percentage of tier one capital	-	0.5%	-
Peak end-of-day credit exposure			
• Amount	-	523,187	525,730
• Percentage of tier one capital	-	0.5%	0.4%

The information on credit exposure to connected persons has been derived in accordance with the Registered Bank's conditions of registration and Connected Exposures Policy (BS8). The connected persons of the Registered Bank are Directors. There are no non-bank connected persons.

There were no credit exposures to connected persons at each reporting date.

### 15. 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 Group does not generate in excess of 10% of 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 PSIS, the Chief Executive is the chief operating decision maker.

# Notes to the Financial Statements

## for the three months ended 30 June 2011

### 15. Segment Reporting (continued)

The segment information for the three months ended 30 June 2011 is as follows:

	<b>Banking</b>	<b>Insurance</b>	<b>Total</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Interest Income	24,334	189	24,523
Interest Expense	14,720	-	14,720
Total Segment Revenue	27,386	1,922	29,308
Intersegment Revenue	-	(58)	(58)
Reportable Segment Revenue	27,386	1,864	29,250
Depreciation and Amortisation	958	-	958
Fair Value Movement on Investments	531	53	584
Reportable Segment Net Profit/(Loss)			
Before Taxation	1,118	618	1,736
Total Assets	1,446,996	10,898	1,457,894
Total Liabilities	1,327,472	5,146	1,332,618

The segment information for the three months ended 30 June 2010 is as follows:

Interest Income	25,952	105	26,057
Interest Expense	14,888	-	14,888
Total Segment Revenue	30,150	556	30,706
Intersegment Revenue	-	(68)	(68)
Reportable Segment Revenue	30,150	488	30,638
Depreciation and Amortisation	945	-	945
Fair Value Movement on Investments	(191)	68	(191)
Reportable Segment Net Profit/(Loss)			
Before Taxation	2,599	582	3,181
Total Assets	1,395,479	14,219	1,409,698
Total Liabilities	1,284,519	5,919	1,290,438

The segment information for the year ended 31 March 2011 is as follows:

Interest Income	103,440	576	104,016
Interest Expense	60,722	-	60,722
Total Segment Revenue	115,022	7,396	122,418
Intersegment Revenue	-	(271)	(271)
Reportable Segment Revenue	115,022	7,125	122,147
Depreciation and Amortisation	3,687	-	3,687
Fair Value Movement on Investments	696	-	696
Reportable Segment Net Profit/(Loss)			
Before Taxation	7,891	1,454	9,345
Total Assets	1,437,207	14,726	1,451,933
Total Liabilities	1,322,241	5,688	1,327,929

# Notes to the Financial Statements

for the three months ended 30 June 2011

## 16. 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 have adequate capital to support all material risks inherent in their business activities and includes the requirement on the Banking Group to have an ICAAP for assessing their 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 due to uncertainty in 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: 1) insufficient funding for normal operating conditions; or 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 flawed strategy.

The Banking Group has made an internal capital allocation of \$48.2 million (30 June 2010: \$48.7 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.

### (a) Capital

	Banking Group		
	30/06/2011	30/06/2010	31/03/2011
	\$000	\$000	\$000
Tier one capital (before deduction)	123,956	116,854	123,956
Total tier one capital (net of all deductions and adjustments)	120,015	114,238	120,380
Total tier two capital	6,159	8,110	4,812
Total of tier one capital and tier two capital	126,174	122,348	125,192
Deductions from total capital and other adjustments	(1,466)	(2,477)	(1,996)
Capital	124,708	119,871	123,196

# Notes to the Financial Statements

## for the three months ended 30 June 2011

### 16. Capital Adequacy (continued)

#### (b) Credit Risk (on-balance-sheet exposures)

	Banking Group		
	Total exposure after credit risk mitigation	Risk weighted exposure	Minimum pillar one capital requirement
	30/06/2011	30/06/2011	30/06/2011
	\$000	\$000	\$000
Cash	1,507	-	-
Sovereigns and central banks	1,295	-	-
Banks	174,740	48,144	3,852
Corporate	88,275	21,129	1,690
Residential mortgages (< 80% loan to value ratio)	974,834	341,192	27,295
Residential mortgages (80 - 90% loan to value ratio)	61,288	30,644	2,451
Residential mortgages (>90% loan to value ratio)	21,667	16,250	1,300
Past due residential mortgages	4,721	4,721	378
Other assets	125,292	125,292	10,023
Non-risk weighted assets	4,275	-	-
<b>Total</b>	<b>1,457,894</b>	<b>587,372</b>	<b>46,989</b>

	30/06/2010	30/06/2010	30/06/2010
Cash	524	-	-
Sovereigns and central banks	1,281	-	-
Banks	171,954	46,672	3,734
Corporate	83,597	21,424	1,714
Residential mortgages (< 80% loan to value ratio)	912,044	319,215	25,537
Residential mortgages (80 - 90% loan to value ratio)	68,612	34,306	2,744
Residential mortgages (90% loan to value ratio)	29,652	22,238	1,779
Past due residential mortgages	2,782	2,782	223
Other assets	134,341	134,341	10,747
Non-risk weighted assets	4,911	-	-
<b>Total</b>	<b>1,409,698</b>	<b>580,978</b>	<b>46,478</b>

# Notes to the Financial Statements

## for the three months ended 30 June 2011

### 16. Capital Adequacy (continued)

	Banking Group		
	Total exposure after credit risk mitigation	Risk weighted exposure	Minimum pillar one capital requirement
	31/03/2011	31/03/2011	31/03/2011
	\$000	\$000	\$000
Cash	1,504	-	-
Sovereigns and central banks	1,258	-	-
Public sector entities	4,990	998	80
Banks	226,305	58,312	4,665
Corporate	38,726	10,906	872
Residential mortgages (< 80% loan to value ratio)	957,614	335,165	26,813
Residential mortgages (80 - 90% loan to value ratio)	63,021	31,510	2,521
Residential mortgages (>90% loan to value ratio)	23,291	17,468	1,397
Past due residential mortgages	2,998	2,998	240
Other assets	128,160	128,160	10,253
Non-risk weighted assets	4,066	-	-
<b>Total</b>	<b>1,451,933</b>	<b>585,517</b>	<b>46,841</b>

#### (c) Other capital requirements

	30/06/2011	30/06/2011	30/06/2011
Off-balance sheet credit exposures	458,239	13,412	1,073
Operating risk	n/a	73,369	5,870
Market risk	n/a	15,107	1,209
<b>Total other capital requirements</b>	<b>458,239</b>	<b>101,888</b>	<b>8,152</b>
Off-balance sheet credit exposures	474,420	13,684	1,095
Operating risk	n/a	70,341	5,627
Market risk	n/a	30,268	2,421
<b>Total other capital requirements</b>	<b>474,420</b>	<b>114,293</b>	<b>9,143</b>
	<b>31/03/2011</b>	<b>31/03/2011</b>	<b>31/03/2011</b>
Off-balance sheet credit exposures	398,033	13,371	1,070
Operating risk	n/a	72,772	5,822
Market risk	n/a	24,072	1,926
<b>Total other capital requirements</b>	<b>398,033</b>	<b>110,215</b>	<b>8,818</b>

#### (d) Banking Group's Capital Ratios

	30/06/11	30/06/10	31/03/11
Tier one capital ratio	17.4%	16.4%	17.3%
Total capital ratio	18.1%	17.2%	17.7%

### 17. Subsequent Events

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