2016 Disclosure Statement & Annual Report

For the year ended 31 March 2016

The Co-operative Bank
Change banking for good

Contents

Highlights

YEAR END CAPITAL RATIO

15.8%

★ **ONE OF THE HIGHEST IN MARKET**

PROFIT BEFORE REBATES & TAX

$15.8m

▲ **UP 18% TO**

These are stand-out results in the market and are driven by income being up **7.0%**, expenses contained to a **3.7%** uplift and continued low bad debt expenses.

NET PROFIT AFTER TAX

$10.3m

▲ **UP 16% TO**

REBATES

$2.1m

▲ **HAVE INCREASED TO**

In line with our aspiration to continue to share our increasing profits with our customers

CUSTOMERS

147k

▲ **HAVE INCREASED TO OVER**

Including over **15,000** new customers in the last 12 months

MORTGAGE LENDING

16.0%

UP ▲

DEPOSITS

13.5%

UP ▲

The balance sheet growth has been strong for both mortgage lending and deposits with these growth rates being well ahead of the retail market overall.

EXPENSE GROWTH

Well contained ▲ **UP 3.7%**

Reflecting productivity gains alongside continued investment in the business

NET INTEREST INCOME

▲ **UP 5.5%** $2.7m

BAD DEBTS

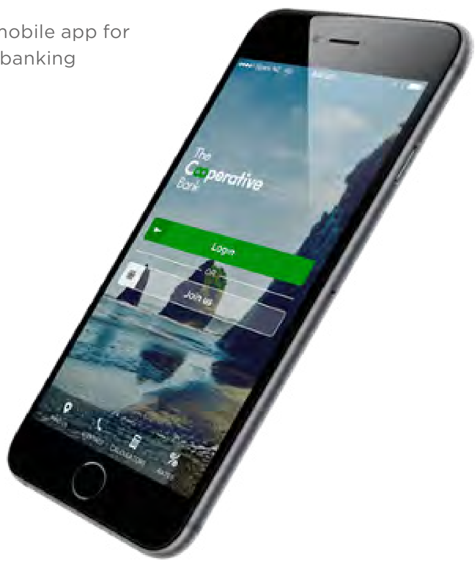
▲ **UP ONLY** $350k

Directors' Report

The Co-operative Bank is the only bank that is – and has always been – built on the beliefs of fairness, mutual benefit, individuality and a better future for all New Zealanders. As a co-operative, we have over 147,000 customers – people from all over New Zealand – and our motivation is to help them get ahead financially. We're the only bank in New Zealand that shares its profits with its customers.

During the past year, our growth story has continued. Our mobile app continues to be rated first equal by customers for New Zealand banking apps for Apple and Google play stores, and our new internet banking site, which was launched in September, has been awarded an Honoree Webby Award 2016 in the Financial Services/ Banking category. We are currently the only bank in New Zealand where customers can join either via mobile app or our website. The Bank also relocated its Gisborne, Palmerston North and Wellington branches this year. These combined activities have contributed to increasing our national presence and made it easier for customers to manage their banking with us 24/7.

+ Our mobile app for 24/7 banking



Net profit increased by 18%

Net profit before rebates and tax increased by 18% to $15.8m. After provisioning for an increased rebate, this resulted in a 16% uplift in after-tax profit to $10.3m. This is a stand-out result in the market and is driven by income being up by 7.0%, expenses contained to 3.7% and continued low bad debt expenses.

Rebates to shareholders have doubled since introduction

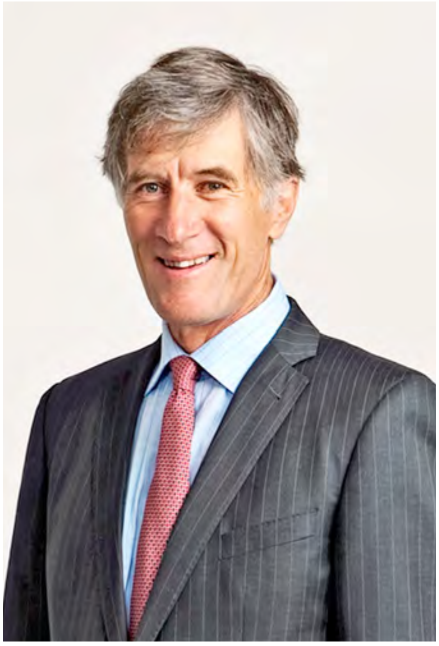
Directors have approved the payment of a rebate to shareholders. This year, total rebates have increased to $2.1m, which is an increase of nearly 17% on last year and is more than double the first rebate that was paid in 2013. This is in keeping with our co-operative values to continue to share our increasing profits with our customers.

Rebates allow us to share profits with shareholders in proportion to the level of their customer activities with the Bank. Each year the Directors are required to assess what is the appropriate level of profit to be shared after ensuring the Bank has adequately invested in its future, and allocated sufficient profit to Retained Earnings to maintain the financial strength of the Bank.

Home lending and deposit growth

In the last 12 months we have taken a consistently competitive approach to pricing which has provided home lending growth of 16% and deposit growth of 13.5%. The Bank has achieved lending and deposit growth well above the sector as a whole due to a number of key factors including: a lift in the awareness, familiarity and confidence in our brand, increased direct marketing activity targeting the inherent opportunity that resides within our own existing customer base, and the application of a consistent pricing approach that enables customers to have confidence that they are always getting a fair deal.

+ Lambton Quay Branch launch



+ Sam Robinson

Strong capital ratio

The capital ratio is 15.8% and remains one of the highest of any bank in the New Zealand market. As a co-operative, there are limited alternative sources of capital available and the Bank takes a long-term view of capital to ensure the soundness and sustainability of the business. The Bank's current growth rate will require additional capital to be raised in the near future, and it is expected this will be achieved by issuing Tier 2 Subordinated Notes.

Thank you to Sam Robinson

In July this year, Sam Robinson will be retiring as a Director. Sam has been a Director since December 2006, and the Board would like to acknowledge the valuable contribution he has made to the Bank during his tenure. Sam is also Chair of the Risk Committee and a member of the Appointments and Remuneration Committee. Sam's wide co-operative and commercial expertise has provided exceptional wisdom and strength to the Board. This has greatly assisted with our transition to become a registered bank and the momentum the Bank has developed since. We wish Sam all the best for his future and offer our sincere thanks for his commitment and leadership over the last 10 years.

Summary

Overall this is a positive result in a very competitive banking environment. The Board remains pleased with the continued increase in income driven by strong balance sheet growth and increased sales. The growth in our digital delivery to customers means we are more agile, more competitive and more resilient business with a greater capacity to create banking solutions for our customers.

As a Board we would like to acknowledge the leadership of our Chief Executive Bruce McLachlan and the commitment and effort of the Bank's employees in delivering a highly creditable performance across a range of activities, and we thank our customers and shareholders for their on-going and valued support.

Steven Fyfe, Chairman

The Board remains pleased with the continued increase in income driven by strong balance sheet growth and increased sales.

Steven Fyfe, Chairman

Chief Executive's Report

It has been another year of solid growth for The Co-operative Bank. The Bank has delivered strong financial results and customer growth while at the same time investing in building our digital capacity and launching the new Debit MasterCard. Our sales productivity has also improved through smarter customer analytics and targeting.

We have continued to be prudent and focused with our resources, and we have focused our attention on areas where we expect the best return and that continue to provide quality service to our customers.

The environment

The outlook for the global economy is cautious due to weaker growth in China and other emerging markets and slower growth in Europe. Closer to home, while the dairy sector faces difficult challenges, domestic growth is expected to be supported by strong inward migration, tourism and a pipeline of construction activity.

The past 12 months have seen continued falls in interest rates and margins, which has been benefiting borrowers but created challenges for savers, especially for those people who rely on interest income as their primary source of income. These changes have also placed pressure on all banks to manage their net interest income. It is unclear whether we will see further changes for the foreseeable future. Therefore, all businesses and individuals will need to be flexible and resilient in this environment as best as they can – including the Bank.

Our customers

Each year we survey our customers to ask how satisfied they are with the Bank. We'd like to thank those people who took the time to participate in the survey as this feedback is important to us to ensure we know our customers and understand what's important to them. We have received a very positive report card. Overall satisfaction is extremely high at 89%, and nearly 60% of our customers said that they are very likely to recommend The Co-operative Bank to others as a result of the personal service provided by our staff and also the fact that we're a New Zealand bank. This is very heart-warming for us, as we know and appreciate the value of 'word of mouth' recommendations. This feedback also aligns well with our core beliefs of mutual benefit, individuality and fairness.

Furthermore, the Bank has been awarded the 2016 Canstar Blue Most Satisfied Customers Award for the third time. A five-star rating was achieved on overall satisfaction, customer service, digital banking and interest rates, and four stars achieved for fees/charges. This is a great result and is a wonderful reflection of the dedication and hard work of our staff, especially our branch network and contact centre.

+ 2016 Canstar Blue Most Satisfied Customers Award

+ Launch of Debit MasterCard

Our people

The success of any business is built on the sustained hard work and commitment of its people, and The Co-operative Bank's success reflects the efforts of our employees. It was therefore pleasing to see the uplift in employee engagement over the last 12 months to 81.8%, up significantly from 77.3% in 2015. With a response rate of 89%, the results are a sound representation of what employees think about working at the Bank. This reflects the effort that we have put in to building a constructive and inclusive culture.

Future outlook

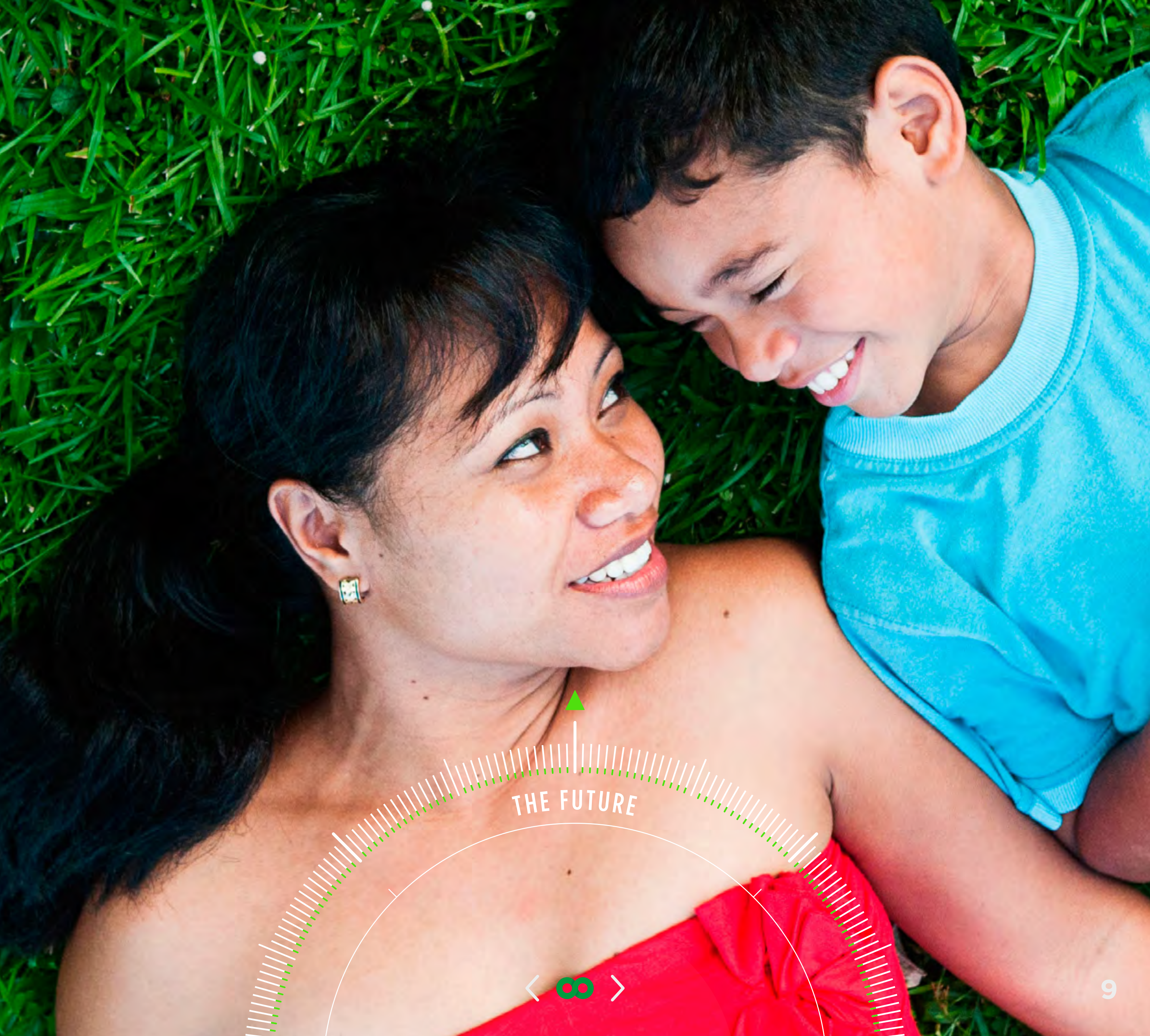
We have solid growth plans to continue the positive momentum that we have created since becoming a Bank. This coming year we will launch a much awaited credit card, and we will continue to grow the functionality and accessibility of our digital services, as well as maintaining the personalised service we provide through our branch network and customer contact centre.

The Co-operative Bank is a customer-owned, New Zealand bank that is here to change banking for good. Each year we go from strength to strength, and this is set to continue as we give New Zealanders even more compelling reasons to join us.

Bruce McLachlan, Chief Executive

Each year we go from strength to strength, and this is set to continue as we give New Zealanders even more compelling reasons to join us.

Bruce McLachlan, Chief Executive



Governance

The Co-operative Bank is incorporated under the Companies Act 1993 and registered under the Co-operative Companies Act 1996. The Bank is governed by our Board of Directors on behalf of our shareholders who are our customers.

The Board of Directors

The Board is responsible for corporate governance and operates under the framework set out in the Constitution, Statement of Principles and Board Charter.

The Board oversees the Bank and its operations and is responsible for organisational governance and risk management. It ensures the Bank and related companies operate in accordance with Conditions of Registration imposed by the Reserve Bank.

The Board delegates responsibility for the day-to-day management of the Bank to the Chief Executive and the Senior Leadership Team within a Delegated Authorities Framework. The Board is responsible for appointing the Chief Executive and evaluating the Chief Executive's performance, and it approves the appointment and remuneration of the Senior Leadership Team.

The Board has a responsibility to ensure that it has the collective and individual skills to undertake its responsibilities effectively, and it is committed to the Statement of Principles that describes the nature and role of the Bank and its areas of focus.

The Bank's Constitution

The Constitution covers such things as the rights of shareholders, the payment of rebates, the appointment of Directors and how meetings of Shareholders and Directors are managed.

Statement of Principles

The Board is responsible for maintaining a coherent Statement of Principles for the Bank to guide decision making. The current Statement of Principles are;

- The Co-operative Bank is a financial services co-operative.
- Its business is personal banking, related insurance and payment services.
- The Bank's co-operative history and values describe where it has come from and how it wants to differentiate itself going forward.
- The Bank's strategic focus is on achieving long-term profitable growth, based on co-operative principles.
- Profitable growth will be achieved by building comprehensive, mutually beneficial relationships with its customers.
- The Bank will maintain a long-term focus, manage its business prudently and have a strong awareness of the wider range of risks facing the business of banking.
- The Bank is prepared to take calculated risks and consider all sensible opportunities with an open mind in the pursuit of its strategic aspirations.

The Board's role

The Board operates under a Charter that focuses on the beliefs, principles and practices that underpin the function of the Board of Directors. The Charter provides a reference point for the Board and its Directors to carry out their roles.

The Board's focus

The Board's main areas of focus include:

- Approving the goals and strategy of the Bank.
- Approving the business plan and budget every year and monitoring performance.
- Setting the Bank's risk management framework, providing guidance on acceptable levels of risk and formulating risk management policy.
- Approving and ensuring the integrity of the Bank's financial reporting and disclosure statements.
- Appointing the Chief Executive Officer and setting their terms of employment.
- Ensuring that the Company has appropriate policies including Codes of Conduct and Ethical Standards, and adheres to these.
- Ensuring the health, safety and well-being of our people and the safety of our workplaces.
- Acting to safeguard the business and reputation of the Bank for the long-term benefit of its shareholders.

Governance

Board committees

The Board has three standing committees to assist the Board on three specific areas of focus – the Audit, Risk, and Appointments and Remuneration Committees. Other ad hoc committees are set up as required. Each committee has a charter approved by the Board and is chaired by an independent Director. All Directors may attend Board committee meetings.

Audit Committee

The Audit Committee assists the Board in its oversight of financial reporting, internal controls and internal audit. The external auditor is invited to attend all meetings, which are held at least four times a year.

The Audit Committee comprises Sarah Haydon (Chairman), Dianne Kidd, Marion Cowden and Steven Fyfe.

Risk Committee

The Risk Committee assists the Board with its responsibility to oversee the effectiveness and integrity of the risk management framework and risk reporting within the Bank's approved strategic direction and risk appetite.

The Risk Committee consists of Sam Robinson (Chairman), Paul Goulter, Marion Cowden and Brendan O'Donovan.

Appointments and Remuneration Committee

The Appointments and Remuneration Committee assists the Board in its responsibility to oversee the effectiveness and integrity of human resource policies and overseeing appointment, remuneration and performance processes.

The Committee comprises Paul Goulter (Chairman), Dianne Kidd and Sam Robinson.

Governance at The Co-operative Bank

At The Co-operative Bank, the Board's role is to govern the Company on behalf of its shareholders. Every year shareholders have the opportunity to nominate people for the role of Director. In addition, individuals 16 and over holding a Class A share can vote for members of our Board, giving them a say in how the Bank is governed.

Board appointments

Every year shareholders can nominate candidates to stand for election as Directors. At the same time the two longest-serving Directors (since their last election) retire by rotation and can choose to stand for re-election.

The independent Electoral Authority (whose responsibilities are set out in the Constitution) considers the nominations. An independent firm, Electionz, manages the election process.

How Directors are assessed

All Directors have been assessed by the Board in accordance with the Bank's Fit and Proper Policy, and their appointments have been confirmed by the Reserve Bank of New Zealand under its Fit and Proper Standard.

Director Independence

At least half of the Directors on the Board must be independent. All current Directors are independent.

Director Renumeration

The maximum aggregrate Director Renumeration is approved by shareholders at the Annual General meeting. Director renumeration is benchmarked against the market, including similar companies. The Chairman, Deputy Chairman and Committee Chairs receive additional renumeration to reflect their additional responsibilities.

The Board's performance

The Board's performance is reviewed annually. The review includes a Director self-assessment, a peer review and a Chairman's review. Biennially an independent review is also undertaken. The Board then discusses its performance and agrees on action plans for any development areas identified.

Electoral Authority

The Electoral Authority considers Director nominations and assesses them against the competencies and attributes being sought by the Board. The Electoral Authority meets at least annually. Members of the Authority are Ross Wilson (Chairman), Dr Nicki Crauford and Simon Murdoch.

Co-operative Life Limited

Co-operative Life Limited is a wholly owned subsidary of The Co-operative Bank Limited and provides insurance products to customers of the Co-operative Bank.

The Board of Co-operative Life Limited consists of Brendan O'Donovan (Chairman), Sarah Haydon, Bruce McLachlan and Gareth Fleming.

Independent Auditor's Report

TO THE SHAREHOLDERS OF THE CO-OPERATIVE BANK LIMITED

Report on the Banking Group Disclosure Statement

We have audited the accompanying financial statements and supplementary information (excluding supplementary information relating to Capital Adequacy) of The Co-operative Bank ("the bank") and its related entities ("the Banking Group") on pages 15 to 57 of the Disclosure Statement. The financial statements comprise the Balance Sheet as at 31 March 2016, the Income Statement, the Statements of Comprehensive Income, Changes in Equity and Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory information of the Banking Group. The supplementary information comprises the information that is required to be disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order").

This report is made solely to the Shareholders as a body. Our audit work has been undertaken so that we might state to the Shareholders of the bank those matters we are required to state to them in the auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Shareholders of the bank as a body, for our audit work, this report or any of the opinions we have formed.

Directors' responsibility for the Disclosure Statement

The Directors are responsible for the preparation of the Banking Group's Disclosure Statement, including financial statements prepared in accordance with Clause 24 of the Order and generally accepted accounting practice in New Zealand, and that is a fair presentation of the matters to which they relate. The Directors are also responsible for such internal controls as they determine are necessary to enable the preparation of the Banking Group financial statements that are free from material misstatement whether due to fraud or error.

The Directors are responsible for the preparation and fair presentation of supplementary information (excluding supplementary information relating to Capital Adequacy), in accordance with Schedules 2, 4, 7, 13, 14, 15 and 17 of the Order.

Auditor's responsibility

Our responsibility is to express an opinion on the Disclosure Statement, including the financial statements prepared in accordance with Clause 24 of the Order and the supplementary information disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Banking Group financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Banking Group's financial statements (excluding the supplementary information relating to Capital Adequacy). The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Banking Group's preparation of the financial statements that present fairly the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Banking Group's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on financial statements

In our opinion the financial statements of The Co-operative Bank Limited and its related entities ("Banking Group") on pages 15 to 57 (excluding the supplementary information):

- complies with generally accepted accounting practice in New Zealand;
- complies with International Financial Reporting Standards; and
- give a true and fair view of the financial position as at 31 March 2016 and of the financial performance and cash flows for the year ended on that date.

Opinion on supplementary information (excluding supplementary information relating to Capital Adequacy)

In our opinion, the supplementary information (excluding supplementary information relating to Capital Adequacy) that is required to be disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order, and is included within notes 12, 20, 28, 29, 30, 32, 33 and 35 of the Disclosure Statement:

Independent Auditor's Report

- has been prepared, in all material respects, in accordance with the guidelines issued pursuant to section 78(3) of the Reserve Bank of New Zealand Act 1989 and any conditions of registration;
- is in accordance with the books and records of the Banking Group in all material respects; and
- fairly states the matters to which it relates in accordance with those Schedules.

Review report on the supplementary information relating to Capital Adequacy

We have reviewed the capital adequacy information, as disclosed in note 38 of the Disclosure Statement for the year ended 31 March 2016.

Directors' responsibility for the supplementary information relating to Capital Adequacy

The Directors are responsible for the preparation of supplementary information relating to capital adequacy that is required to be disclosed under Schedule 9 of the Order and prepared in accordance with the Capital Adequacy Framework (Standardised Approach) (BS2A) and described in note 38 of the Disclosure Statement.

Auditor's responsibility

Our responsibility is to express an opinion on the capital adequacy information based on our review. We conducted our review in accordance with NZ SRE 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity issued by the New Zealand External Reporting Board. As the auditor of the Banking Group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements and plan and perform the review to obtain limited assurance about whether the capital adequacy information is, in all material respects:

- prepared in accordance with the bank's conditions of registration; and
- disclosed in accordance with Schedule 9 of the Order.

A review of the capital adequacy information in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on the supplementary information relating to capital adequacy disclosures.

Review opinion on the supplementary information relating to Capital Adequacy

Based on our review, nothing has come to our attention that causes us to believe that the supplementary information relating to Capital Adequacy, disclosed in note 38 of the Disclosure Statement, is not, in all material respects:

- prepared in accordance with the bank's conditions of registration; and
- disclosed in accordance with Schedule 9 of the Order.

Report on other legal and regulatory requirements

In accordance with the requirements of clauses 2(1)(d) and 2(1)(e) of Schedule 1 of the Order, we report that:

- we have obtained all the information and explanations we have required; and
- in our opinion, proper accounting records have been kept by the Banking Group, as far as appears from our examination of those records.

Independence

Our firm has provided other services to the Banking Group in the form of assurance services. Subject to certain restrictions partners and employees of our firm may also deal with the Banking Group on normal terms within the ordinary course of trading activities of the business of the Banking Group. There are, however, certain restrictions on dealings which the partners and employees of our firm can have with the Banking Group. These matters have not impaired our independence as auditors of the Banking Group. The firm has no other relationship with, or interest in, the Banking Group.

KPMG

26 May 2016
KPMG
Wellington

The Co-operative Bank Disclosure Statement For the year ended 31 March 2016

This Disclosure Statement has been issued by The Co-operative Bank Limited (the "Registered Bank" or "Co-op Bank") for the year ended 31 March 2016 in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order"). In this Disclosure Statement, words and phrases defined in the Order have the same meanings when used in this Disclosure Statement.

The consolidated financial statements of Co-op Bank for the year ended 31 March 2016 form part of and should be read in conjunction with this Disclosure Statement.

This Disclosure Statement is available on Co-op Bank's website www.co-operativebank.co.nz. In addition, any person can request a hard copy of Co-op 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.

GENERAL INFORMATION

The name of the Registered Bank is The Co-operative Bank Limited and the address for service is Level 12, 20-26 Ballance Street, Wellington.

Co-op 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 reporting group is Co-op Bank and its subsidiaries (referred to as the "Banking Group"). All controlled entities are incorporated in New Zealand.

HISTORICAL SUMMARY OF CONSOLIDATED FINANCIAL STATEMENTS

Income Statement	31 March 2016 $000	31 March 2015 $000	31 March 2014 $000	31 March 2013 $000	31 March 2012 $000
Total Interest Income	118,803	110,639	95,071	92,509	95,852
Total Interest Expense	(67,317)	(61,833)	(52,127)	(52,819)	(56,505)
Net Interest Income	**51,486**	**48,806**	**42,944**	**39,690**	**39,347**
Total Other Income	18,899	17,261	18,282	18,280	19,132
Gain/(Loss) on Financial Instruments at Fair Value	493	145	(131)	2,308	1,986
Net Operating Income	**70,878**	**66,212**	**61,095**	**60,278**	**60,465**
Total Operating Expenses	(53,723)	(51,801)	(49,382)	(49,938)	(52,261)
Total Impairment Losses	(1,354)	(1,004)	(1,469)	(2,335)	(1,623)
Net Profit before Rebate and Tax	**15,801**	**13,407**	**10,244**	**8,005**	**6,581**
Rebate to Shareholders	(2,100)	(1,800)	(1,300)	(1,000)	-
Net Profit before Tax	**13,701**	**11,607**	**8,944**	**7,005**	**6,581**
Income Tax Expense	(3,434)	(2,719)	(1,800)	(1,242)	(915)
Net Profit after Tax	**10,267**	**8,888**	**7,144**	**5,763**	**5,666**
Balance Sheet					
Total Assets	2,041,153	1,806,339	1,623,910	1,521,807	1,451,117
Total Individually Impaired Assets	1,665	1,333	2,521	4,917	4,915
Total Liabilities	1,884,185	1,656,073	1,480,664	1,387,077	1,321,524
Equity	156,968	150,266	143,246	134,730	129,593

The Banking Group does not have minority interests.

The amounts included in the summary above have been extracted from the audited consolidated financial statements of the Banking Group.

Income Statement For the year ended 31 March 2016

	Note	31 March 2016 $000	31 March 2015 $000
Interest Income	4	118,803	110,639
Interest Expense	6	(67,317)	(61,833)
Net Interest Income		**51,486**	**48,806**
Fees and Other Operating Income	4	12,130	11,581
Net Insurance Income	4	6,769	5,680
Gain on Financial Instruments at Fair Value	5	493	145
Net Operating Income		**70,878**	**66,212**
Operating Expenses	6	(53,723)	(51,801)
Impairment Losses on Loans and Advances	12	(1,354)	(1,004)
Profit before Rebate and Tax		**15,801**	**13,407**
Rebates to Shareholders	16	(2,100)	(1,800)
Profit before Tax		**13,701**	**11,607**
Income Tax Expense	7	(3,434)	(2,719)
Profit after Tax Attributable to Shareholders		**10,267**	**8,888**

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

Statement of Comprehensive Income For the year ended 31 March 2016

	31 March 2016 $000	31 March 2015 $000
Profit after Tax Attributable to Shareholders	**10,267**	**8,888**
Items that may be Reclassified Subsequently to Profit or Loss		
Fair Value Movement on Available for Sale Investments	1,593	2,346
Fair Value Movement on Cash Flow Hedging Reserve	(6,508)	(4,974)
Income Tax Expense relating to Items that may be Reclassified	1,350	760
Other Comprehensive Income Net of Tax	(3,565)	(1,868)
Total Comprehensive Income Attributable to Shareholders	**6,702**	**7,020**

Statement of Changes in Equity For the year ended 31 March 2016

	Note	31 March 2016 $000	31 March 2015 $000
Opening Balance of Equity		150,266	143,246
Profit after Tax Attributable to Shareholders		10,267	8,888
Other Comprehensive Income		(3,565)	(1,868)
Closing Balance of Equity		**156,968**	**150,266**
Retained Earnings			
Balance at Beginning of Year		151,417	142,529
Profit after Tax		10,267	8,888
Balance at End of Year		161,684	151,417
Available for Sale Reserve			
Balance at Beginning of Year		1,277	(412)
Fair Value Movement through Other Comprehensive Income		1,593	2,346
Tax through Other Comprehensive Income	7	(446)	(657)
Balance at End of Year		2,424	1,277
Cash Flow Hedging Reserve			
Balance at Beginning of Year		(2,428)	1,129
Fair Value Movement through Other Comprehensive Income		(6,508)	(4,974)
Tax through Other Comprehensive Income	7	1,796	1,417
Balance at End of Year		(7,140)	(2,428)
Total Equity		**156,968**	**150,266**

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

Balance Sheet For the year ended 31 March 2016

	Note	31 March 2016 $000	31 March 2015 $000
Assets			
Cash and Cash Equivalents		22,837	18,121
Receivables and Prepayments	8	4,291	3,375
Available for Sale Investments	9	174,779	191,097
Derivatives	15	4,304	1,963
Fair Value through Profit or Loss Investments	10	9,057	9,738
Loans and Advances	11	1,803,680	1,561,916
Deferred Tax Asset	7	869	1,301
Tax Receivable		492	–
Property, Plant and Equipment		8,297	7,722
Intangible Assets	13	12,547	11,106
Total Assets		**2,041,153**	**1,806,339**
Liabilities			
Provision for Rebates to Shareholders	16	2,100	1,800
Payables and Other Liabilities	17	7,979	7,483
Tax Payable		–	196
Derivatives	15	15,135	5,586
Deposits	18	1,788,134	1,574,740
Secured Borrowings	19	63,796	59,534
Life Insurance Net Policy Liabilities	20	5,444	5,139
Capital Notes	21	1,597	1,595
Total Liabilities		**1,884,185**	**1,656,073**
Net Assets		**156,968**	**150,266**
Equity			
Retained Earnings		161,684	151,417
Available for Sale Reserve		2,424	1,277
Cash Flow Hedging Reserve		(7,140)	(2,428)
Total Equity		**156,968**	**150,266**
Interest Earning and Discount Bearing Assets		2,012,225	1,782,655
Interest and Discount Bearing Liabilities		1,770,893	1,564,418

These financial statements were authorised for issue for and on behalf of the Board of Directors on 26 May 2016.

Director

Director

The 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 year ended 31 March 2016

	Note	31 March 2016 $000	31 March 2015 $000
Cash Flows from Operating Activities			
Interest Income		117,920	108,647
Other Income		19,315	19,673
Payments to Suppliers and Employees		(49,680)	(53,304)
Interest Expense		(66,007)	(59,976)
Income Tax Paid		(2,335)	(1,978)
Net Cash Flow from Operating Activities before Changes in Operating Assets and Liabilities		**19,213**	**13,062**
Change in Loans and Advances		(242,896)	(152,921)
Change in Available for Sale Investments		17,898	(27,400)
Change in Fair Value through Profit or Loss Investments		597	240
Change in Held to Maturity Investments		–	3,184
Change in Deposits		212,987	168,991
Repayment of Secured Borrowings		4,217	3,466
Cost of Raising Secured Borrowings		(167)	–
Net Changes in Operating Assets and Liabilities		(7,364)	(4,440)
Net Cash Flow from Operating Activities	25	**11,849**	**8,622**
Cash Flows from Investing Activities			
Purchase of Property, Plant and Equipment		(2,554)	(4,386)
Purchase of Intangible Assets		(4,441)	(4,321)
Net Cash Flow from Investing Activities		**(6,995)**	**(8,707)**
Cash Flows from Financing Activities			
Maturity of Capital Notes		–	(1,621)
Interest Paid on Capital Notes		(138)	(207)
Net Cash Flow from Financing Activities		**(138)**	**(1,828)**
Net Movement in Cash and Cash Equivalents		**4,716**	**(1,913)**
Opening Balance of Cash and Cash Equivalents		18,121	20,034
Closing Balance of Cash and Cash Equivalents		**22,837**	**18,121**
Reconciliation of Cash and Cash Equivalents:			
Cash on Hand		1,398	1,394
Cash at NZ Registered Banks		21,439	16,727
Total Cash and Cash Equivalents		**22,837**	**18,121**

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

Notes to the Financial Statements For the year ended 31 March 2016

1. STATEMENT OF ACCOUNTING POLICIES

(1) Reporting Entity

The Co-operative Bank Limited (the "Registered Bank" or "Co-op Bank") is a profit-oriented entity incorporated in New Zealand under the Companies Act 1993 and registered under the Co-operative Companies Act 1996. Co-op Bank is a FMC Reporting Entity under the Financial Markets Conduct Act 2013.

Co-op Bank is a financial services co-operative providing a number of financial products to its customers including loans, current accounts, other deposits and insurance. The registered office is Level 12, 20–26 Ballance Street, Wellington.

These financial statements are for the Banking Group, comprising Co-op Bank and its subsidiaries. The subsidiaries included in the Banking Group are:

- Co-operative Life Limited ("Co-op Life") (wholly owned subsidiary) – issues life and trauma insurance products;
- PSIS Warehouse Trust ("Warehouse Trust") (in-substance subsidiary) – special purpose entity holding securitised loans purchased from Co-op Bank;
- PSIS RMBS Trust 2010-1 ("Bond Trust") (in-substance subsidiary wound up effective 14 December 2015) – special purpose entity holding securitised loans purchased from Co-op Bank;
- The Co-operative Bank RMBS Trust ("Co-op RMBS Trust") (in-substance subsidiary) – special purpose entity holding securitised loans purchased from Co-op Bank;
- PSIS Limited (wholly owned subsidiary) - dormant company.

(2) Basis of Preparation

(a) Statement of Compliance

The Banking Group's financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"), which complies with the New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards. They also comply with the Order as well as with International Financial Reporting Standards ("IFRS").

(b) Measurement Base

The financial statements have been prepared on a going concern basis in accordance with the historical cost concept. Exceptions to this are the revaluation of available for sale and fair value through profit or loss investments, and derivative financial instruments which are recognised at fair value.

Revenue, expenses and assets are reported in the financial statements net of the amount of Goods and Services Tax ("GST"), except when the GST incurred on a purchase of goods and services is not recoverable. In these circumstances GST is recognised as part of the cost of the acquisition of the assets or as part of the expense item as applicable. Receivables and payables are reported in the Balance Sheet with the amount of GST included.

(c) Use of Accounting Estimates and Judgements

The preparation of the financial statements requires the use of management judgement, estimates and assumptions that affect reported amounts. The estimates and assumptions used are based on historical experience and other factors which are reviewed on a regular basis. Actual results may differ from these estimates. For further discussion on the critical estimates and judgements used by the Banking Group that have the most significant effect on the amounts recognised in the financial statements, refer to Note 2.

(d) Principles of Consolidation

The consolidated financial statements of the Banking Group comprise the financial statements of Co-op Bank and its subsidiaries. Subsidiaries are those entities over which Co-op Bank has the capacity to exert control. Control is deemed to exist when Co-op Bank has power over an entity, is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect those returns.

The Banking Group's financial statements are consolidated using the acquisition method. All material intra-group transactions, balances, income and expenses are eliminated on consolidation.

(e) Functional and Presentation Currency and Rounding

The functional and presentation currency of the Banking Group is New Zealand dollars and all amounts have been rounded to the nearest thousand dollars ($000), except where otherwise stated.

(f) Comparatives

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

Notes to the Financial Statements For the year ended 31 March 2016

1. STATEMENT OF ACCOUNTING POLICIES cont.

(3) Significant Accounting Policies

(a) Income and Expense Recognition

Income is recognised when it is probable that economic benefits will flow to the Banking Group and that the income can be reliably measured. The Banking Group's principal sources of income are interest income, commissions and fees, and insurance premiums.

Expenses are recognised in the Income Statement on an accruals basis.

(i) Interest Income and Expense

Interest income and expense measured using the effective interest method. The effective interest method calculates the amortised cost of a financial asset or financial liability. It then allocates the interest income or interest expense, including any fees and directly related transaction costs, over the expected life of the financial asset or liability. Directly related transactions costs include fees and commissions paid to brokers and other expenses of originating lending business, such as external legal costs and valuation fees.

Interest income and expense also includes realised and accrued derivative income/expense.

(ii) Fees and Commission Revenue

Other fees and commission income including transaction fees and on-going service fees are recognised as income when the transaction has been completed or over the period the service is provided.

(iii) Insurance Premiums

Insurance premium revenue is recognised on receipt. Release to profit or loss of premiums received in advance and deferred to the balance sheet are recognised as income when it is earned in accordance with the pattern of incidence of risk expected under the insurance contract.

(iv) Operating Lease Payments

Operating lease payments including lease incentives are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are derived.

(b) Income Tax

(i) Income Tax Expense

Income tax on net profit before tax comprises current and deferred tax and is based on the applicable tax law. Income tax expense is recognised in profit or loss except when it relates to items recognised in Equity, in which case it is recognised in Other Comprehensive Income.

(ii) Current Tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the year. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

(iii) Deferred Tax

Deferred tax is accounted for using the balance sheet method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the tax base of those items.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which the deductible temporary differences or unused tax losses and tax credits can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on applicable tax rates and laws. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Banking Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

(c) Assets and Liabilities

(i) Financial Instruments Classification and Measurement

Financial instruments are transacted on a commercial basis. The Banking Group classifies its financial instruments into the following categories at initial recognition:

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Banking Group does not intend to sell. Loans and receivables are initially measured at fair value plus direct transaction costs, and subsequently measured at amortised cost using the effective interest method. Assets classified as loans and receivables include loans and advances and receivables and prepayments.

Loans and advances cover all forms of lending to customers, including mortgages, overdrafts, personal loans and credit line balances. Loans and advances are recognised in the Balance Sheet when the cash is advanced and reported net of provisions for impairment loss.

Notes to the Financial Statements For the year ended 31 March 2016

1. STATEMENT OF ACCOUNTING POLICIES cont.

Fair Value through Profit or Loss Investments
Financial instruments in this category are measured at fair value plus transaction costs, and are either held for trading or managed with other assets and liabilities which are accounted for on a fair value basis. Financial assets in this category include assets that back insurance contract liabilities (Fair Value through Profit or Loss Investments), and interest rate swaps (Derivatives).

Changes in the fair value of these financial instruments are recognised in profit or loss in the period in which they occur. The fair value gain or loss does not include interest earned and accrued on the financial assets, as this is recorded as part of Interest Income.

Available for Sale Investments
Available for sale investments are non-derivative financial assets that are designated as available for sale or are not classified as another category of financial asset. Available for sale investments are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or changes in interest rates or exchange rates.

Available for sale investments are initially measured at fair value, including transaction costs, and subsequently carried at fair value. Interest income is recognised in profit or loss using the effective interest method. Impairment losses are recognised directly in profit or loss. Other fair value changes, other than impairment losses, are recognised directly in Other Comprehensive Income ("OCI") and presented in the Available for Sale Reserve within Equity. When the financial asset is de-recognised or impaired, the cumulative gains or losses previously recognised in OCI are reclassified in profit or loss.

Other Financial Liabilities
Other financial liabilities include all financial liabilities other than those classified at fair value through profit or loss. Other financial liabilities are initially recognised at fair value plus direct transaction costs, and are subsequently measured at amortised cost. Financial liabilities classified in this category include rebates to shareholders, payables and other liabilities, deposits, secured borrowings and capital notes.

(ii) Recognition and Derecognition of Financial Instruments

The Banking Group recognises a financial asset or liability when the Banking Group commits to the contractual provisions and cash is settled.

The Banking Group derecognises a financial asset from its Balance Sheet when:

(a) The contractual rights to the cash flows from the financial asset expire; or

(b) The Banking Group has transferred the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or when it does not retain control of the financial asset.

Financial liabilities are derecognised when the obligations specified in the contract have been discharged, cancelled or have expired.

Financial assets are subject to regular impairment review with impairment recognised in profit or loss when necessary.

(iii) Fair Value Measurement

Fair value is the price that would be received from the sale of an asset or paid to transfer a liability in a transaction between active market participants or in its absence, the most advantageous market to which the Banking Group has access to at the reporting date. The fair value of a financial liability reflects its non-performance risk.

When available, the Banking Group measures the fair value of an instrument using the quoted price in an active market. A market is active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis. If there is no quoted price in an active market, then the Banking Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

(iv) Derivative Financial Instruments

Derivative financial instruments derive their value from changes in one or more underlying financial instruments or indices, require little or no initial investment, and are settled at a later date. The Banking Group enters into derivative contracts for interest rate swaps and forward exchange contracts, to manage its exposure to interest rate and foreign exchange risk.

Derivatives are initially recognised at fair value on the date a contract is entered into and are subsequently re-measured at each reporting date. Interest rate swaps are measured at the present value of estimated future cash flows and discounted based on the applicable yield curves derived from quoted interest rates. Valuation adjustments are integral in determining the fair value of derivatives. This includes a credit valuation adjustment (where appropriate) to reflect the credit worthiness of the counterparty of the contract.

The method of recognising fair value gains or losses on derivatives depends on whether the derivative has been designated as a hedge for accounting purposes. If the derivative meets the hedge accounting requirements,

Notes to the Financial Statements For the year ended 31 March 2016

1. STATEMENT OF ACCOUNTING POLICIES cont.

fair value movements go through OCI as part of the Cash Flow Hedging Reserve ("CFHR") in Equity. Gains or losses on derivatives that do not meet the requirements for hedge accounting treatment go through profit or loss in the Income Statement.

(v) Cash Flow Hedging Reserve

Certain derivatives are designated as cash flow hedges where the instrument hedges the variability in cash flows of a recognised asset or liability, or a foreign exchange component of a transaction. On initial designation the relationship between the hedging instrument(s) and hedged item(s), together with the methods that will be used to assess the effectiveness of the hedging relationship is documented. It is assessed, both at the inception of the hedge and on an on-going basis, whether the hedging derivatives have been 'highly effective' in offsetting changes in the cash flows of the respective hedged item(s).

The effective portion of changes in the fair value of derivatives designated as cash flow hedges is recognised directly in OCI and presented in the CFHR within Equity. Any ineffective portion is recognised immediately in profit or loss.

When the transaction or item that the derivative is hedging affects the income or expense then the associated gain or loss on the hedging derivative is transferred from the CFHR to the Income Statement. When the hedge expires, is sold, terminated, exercised, or no longer qualifies for hedge accounting, the cumulative amount deferred in Equity is subsequently transferred to profit or loss. In the case of a transaction that results in the recognition of a non-financial asset, the associated gain or loss on the hedging derivative is transferred from the CFHR to the initial cost of the non-financial asset in the Balance Sheet.

(vi) Impairment of Loans and Advances

Loans and advances are reviewed for impairment on a monthly basis. The methodology and assumptions used for estimating the key data inputs used in the impairment review, including the timing and amount of future cash flows, involves considerable management judgement and is subject to regular reviews to reduce any differences between loss estimates and actual loss experience.

Loans and advances are designated as impaired if:

- there is objective evidence of impairment as a result of one or more loss events that occurred after initial recognition of the loan or advance; and
- that loss event (or events) has/have had a reliably measurable impact on the estimated future cash flows of the individual loan or advance or the collective portfolio of loans and advances.

Impaired assets are classified as:

- Impaired Assets, credit exposures where a credit event has occurred and for which it is probable the Banking Group will not be able to collect all amounts owing;
- Restructured Assets, where the original contractual terms have been modified due to the financial difficulties of the borrower(s) and the revised terms are not comparable with the terms of new facilities with comparable risks and the yield on the asset following restructuring is equal to, or greater than, the Banking Group's average cost of funds, or where a loss is not otherwise expected to be incurred; or
- Other Impaired Financial Assets, any other credit exposures for which an impairment loss is required in accordance with NZ IAS 39.

Loans and advances are designated as Past Due Assets where a counterparty has failed to make a payment when contractually due and where they have not been designated as impaired.

The estimated impairment loss is measured as the difference between the asset's carrying amount and the estimated future cash flows discounted to their present value. As the discount unwinds during the period between recognition of impairment and recovery of the cash flow, it is recognised in Interest Income.

Individual provisions are made against the carrying amount of loans and advances that are identified as being impaired to reduce these loans and advances to the amounts that Management have estimated will ultimately be received.

A collective provision is maintained to reduce the carrying amount of portfolios of similar loans and advances to their estimated recoverable amounts. The collective provision represents expected losses not yet specifically identified in the loan portfolio and is estimated on the basis of historical loss experience for loans and advances with credit characteristics similar to those in the collective pool. The expected future cash flows for the portfolios of similar assets are estimated based on historical loss experience, current observable data such as changes in economic conditions and security values and an assessment of the impact of model risk. The collective provision also takes into account national or local economic conditions that correlate with defaults on the assets in the Banking Group. When the loans and advances are outstanding beyond the normal contractual terms, the likelihood of the recovery of these loans is assessed by Management.

When a loan is known to be uncollectible and all the necessary legal procedures are completed, the final loss is written off directly to profit or loss and the related provision for loan impairment is adjusted accordingly.

Notes to the Financial Statements For the year ended 31 March 2016

1. STATEMENT OF ACCOUNTING POLICIES cont.

Subsequent recoveries of amounts previously written off are taken to profit or loss in the period they are recovered. Where impairment losses recognised in prior periods are subsequently decreased or no longer exist, such impairment losses are reversed in the current period's profit or loss.

Accordingly the impairment loss against loans and advances recognised in profit or loss reflects the net movement in the collective and individual impairment provisions, any amounts written-off and is net of any recoveries of impairment losses previously written off.

(vii) Intangible Assets

Intangible assets are non-monetary assets with no physical substance, and are carried at cost less accumulated amortisation and impairment losses.

Computer software comprises acquired and internally developed computer software. Certain costs, including employee costs, associated with developing software products controlled by the Banking Group, are capitalised and recognised as computer software. Computer software is being amortised on a straight line basis using rates of between 10% to 36% per annum.

Other intangible assets comprise the future profits to be earned from existing customers acquired in the acquisition of the Loan Instalment Care business. This is being amortised on a straight line basis at 20% per annum.

The intangible assets' residual values, estimate of useful lives and amortisation methods are reviewed and adjusted if appropriate at each reporting date. The carrying amount of these assets is also reviewed for impairment at each reporting date. If any such impairment exists, the loss is recognised in profit or loss.

(viii) Provision for Rebates to Shareholders

Rebates which are payable to eligible Shareholders of Co-op Bank are recognised at the time the total rebate pool has been approved by the Board of Directors (the "Board"). The rate of rebate varies according to the specified eligibility criteria, including the value of the Shareholder's business with the Banking Group, the number of accounts and insurance policies they hold and the Shareholder's duration of relationship with Co-op Bank.

(ix) Employee Benefits

Benefits accruing to employees are provided for when it is probable that settlement will be required and they can be measured reliably.

Employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Employee benefits which are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows in respect of services provided by employees up to the reporting date.

(x) Life Insurance Net Policy Liabilities

Policy liabilities arising from insurance contracts are calculated by Co-op Life's independent Appointed Actuary, using the Margin on Service ("MoS") methodology in accordance with New Zealand Society of Actuaries Professional Standard 20: Determination of Life Insurance Policy Liabilities.

Under the MoS methodology, planned profit margins and an estimate of future liabilities are calculated separately for each product using best estimate assumptions at each reporting date. Profit margins are released over each financial period in line with the service that has been provided. The balance of the planned profits is deferred by including them in the value of policy liabilities. Refer to Note 20 for further details of the actuarial methodology used to value the net policy liabilities.

The Life Insurance Net Policy Liabilities recorded in the Balance Sheet is the sum of the unearned premium reserve ("UPR"), the incurred but not reported ("IBNR") claims reserve and the outstanding claims liability, net of the deferred acquisition costs ("DAC"). DAC comprises the fixed and variable costs of acquiring new business, including commission and underwriting costs which is recognised in the Balance Sheet as a reduction in the insurance contract liabilities and is amortised through profit or loss over the expected duration of the relevant policies.

The outstanding claims liability comprises insurance claims recognised when a valid notified claim has been received and accepted which have not been settled at the reporting date. For the Loan Instalment Care business the outstanding claim liability equals the discounted present value of the estimated future payments of the insured benefit for the duration of disablement. For all products an additional provision is held for claims incurred but not reported at the reporting date.

(d) Other

(i) Statement of Cash Flows

The Statement of Cash Flows has been prepared using the direct approach modified by the netting of certain items in order to provide more meaningful disclosure. This approach is used as many of the cash flows are received and disbursed on behalf of customers and reflect the activities of customers rather than those of the Banking Group. These include deposits, loans and advances, short term deposits and other financial assets.

Notes to the Financial Statements For the year ended 31 March 2016

1. STATEMENT OF ACCOUNTING POLICIES cont.

The following are definitions of the terms used in the Statement of Cash Flows:

- Cash and cash equivalents comprises cash on hand and cash held at registered banks;
- Investing activities are those relating to the acquisition, holding and disposal of property, plant and equipment and intangible assets;
- Financing activities are those activities which result in changes in size, composition and capital structure of the Banking Group which include both equity and debt; and
- Operating activities include all transactions and other events that are not investing or financing activities.

Cash flows included in the Statement of Cash Flows are reported net of GST. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the Inland Revenue are classified as operating cash flows.

(ii) Offsetting

Assets and liabilities are offset and the net amount presented in the Balance Sheet when the Banking Group has a legal right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented in the Income Statement on a net basis only when permitted under NZ GAAP, or for gains and losses arising from a group of similar transactions.

(iii) Changes in Accounting Policies and Application of New or Amended Accounting Standards

The accounting policies used by the Banking Group are consistent with those used in previous periods. Management have considered amendments to NZ IFRSs applicable for the first time for the year ended 31 March 2016, however they have had no impact to the Banking Group's reported result or financial position.

(iv) NZ IFRS Accounting Standards Issued but not yet Effective

At the date of authorisation of the financial statements, three accounting standards were on issue but not yet effective. The Banking Group does not intend to apply these pronouncements until their effective date.

Standard	Effective for Annual Reporting Periods Beginning on or After	Expected to be Initially Applied in the Financial Year Ending
NZ IFRS 9: *Financial Instruments*	1 January 2018	31 March 2019
NZ IFRS 15: *Revenue from Contracts with Customers*	1 January 2018	31 March 2019
NZ IFRS 16: *Leases*	1 January 2019	31 March 2020

NZ IFRS 9 introduces changes to the classification and measurement of financial instruments. This is expected to have the biggest impact on the way the Banking Group accounts for credit impairment provisions on its loan portfolio.

NZ IFRS 15 details a comprehensive principles based approach on how to recognise revenue from contracts with customers. It is expected that this standard may affect the Banking Group's recognition of certain revenue items.

NZ IFRS 16 eliminates the distinction between operating and finance leases. This will most likely result in the Banking Group having to recognise its property leases on the Balance sheet.

Initial application of these new standards is still being assessed. NZ IFRS 9 *Financial Instruments* and NZ IFRS 16 *Leases* are expected to have a material impact on the financial statements of the Banking Group.

Notes to the Financial Statements For the year ended 31 March 2016

2. CRITICAL ESTIMATES AND JUDGEMENT USED IN APPLYING ACCOUNTING POLICIES

(a) Credit Impairment Provisioning

Management uses considerable judgement when calculating the level of impairment provisions to hold (both collective and individual), which represents their best estimate of the losses incurred or expected to be incurred on the loan portfolio. Adjustments to the estimates and methodologies used are made as further data becomes available to ensure the loss estimates reflect actual loss experience.

The assumptions included within these estimates include the probability of recovery, the cost of possible enforcement through security, related recovery costs and the expected sale proceeds. Changes in these assumptions could have a direct impact on the level of the allowance for impairment loss recorded in the financial statements. Refer to Note 12 for details of the credit impairment provisions on loans and advances.

(b) Estimation of Expected Loan Lives Used to Apportion Fees and Costs Over Time

The expected life of loans is used to apportion fees and costs under the effective interest method. The estimation of the expected life of loans is based on historical experience and is assessed at least annually. Changes in the expected life of loans could have a direct impact on the level of fees and costs recorded in the financial statements.

(c) Estimation of Fair Value of Financial Instruments

Financial instruments measured at fair value are stated in Note 1(c)(i). In estimating fair value, the Banking Group uses, wherever possible, quoted market prices in an active market. In the event that there is no active market for the instrument, fair value is based on present value estimates or other market accepted valuation techniques. The selection of appropriate valuation techniques, methodology and inputs requires management judgement. Changes in the assumptions used in these models and projections of future cash flows could affect the reported fair value of financial instruments. Refer to Notes 10 and 15 for details of the financial instruments which are measured at fair value and Note 9 for details of the financial instruments which are measured at fair value through equity.

(d) Estimation of Life Insurance Net Policy Liabilities

Life insurance contract liabilities are valued by an externally appointed actuary using actuarial models which are based on recognised actuarial methodologies, standards and principles. The methodologies take into account the risks and uncertainties of the particular life insurance business policies. Deferred policy acquisition costs are an offset to the life insurance contract liabilities and are equally sensitive to the factors that are considered in the liability measurement. The key factors that affect the estimation of the life insurance net policy liabilities are:

- Mortality and morbidity experience on life insurance products, including enhancements to policyholder benefits;
- Discontinuance experience, which affects the Banking Group's ability to recover the cost of acquiring new business over the lives of the contracts;
- Claim continuance rates for Loan Instalment Care claims;
- The cost of providing benefits and administering these insurance contracts; and
- The discount rate applied to calculate the present value of future benefits.

In addition, factors such as regulations, inflation, interest rates, taxes, investment market conditions and general economic conditions affect the level of the life insurance net policy liabilities. Changes in the key assumptions used in the actuarial models and projections of future cash flows could affect the value of the life insurance net policy liabilities reported in the financial statements. Refer to Note 20 for details of the life insurance net policy liabilities.

(e) Securitisation and Special Purpose Entities

Management has used judgement to determine that the assets and liabilities of the Warehouse Trust and the Co-op RMBS Trust (the "Securitisation Trusts") should be recognised as part of Co-op Bank's assets and liabilities. While Co-op Bank has sold the contractual rights to receive the cash flows from the securitised mortgages, it has retained substantially all of the risks and rewards of ownership through the subordinated loans it has provided to the Securitisation Trusts. Co-op Bank also has the ability to make operational decisions for the Securitisation Trusts and receives an Excess Servicer Fee calculated from the profits of each Securitisation Trust.

Notes to the Financial Statements For the year ended 31 March 2016

3. RISK MANAGEMENT POLICIES

The Banking Group's objective is to appropriately manage all the risks that arise from its activities. A review of the risk appetite of the Banking Group is conducted at least annually by the Board. In line with this review, an assessment of the relevant policies, systems and reporting is undertaken to ensure that they are consistent with the stated risk appetite of the Banking Group.

An overall review of the Banking Group's Risk Management Framework is conducted once every two years. The last review of this Framework was conducted by the Board without the involvement of a party external to the Banking Group.

Specific Areas of Risk Management

The Banking Group's key areas of risk are Strategic and Business risk (managed by the Board through annual business plans and five-year strategic plans); Financial Risk including credit risk, interest rate risk, liquidity risk, and insurance underwriting risk (managed by the Board through policies, position limits and other operational actions); Operational Risk including Health and Safety (managed through insurance, internal controls and procedures); and Reputation Risk. Further details relating to the Banking Group's financial and operational risk management appetite, objectives, policies, strategies, and processes are included in Note 28.

Role of the Board and its Committees

The Board has responsibility for setting the Banking Group's risk appetite, governance, and formulating risk management policies. The Board is assisted in meeting this responsibility through the operation of three committees responsible for various facets of risk. Each committee can advise and make recommendations however decision making rests with the Board.

Audit Committee

The Board through the Audit Committee is primarily responsible for:

- Overseeing the effectiveness and integrity of the Banking Group's financial controls; financial reporting process; and internal audit function;
- Providing assurance on the controls covering key business processes;
- Ensuring the quality and independence of the external audit process;
- Reviewing the appointment of the external auditor and their fees;
- Reviewing the annual audit plan with the external auditor;
- Reviewing audit findings;
- Reviewing interim financial information and the annual financial statements;
- Reviewing accounting policies;
- Overseeing the legal compliance and statutory responsibilities of Co-op Bank;
- Reviewing the internal auditors and their activities;
- Reviewing the performance of the Independent Appointed Actuary of the Banking Group;
- Ensuring that recommendations highlighted in internal audit reports are actioned by management; and
- Supervising special investigations when requested by the Board.

Risk Committee

The Board through the Risk Committee is primarily responsible for:

- Overseeing the effectiveness and integrity of the Financial, Operational and Reputational risk management framework and risk reporting in the context of the approved strategic objectives and risk appetite of the Banking Group;
- Reviewing the appropriate Financial, Operational, and Reputational risk appetite of the Banking Group;
- Reviewing the Financial, Operational and Reputational risk management policies, limits, and delegations of the Banking Group;
- Monitoring management's operation within the approved risk management programme including the identification and evaluation of Financial, Operational and Reputational risks, the establishment of plans to manage and mitigate those risks and the monitoring of their implementation; and
- Reviewing and monitoring the Anti-Money Laundering/Countering Financing of Terrorism Compliance Programme, policies and risks of the Banking Group.

Appointments and Remuneration Review Committee

The Board through the Appointments and Remuneration Review Committee is primarily responsible for:

- Overseeing the effectiveness and integrity of human resource policies of Co-op Bank;
- Providing oversight and assurance on the controls surrounding Executive Management and Board human resource processes, including specific appointments, remuneration and performance processes;
- Reviewing the people risk management policies, limits, and delegations of the Banking Group;
- Reviewing, in accordance with the Banking Group's remuneration policies, all components of the Chief Executive's and Senior Management remuneration;

Notes to the Financial Statements For the year ended 31 March 2016

3. RISK MANAGEMENT POLICIES cont.

- Reviewing all appointments, employment agreement terms and conditions including remuneration, position description changes, fit and proper assessments, performance settings and assessments, and removal of the Chief Executive and Senior Management; and
- Reviewing the Fit and Proper Policy of the Banking Group, and undertaking assessments of persons captured by the policy.

Capital Adequacy

The Banking Group's approach to assessing the adequacy of its capital to support current and future activities, as well as the role that Directors and the Senior Leadership Team take in the capital management process, is discussed further in Note 38.

Internal Audit Function

The Banking Group has an Internal Audit Manager who is supplemented by external assurance providers. The scope of work is planned by management with the assistance of these external assurance providers before being submitted to the Audit Committee for approval. This encompasses reviews of functions, projects, activities and distribution channels within the Banking Group, determined using Co-op Bank's Risk Management Framework.

Internal audit reports are submitted to the Audit Committee each quarter with a summary of audit outcomes and management's intended remedial actions where necessary.

4. INCOME

	31 March 2016 $000	31 March 2015 $000
Interest Income		
Available for Sale Investments	7,084	2,238
Fair Value through Profit or Loss Investments	339	424
Held to Maturity Investments	–	6,133
Loans and Advances[1]	109,254	101,142
Interest Rate Derivative Income	1,495	372
Other Interest Income	631	330
Total Interest Income	**118,803**	**110,639**
Fees and Other Operating Income		
Fees and Commission Revenue	12,091	11,455
Other Income	39	126
Total Fees and Other Operating Income	**12,130**	**11,581**
Net Insurance Income		
Insurance Premiums Received	10,342	9,051
Outward Reinsurance Premiums	(1,394)	(1,307)
Insurance Operating Expenses	(2,179)	(2,064)
Net Insurance Income	**6,769**	**5,680**

[1] This balance includes $64,227 of interest earned on restructured assets and $10,055 of interest earned on impaired assets for the year ended 31 March 2016 (31 March 2015: $26,694 and $43,900 respectively).

Notes to the Financial Statements For the year ended 31 March 2016

5. GAIN ON FINANCIAL INSTRUMENTS AT FAIR VALUE

	31 March 2016 $000	31 March 2015 $000
Assets Backing Life Insurance Contracts	79	199
Other Treasury Investments	427	6
Derivatives	(13)	(60)
Gain on Financial Instruments at Fair Value	**493**	**145**

6. EXPENSES

	31 March 2016 $000	31 March 2015 $000
Interest Expense		
Secured Borrowings	2,770	3,253
Deposits	58,486	56,403
Capital Notes	140	210
Interest Rate Derivative Expense	5,921	1,967
Total Interest Expense	**67,317**	**61,833**
Operating Expenses		
Wages and Salaries	24,432	23,211
KiwiSaver Contributions	679	588
Other Employment-Related Expenses	757	917
Leasing and Rental Expenses	4,098	3,929
Building Occupancy Expenses	1,459	1,411
Depreciation of Property, Plant and Equipment	2,163	2,059
Amortisation of Intangible Assets	2,506	1,806
Information Technology	1,821	1,689
Marketing	3,460	3,801
Electronic Channels	4,944	4,925
Bank Charges	1,051	1,045
Other Expenses*	6,353	6,420
Total Operating Expenses	**53,723**	**51,801**

* Other Expenses consists of Administration, Communication, and Professional Fees expenses.

	31 March 2016 $000	31 March 2015 $000
Fees Paid to Auditors		
Audit or Review of Financial Statements	188	191
Other Assurance Services	18	106
Non-Audit Advisory Services	–	1
Total Fees Paid to Auditors	**206**	**298**

Auditor's remuneration is included within Professional Fees shown in Operating Expenses above. All subsidiaries' audit fees are paid by the Parent. Other assurance services were the limited assurance review of Co-op Life's solvency return and trustee reporting in respect of the Trusts.

Notes to the Financial Statements For the year ended 31 March 2016

7. INCOME TAX

(a) The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

	31 March 2016 $000	31 March 2015 $000
Profit before Tax	13,701	11,607
Tax Expense at 28% (2015: 28%)	(3,836)	(3,250)
Non Deductible Expenses	(22)	(20)
Transitional Adjustment for Life Insurance Tax Rules[2]	404	555
Other	20	(4)
Income Tax Expense	**(3,434)**	**(2,719)**
Comprising:		
Current Tax	(3,002)	(2,463)
Deferred Tax	(432)	(256)
	(3,434)	**(2,719)**

(b) Current Tax recognised directly in Equity:

	31 March 2016 $000	31 March 2015 $000
Fair Value Movements on Available for Sale Investments	(446)	(657)
Fair Value Movements on Cash Flow Hedging Reserve	1,796	1,417
	1,350	**760**

(c) Deferred Tax

	31 March 2016			31 March 2015		
	Opening Balance $000	Charged to Profit before Tax $000	Closing Balance $000	Opening Balance $000	Charged to Profit before Tax $000	Closing Balance $000
Gross Deferred Tax Liability:						
Intangible Assets	(704)	(245)	(949)	(545)	(159)	(704)
Secured Borrowings	(111)	28	(83)	(194)	83	(111)
Gross Deferred Tax Asset:						
Life Insurance Net Policy Liabilities	88	111	199	1	87	88
Loans and Advances – Provision for Credit Impairment	1,120	(63)	1,057	1,202	(82)	1,120
Employee Entitlements	257	(15)	242	293	(36)	257
Property, Plant and Equipment	641	(238)	403	770	(129)	641
Trade and Other Payables	10	(10)	–	30	(20)	10
Net Deferred Tax Asset	**1,301**	**(432)**	**869**	**1,557**	**(256)**	**1,301**

(d) Imputation Credit Account

The imputation credits available to carry forward and utilise in future periods is $16.0 million (2015: $21.7 million).

[2] The transitional adjustment relates to certain life insurance policies which were taxed under the previous tax rules for such policies, as permitted under the tax rules relating to life insurance that came into effect from 1 July 2010 for the Banking Group. The final benefit from the transitional adjustment was recognised in March 2016.

Notes to the Financial Statements For the year ended 31 March 2016

8. RECEIVABLES AND PREPAYMENTS

	31 March 2016 $000	31 March 2015 $000
Trade Receivables	198	176
Reinsurance Recoverable	500	196
Prepayments	3,593	3,003
Total Receivables and Prepayments	**4,291**	**3,375**

9. AVAILABLE FOR SALE INVESTMENTS

Short-Term Deposits with NZ Registered Banks	1,736	2,756
Other Short-Term Deposits	201	3,002
Local Government Rated Commercial Paper	–	12,939
Rated Corporate Commercial Paper	30,425	28,860
NZ Registered Bank Bonds	73,250	82,766
Local Government Bonds	35,172	42,177
Listed Multilateral Development Banks and Other International Organisations	29,280	13,869
Perpetual Debt Securities	4,715	4,728
Total Available for Sale Investments	**174,779**	**191,097**

The investments in the Listed Multilateral Development Banks and Other International Organisations are New Zealand denominated Kauri bonds that are currently AA+ or AAA rated by all three major ratings agencies.

10. FAIR VALUE THROUGH PROFIT OR LOSS INVESTMENTS

Assets Backing Life Insurance Contracts	8,633	8,096
Other Treasury Investments	424	1,642
Total Fair Value through Profit or Loss Investments	**9,057**	**9,738**

During the year ended 31 March 2016, there were no material changes in fair value that were attributable to changes in credit risk on the financial assets designated at fair value through profit or loss (31 March 2015: Nil).

11. LOANS AND ADVANCES

Advances to Customers		
Residential Mortgage Loans	1,671,403	1,439,722
Non-Mortgage Loans	136,051	126,194
	1,807,454	1,565,916
Provisions for Impairment	(3,774)	(4,000)
Total Loans and Advances[3]	**1,803,680**	**1,561,916**

[3] As at 31 March 2016 Residential Mortgage Loans include securitised receivables of $318.1 million (2015: $206.7 million). Some of these residential mortgage loans are subject to one or other of the securities referred to in Note 19.

Notes to the Financial Statements For the year ended 31 March 2016

12. ASSET QUALITY AND PROVISION FOR CREDIT IMPAIRMENT

(a) Gross Impaired Assets

	31 March 2016			31 March 2015		
	Mortgage $000	Non-Mortgage $000	Total $000	Mortgage $000	Non-Mortgage $000	Total $000
Opening Balance	1,333	–	1,333	2,521	–	2,521
Additions	2,053	–	2,053	1,694	–	1,694
Amounts Written Off	(1,538)	–	(1,538)	(1,171)	–	(1,171)
Remediations	(183)	–	(183)	(1,711)	–	(1,711)
Closing Balance	**1,665**	**–**	**1,665**	**1,333**	**–**	**1,333**

The amount of security held to back these assets is approximately $1.1 million (2015: $0.5 million). There were no other undrawn balances on individually impaired lending commitments or other assets under administration at 31 March 2016 (2015: nil).

(b) Aging of Past Due but not Impaired Assets

1 – 30 days	49,523	3,072	52,595	37,356	2,443	39,799
31 – 60 days	3,961	394	4,355	4,960	455	5,415
61 – 90 days	1,883	326	2,209	2,438	182	2,620
90 days plus	5,419	225	5,644	6,237	269	6,506
	60,786	**4,017**	**64,803**	**50,991**	**3,349**	**54,340**

The amount of security held to back these assets at original valuation is approximately $130.7 million (2015: $109.7 million).

(c) Provision for Credit Impairment

Collective Provision						
Opening Balance	1,713	1,464	3,177	2,058	1,439	3,497
(Released)/Charged to Profit or Loss	(191)	284	93	(345)	25	(320)
Total Collective Provision	**1,522**	**1,748**	**3,270**	**1,713**	**1,464**	**3,177**
Individual Provisions						
Opening Balance	823	–	823	795	–	795
New Provisions	695	–	695	872	–	872
Bad Debts Written Off	(782)	–	(782)	(495)	–	(495)
Provisions Released	(232)	–	(232)	(349)	–	(349)
Total Individual Provision	**504**	**–**	**504**	**823**	**–**	**823**
Total Provision for Impairment	**2,026**	**1,748**	**3,774**	**2,536**	**1,464**	**4,000**

(d) Impairment Losses Charged to Profit or Loss

Movement in Collective Provision	(191)	284	93	(345)	25	(320)
Movement in Individual Provisions	(319)	–	(319)	28	–	28
Bad Debts Written Off	782	1,489	2,271	495	1,082	1,577
Bad Debts Recovered	(396)	(295)	(691)	–	(281)	(281)
Total Impairment (Release)/Loss	**(124)**	**1,478**	**1,354**	**178**	**826**	**1,004**

Notes to the Financial Statements For the year ended 31 March 2016

12. ASSET QUALITY AND PROVISION FOR CREDIT IMPAIRMENT cont.

At 31 March 2016, there were four 90 days past due mortgages with a loan to valuation ratio, at original valuation, greater than 80% (31 March 2015: four).

At 31 March 2016, Co-op Bank had two restructured assets with a carrying value of $68,000 (31 March 2015: five restructured assets at $168,000).

There are no assets acquired through the enforcement of security (31 March 2015: Nil).

13. INTANGIBLE ASSETS

	Computer Software $000	Other $000	Total $000
Cost			
Balance at 1 April 2014	22,140	547	22,687
Additions	5,294	–	5,294
Disposals	(3,829)	–	(3,829)
Balance at 31 March 2015	**23,605**	**547**	**24,152**
Additions	3,980	–	3,980
Disposals	(239)	–	(239)
Balance at 31 March 2016	**27,346**	**547**	**27,893**
Accumulated Amortisation			
Balance at 1 April 2014	14,914	155	15,069
Amortisation Expense	1,697	109	1,806
Disposals	(3,829)	–	(3,829)
Balance at 31 March 2015	**12,782**	**264**	**13,046**
Amortisation Expense	2,396	109	2,505
Disposals	(205)	–	(205)
Balance at 31 March 2016	**14,973**	**373**	**15,346**
Net Book Value			
As at 31 March 2015	10,823	283	11,106
As at 31 March 2016	**12,373**	**174**	**12,547**

No impairment losses have been recognised against the gross carrying amount of intangible assets during the year ended 31 March 2016 (2015: Nil).

Notes to the Financial Statements For the year ended 31 March 2016

14. INVESTMENT IN SUBSIDIARY

	Voting % Held 31 March 2016	Voting % Held 31 March 2015	Balance Date	Nature of Business
Subsidiaries:				
Co-op Life	100%	100%	31 March	Life Insurance
PSIS Limited	100%	100%	31 March	Dormant Entity
In-substance Subsidiaries:				
Warehouse Trust	–	–	31 March	Mortgage Securitisation
Co-op RMBS Trust	–	–	31 March	Mortgage Securitisation

The subsidiaries and in-substance subsidiaries are incorporated in New Zealand. The Bond Trust, an in-substance subsidiary, was wound up effective 14 December 2015.

15. DERIVATIVES

The following table details the notional principal amounts and the fair value of interest rate swap and forward exchange contract derivatives outstanding at the reporting date:

	Notional		Fair Value Assets		Fair Value Liabilities	
	31 March 2016 $000	31 March 2015 $000	31 March 2016 $000	31 March 2015 $000	31 March 2016 $000	31 March 2015 $000
Interest Rate Swaps	1,894,358	1,514,350	4,304	1,875	15,129	5,586
Forward Exchange Contracts	219	1,804	–	88	6	–
Total Derivatives	**1,894,577**	**1,516,154**	**4,304**	**1,963**	**15,135**	**5,586**

No impairment losses have been recognised against the gross carrying amount of intangible assets during the year ended 31 March 2016 (2015: Nil).

Hedges
The Banking Group requires interest rate swaps to protect against cash flow exposures from differences in contracted versus current market rates on its fixed rate loans and deposits. The Banking Group also uses forward foreign exchange contracts for the payment of certain expenditure where there is a firm commitment, and where the payment is denominated in a foreign currency. The Banking Group adopts cash flow hedge accounting for the majority of its interest rate swaps and forward exchange contracts.

All underlying hedged cash flows are expected to be recognised in the Statement of Comprehensive Income in the period in which they occur, which is anticipated to take place over the next 0-6 years. To the extent that the hedge is effective, the gain or loss from re-measuring the hedging instruments at fair value is deferred in Equity in the CFHR and is reclassified to profit or loss on maturity of the derivative. Any ineffective portion is recognised in profit or loss immediately. The effectiveness of the cash flow hedges is tested on a monthly basis. No amount was reclassified from Equity during the year ended 31 March 2016 (2015: Nil). No ineffectiveness was recognised in profit or loss during the year ended 31 March 2016 (2015: Nil). The fair value of interest rate swaps and forward exchange contracts designated as cash flow hedges at 31 March 2016 was a net liability of $10,744,022 (31 March 2015: net liability of $3,549,555).

16. REBATES TO SHAREHOLDERS

In June 2016 Co-op Bank will pay $2.1 million in rebates to eligible Shareholders (31 March 2015: $1.8 million). Eligible transacting Shareholders are those who meet a certain criteria based on their total relationship with Co-op Bank, how long they have been a customer, the products and services they have with Co-op Bank, and whether their accounts are in good standing. A change to Co-op Bank's constitution in July 2015 enables Class B Shareholders that meet the specified eligibility criteria to receive a rebate.

Notes to the Financial Statements For the year ended 31 March 2016

17. PAYABLES AND OTHER LIABILITIES

	31 March 2016 $000	31 March 2015 $000
Trade Creditors	2,985	2,879
Employee Entitlements	3,159	2,609
Other Payables	1,835	1,995
Total Payables and Other Liabilities	**7,979**	**7,483**

The Payables and Other Liabilities shown above do not carry interest and are unsecured.

18. DEPOSITS

Up to 1 Year	1,598,192	1,420,978
1 – Up to 2 Years	144,577	107,722
2 – Up to 3 Years	27,971	26,953
3 – Up to 5 Years	17,394	19,087
Total Deposits	**1,788,134**	**1,574,740**

19. SECURED BORROWINGS

Warehouse Trust - Westpac	64,093	38,088
Bond Trust – Institutional Investors	–	21,843
Cost of Raising Secured Borrowings	(297)	(397)
Total Secured Borrowings	**63,796**	**59,534**

Of the total securitised receivables of $318.1 million (as included in total Residential Mortgage Loans in Note 11), $150.4 million (31 March 2015: $126.7 million) secure the borrowings noted above. Receivables are secured against these borrowings by the master security deed in favour of security trustees who hold those securities for the benefit of the investor.

The remaining securitised receivables of $167.7 million (31 March 2015: $80.0 million) relate to Co-op RMBS Trust. The Co-op RMBS Trust is an in-house residential mortgage backed securities facility that can issue securities that meet the Reserve Bank of New Zealand's ("RBNZ") criteria to use as collateral in repurchase transactions with the RBNZ. On 8 July 2015, a second series of residential mortgage loans to the value of $130.0 million were sold into the Co-op RMBS Trust, in exchange for class A and B bonds that are held by Co-op Bank. Co-op Bank also holds the first series of class A and class B bonds issued by the Co-op RMBS Trust.

Co-op Bank's interests in the securitised receivables rank behind the security interests of the security trustees.

On 14 December 2015 the Bond Trust was wound up, with all securitised loan receivables purchased by the Warehouse Trust.

As at 31 March 2016, the fair value of the Secured Borrowings is $63.8 million (2015: $59.5 million) and the fair value of the securitised receivable is $320.0 million (2015: $207.6 million).

Notes to the Financial Statements For the year ended 31 March 2016

20. INSURANCE BUSINESS - CO-OPERATIVE LIFE LIMITED

The Banking Group conducts an insurance business through its wholly owned subsidiary, Co-op Life, the assets, liabilities and operations of which are fully consolidated into the Banking Group. Co-op Life is a registered life insurer and conducts its operations in accordance with the Life Insurance Act 1908 and the Insurance (Prudential Supervision) Act 2010. The operations comprise the selling, underwriting and administration of its Life Plus, Loan Plus, and Loan Instalment Care life insurance contracts. All insurance contracts written are non-investment linked and non-participating, with all profits and losses being allocated to the shareholder.

	31 March 2016 $000	31 March 2015 $000
Life Insurance Net Policy Liabilities		
Balance at Beginning of Year	5,139	5,157
Net Movement in Policy Liabilities	305	(18)
Balance at End of Year	**5,444**	**5,139**
Comprising:		
Claims under Policies in the Process of Settlement	1,181	791
Claims Incurred But Not Reported	298	286
Deferred Acquisition Costs	(1,968)	(1,663)
Unearned Premium Reserve	5,933	5,725
Total Life Insurance Net Policy Liabilities	**5,444**	**5,139**

The Life Insurance Net Policy Liabilities recorded in the Balance Sheet is calculated at each reporting date by Co-op Life's Appointed Actuary and comprises of the following components:

- *Life Plus:* A best estimate of the net present value of the net future cash flows of each product plus a profit margin, calculated using the projection method. This method defers profits over the life of the policy and releases them evenly over the term of the contract in proportion to the profit carriers. For Life Plus the profit carrier is gross life and trauma claims. The deferred acquisition costs component of the policy liabilities is separately identified for purposes of calculating deferred tax;
- *Loan Plus:* Unearned premium, net of commission, calculated using the accumulation method, and amortised on a straight line basis over the term of the policy. The result of using the "accumulation" method rather than the "projection" method required under NZ IFRS 4: *Insurance Contracts* ("NZ IFRS 4") is not materially different as the Loan Plus contracts have an average duration of approximately 1 year. The deferred acquisition cost component is separately identified for purposes of calculating deferred tax. The policy liability is subject to a liability adequacy test on best estimate assumptions. On 21 March 2016, 241 longer-term Loan Plus policies were issued arising from the wind-up of the Loan Care fund. Given the longer-term profile of these policies the Loan Plus valuation method will be changing to a projection method for future valuations; this change in valuation method is not expected to have any material impact on the value of policy liabilities;
- *Loan Instalment Care:* Unearned premium calculated using the accumulation method, representing the premium unearned up to the next premium due date. The result of using the accumulation method rather than the projection method required under NZ IFRS 4 is not materially different as the Loan Instalment Care contracts have an average duration of approximately 2.5 years; and
- A provision for outstanding notified claims which have been accepted but not yet been paid, and claims incurred but not reported. For Loan Instalment Care claims, the outstanding notified claims provision is the discounted present value of the insured instalment for the duration of disablement, projected forward using a set of claim continuance assumptions.

The key assumptions used by the Appointed Actuary in calculating the policy liabilities at 31 March 2016 are set out below:

- *Discount, Inflation and Tax Rates:* Discount rates vary from 1.58% to 2.19% dependent on the product. The discount rate basis is swap rates (2015: Government bond rates). Inflation and tax are set at 2% and 28% respectively.

Notes to the Financial Statements For the year ended 31 March 2016

20. INSURANCE BUSINESS - CO-OPERATIVE LIFE LIMITED cont.

- *Mortality:* Life Plus Death cover was assumed 80% of NZ97 (2015: 80%), based on the Company's own experience, adjusted for the smoking status of lives insured. Loan Plus was assumed 55% of NZ97 (2015: 55%).
- *Morbidity:* Life Plus Trauma assumed at 90% of reinsurance rates (2015: 90%); Loan Instalment Care 25% of premiums (2015: 30%).
- *Cancellation Rates:* Life Plus cancellation rates vary from 5% to 16% dependent on the age of the policy holder and the recent and expected future experience of cancellations. Loan Instalment Care is based on 35% per annum (2015: 32%).
- *Surrender volume and values:* Loan Plus surrender volumes are based on a sliding scale which is modelled from actual experience adjusted for expected future experience. Loan Plus Surrender values are modelled from actual experience adjusted for expected future experience.
- *Administration Costs:*

Life Plus renewals	$32 per policy per annum (2015: $27)
Loan Plus	$3 per policy per annum (2015: $14)
Loan Instalment Care	13% of premiums (2015: 10% of premiums)

Co-op Life Actuarial Information

The actuarial valuation of policy liabilities as at 31 March 2016 has been calculated by Peter Davies, B.Bus.Sc, FIA, FNZSA, in accordance with NZ IFRS 4, issued by the External Reporting Board and Professional Standard no. 20: Determination of Life Insurance Policy Liabilities, issued by the New Zealand Society of Actuaries. Mr Davies is the externally Appointed Actuary for Co-op Life and is an independent professional adviser to the Banking Group on insurance related matters.

The actuarial valuation of the policy liabilities relating to the position at 31 March 2016 was dated 26 April 2016. Mr Davies has confirmed in his actuarial report that he is satisfied with the nature, sufficiency and accuracy of the data provided to him by Co-op Life for the purpose of his valuation. There were no significant changes to the actuarial assumptions used in the 31 March 2016 valuation compared to the assumptions used in the 31 March 2015 valuation and there were no qualifications in the actuarial report dated 26 April 2016. For future valuations, the valuation method for Loan Plus policies will change from an accumulation method to a projection method, with the opening profit margins calculated as at 31 March 2016.

Solvency Margin

The Insurance (Prudential Supervision) Act 2010 requires registered life insurers to maintain a positive Solvency Margin at all times. We have calculated the prudential solvency position as at 31 March 2016 in accordance with the RBNZ's Solvency Standard for Life Insurance Business ("the Solvency Standard"). The solvency position is summarised below:

	31 March 2016 $000	31 March 2015 $000
Actual Solvency Capital	5,996	6,675
Minimum Solvency Capital	5,000	5,000
Solvency Margin	**996**	**1,675**
Solvency Ratio	**120%**	**134%**

Co-op Life has guaranteed the obligations of Co-op Bank to all depositors who were depositors at the time and date of bank registration (26 October 2011). In May 2015, this allowance reduced to a level where it is now covered by the regulatory capital requirement of $5.0 million. The full value of the remaining guaranteed deposits as at 31 March 2016 was $1,581,727 (31 March 2015: $6,471,437). The guarantee will cease on 25 September 2016 when the remaining deposits mature.

The 31 March 2016 Minimum Solvency Capital includes a deduction for the $3.5 million dividend to be paid to Co-op Bank on 27 May 2016 (31 March 2015: $1.25 million). Under the Solvency Standard, any dividend declared between the effective date of a solvency return to the RBNZ and the date that the return is filed needs to be reflected in the solvency return. Since the March 2016 solvency return will not be filed prior to the dividend being paid on 27 May 2016, the $3.5 million dividend has been deducted from Actual Solvency Capital at 31 March 2016. This resulted in the 31 March 2016 Solvency Margin reducing from $4.5 million to $1.0 million (31 March 2015: $2.9 million reduced to $1.7 million).

Notes to the Financial Statements For the year ended 31 March 2016

21. CAPITAL NOTES

	Coupon	Maturity Date	31 March 2016 $000	31 March 2015 $000
2006 Issue Fixed Rate	9.10%	25 Sep 2016	1,365	1,365
2006 Issue Floating Rate	6.10%	25 Sep 2016	233	233
Issue Costs			(1)	(3)
Total Capital Notes			**1,597**	**1,595**

The capital notes are medium to long-term unsecured subordinated obligations with either fixed or variable interest coupons. Interest is payable on each six-monthly payment date (30 September and 31 March) and the floating rate is calculated using the six months Bank Bill Mid-Rate ("BKBM") plus a margin (2.35%). At maturity date the capital notes will be redeemed by the Banking Group.

22. SHARE CAPITAL

	31 March 2016 Number Shares	31 March 2015 Number Shares
Number of Class A Shares		
Opening Balance	129,309	125,766
Movement during the year	7,210	3,543
Closing Balance	**136,519**	**129,309**
Number of Class B Shares		
Opening Balance	–	–
Movement during the year	2,166	–
Closing Balance	**2,166**	**–**
Total number of Shares	**138,685**	**129,309**

Each Customer who is an individual holds one Class A share of no nominal value and there is no uncalled capital. Class A shares confer voting rights and the potential right to participate in rebates and distributions. Upon the winding up or liquidation of Co-op Bank, holders of Class A shares will have a right to share in the surplus assets of Co-op Bank after payment of all creditors, pursuant to clause 20 of Co-op Bank's Constitution.

Each Customer who is a non-natural person (such as companies or trusts) holds one Class B share of no nominal value and there is no uncalled capital. Class B shares do not confer voting rights (other than in relation to interest group resolutions affecting Class B shareholders) but they do confer the potential right to participate in rebates and distributions. Upon the winding up or liquidation of Co-op Bank, holders of Class B shares will have not have a right to share in the surplus assets of Co-op Bank after payment of all creditors, pursuant to clause 20 of Co-op Bank's Constitution.

23. CAPITAL COMMITMENTS

The Banking Group had no capital expenditure commitments that were not provided for in these financial statements (31 March 2015: $0.7 million).

Notes to the Financial Statements For the year ended 31 March 2016

24. LEASE COMMITMENTS

The net operating lease commitments to maturity are as follows:

	31 March 2016 $000	31 March 2015 $000
Not Later than One Year	3,672	3,015
Later than One Year and Not Later than Two Years	3,365	2,281
Later than Two Years and Not Later than Five Years	7,826	5,102
Later than Five Years	13,388	2,303
Total Lease Commitments	**28,251**	**12,701**

The Banking Group leases various premises under non-cancellable operating lease agreements. The leases have varying terms and renewal rights. All leases relate to property rental with renewal options on the lease expiry date.

25. RECONCILIATION OF PROFIT AFTER TAX WITH NET CASH FLOW FROM OPERATING ACTIVITIES

Profit after Tax Attributable to Shareholders	10,267	8,888
Add/(Less) Non-Cash Items:		
Depreciation	2,163	2,059
Amortisation	2,506	1,806
Impairment losses on Loans and Advances	2,045	1,285
Fair Value Movement on Investments	(51)	(145)
Movement in Derivative Interest Settlement	818	(18)
Movement in Deferred Tax	432	256
Amortised Financing Costs	269	301
Loss on Disposal of Assets	34	49
	8,216	5,593
Changes in Working Capital Items:		
Receivables and Prepayments	(916)	(1,478)
Available for Sale Investments	17,911	(28,615)
Fair Value through Profit or Loss Investments	614	243
Held to Maturity Investments	–	4,506
Loans and Advances	(243,809)	(155,023)
Provision for Rebates to Shareholders	300	500
Payables and Other Liabilities	772	(397)
Tax Payable	662	392
Deposits	213,394	169,802
Secured Borrowings	3,995	4,022
Life Insurance Net Policy Liabilities	305	(18)
	(6,772)	(6,066)
Items Classified as Financing Activities:		
Interest on Capital Notes	138	207
	138	207
Net Cash Flow from Operating Activities	**11,849**	**8,622**

Notes to the Financial Statements For the year ended 31 March 2016

26. CREDIT RELATED COMMITMENTS AND CONTINGENT LIABILITIES

The Banking Group has approved $53.7 million of loans and advances which had not been paid out at 31 March 2016 (31 March 2015: $50.3 million).

The Banking Group had no material contingent liabilities as at 31 March 2016 (31 March 2015: Nil).

27. RELATED PARTY TRANSACTIONS

Transactions with Key Management Personnel[4]

(i) Directors' Remuneration

The name of each person holding office as a Director of Co-op Bank throughout the financial year ended 31 March 2016 and the total remuneration received by each Director in relation to Co-op Bank and its subsidiaries is set out below:

	31 March 2016 $000	31 March 2015 $000
Steven Fyfe	78	76
Paul Goulter	59	60
Sarah Haydon	55	4
Sam Robinson	53	52
Brendan O'Donovan	53	47
Dianne Kidd	46	45
Marion Cowden	46	45
Joanna Perry	–	52
John Isles	–	17
Total Directors' Remuneration	**390**	**398**

The total maximum remuneration payable to the Directors of Co-op Bank is approved by the Shareholders at the Annual General Meeting and apportioned by the Directors. For the year ended 31 March 2016 this amount was $427,500 (2015: $415,000).

The Banking Group has purchased Directors' and Officers' Liability insurance to indemnify the Directors. No Directors received any other benefit that was additional to his or her total remuneration.

(ii) Senior Management Compensation

Short-Term Benefit	2,502	2,084
Other Long-Term Benefit	204	–

The remuneration of the Senior Leadership Team is determined by the Board having regard to the performance of the individuals and market trends.

[4] Key Management Personnel are defined as being Directors and the Senior Leadership Team who have authority and responsibility for planning, directing and controlling the activities of the Banking Group. The information disclosed relating to Key Management Personnel includes transactions with those individuals.

Notes to the Financial Statements For the year ended 31 March 2016

27. RELATED PARTY TRANSACTIONS cont.

(iii) Key Management Personnel Deposits and Loans with the Banking Group

	Opening Balance $000	Movement During Year $000	Closing Balance $000	Interest Received/ (Paid) by Co-op Bank $000
2016				
Deposits	658	249	907	(24)
Loans and Advances	687	87	774	38
2015				
Deposits	1,059	(401)	658	(34)
Loans and Advances	717	(30)	687	40

The above deposits, loans and advances (including interest rates and collateral) transactions are conducted on an arm's length basis in the normal course of business and on commercial terms and conditions. The amounts outstanding are secured, and will be settled in cash. No expense has been recognised for bad or doubtful debts in respect of the amounts owed by related parties during the year ended 31 March 2016 (31 March 2015: Nil).

28. FINANCIAL RISK MANAGEMENT

The Banking Group is committed to the management of risk to achieve sustainability of service, employment and profits and therefore takes on controlled amounts of risk when considered appropriate. The primary financial risks are credit, interest rate, liquidity, insurance and operational risk, and occasionally foreign exchange risk.

The Board is responsible for the review and ratification of the Banking Group's systems of risk management, internal compliance and control, code of conduct and legal compliance. The Board maintains a formal set of delegated authorities that clearly define the responsibilities delegated to Management and those retained by the Board. Credit and Treasury delegated authorities are contained within their respective policy documents. The Board approves these delegated authorities and reviews them annually.

Management provide monthly updates on key operational, credit, and treasury risks to the Board. Full reporting on these risks is provided quarterly to the Risk Committee. In addition, the following Management Committees review and manage key risks:

- The Senior Leadership Team meets regularly to consider new and emerging risks, reviews actions required to manage and mitigate key risks, and to monitor progress; and
- The Assets and Liabilities Committee ("ALCO") meets weekly to consider, monitor and review exposure to interest rate risk, liquidity risk, and credit risk.

Credit Risk
Credit risk is the potential risk of loss arising from the non-performance of a counterparty to a financial instrument or facility. Co-op Bank's credit risk is related to retail lending and wholesale (treasury) investments.

Co-op Bank is selective in targeting credit risk exposure to retail lending and avoids exposures to any high risk area. Before approving a loan, Co-op Bank generally undertakes an independent credit check, seeks an asset valuation where appropriate and assesses the Customer's capacity to make repayments, their financial position and their credit history. Collateral is obtained, where appropriate, by Co-op Bank to cover credit risk exposures and such collateral includes real property, deposits, motor vehicles and other assets. As at 31 March 2016 approximately 92% of Co-op Bank's loans and advances were secured by a first mortgage over real property as a minimum (31 March 2015: 92%). Following any loan approval, Co-op Bank regularly monitors loan performance, takes prompt action to address arrears/default situations and takes fair but firm action to realise securities and minimise losses in the event of default.

Notes to the Financial Statements For the year ended 31 March 2016

28. FINANCIAL RISK MANAGEMENT cont.

Wholesale investment credit risk exposure is managed through a conservative "approved counterparty" policy and maximum credit limits, which have been approved for each counterparty on the basis of:

- Portfolio tier limits by credit rating;
- Individual tier limits by credit rating;
- Product category limits; and
- Term to maturity limits.

All retail credit risks are within New Zealand and all credit risk is denominated in New Zealand dollars.

Interest Rate Risk
Interest rate risk can take two forms:

- Adverse wholesale rate movements; and
- Reductions in borrowing or lending margins.

The primary objective of the Banking Group's interest rate risk policies is to limit underlying net interest income volatility. The risk from adverse wholesale rate movements is managed on a portfolio basis, with the exposures quantified using a weighted duration approach. To protect net interest income, the Banking Group will regularly review and where necessary acquire interest rate swap derivatives to hedge the exposures within conservatively set control limits.

The exposure to net interest income from a reduction in borrowing or lending margins is managed through wholesale rates, liquidity premiums, as well as appropriate lending credit margins, to be taken into consideration when setting retail rates.

Sensitivity Analysis	Interest Rates Increase by 100 Basis Points		Interest Rates Decrease by 100 Basis Points	
	2016 $000	2015 $000	2016 $000	2015 $000
Cash Flow Positive/(Negative) Impact on Net Interest Income	764	564	(282)	(132)
Fair Value (Negative)/Positive Impact on Net Interest Income	(279)	(239)	302	254
Total Impact on Net Interest Earnings	**485**	**325**	**20**	**122**
Cash Flow Positive/(Negative) Impact on Equity	764	564	(282)	(132)
Fair Value Positive/(Negative) Impact on Equity	5,031	5,177	(4,956)	(4,751)
Total Impact on Equity	**5,795**	**5,741**	**(5,238)**	**(4,883)**

The table above summarises the sensitivity of financial assets and financial liabilities to a change in interest rate risks using a reasonable possible change in these rates. Financial modelling is used to determine the impact on the value of changes in each risk scenario, taking into account both cash flow and fair value sensitivity. Differences between the impact on Equity and the impact on Net Interest Income are a result of fair value movements on Available for Sale Investments as these movements are taken directly to Equity.

Liquidity Risk
Liquidity risk is the risk that the Banking Group will encounter difficulty in meeting commitments associated with its financial liabilities. The primary objectives of the Banking Group's liquidity policies are to ensure all financial obligations are met when due and provide adequate protection under a materially adverse liquidity stress scenario. The Banking Group is subject to the RBNZ's liquidity requirements as set out in the RBNZ's "Liquidity Policy" (BS13) and "Liquidity Policy Annex: Liquid Assets" (BS13A). Consistent with the requirements of the RBNZ's Liquidity Policies, liquidity risk is managed by the Banking Group on a cash flow mismatch and a core funding basis to ensure that the Banking Group exceeds the RBNZ's specified minimum standards for those metrics. The Banking Group's liquidity management responsibilities include:

Notes to the Financial Statements For the year ended 31 March 2016

28. FINANCIAL RISK MANAGEMENT cont.

- Day-to-day liquidity requirements. RBNZ liquidity ratios are calculated and monitored daily to ensure that the Banking Group:
  - is compliant with condition 12 of the Conditions of Registration, the RBNZ's Liquidity Policies.
  - maintains a prudent level of cash and highly liquid assets ("primary liquid assets") and marketable assets of limited credit risk ("secondary liquid assets") to meet anticipated wholesale and retail outflows over a one week, one month and one year period as well as provide adequate cover against funding stress or unexpected run-off risk.
- Securing an appropriately matched profile of future cash flows from maturing assets and liabilities.
- Implementing the Banking Group's funding plan which includes the development of sustainable wholesale funding capacity.
- Stress testing the Banking Group's funding and liquidity position, based on a material withdrawal of retail deposits.

The Banking Group is compliant with all limits set by the RBNZ

Insurance Risk

Insurance risk is the failure of product design, product pricing, underwriting or claims management processes resulting in the cost of an insurance claim being higher than the planned cost. Key insurance risk metrics are measured against targets and reported to the Co-op Life Board on a quarterly basis. In compliance with contractual and policy requirements, a strategy is in place to ensure that the risks underwritten should not adversely affect Co-op Life's ability to pay benefits and claims when they fall due. To limit its exposure, Co-op Life has its own reinsurance programme in place where it cedes business to external entities, either by surplus or quota share reinsurance arrangements. Continuous monitoring of the procedures in place is undertaken to minimise the chance of an adverse compliance or operational risk event occurring.

Procedures exist for verification, assessment and payment of claims. Strict claims management procedures ensure the timely and correct payment of claims in accordance with policy and/or treaty conditions.

Concentration of insurance risk is managed by setting the underwriting acceptance criteria for Life Plus life and trauma cover so that they are progressively more extensive with higher covers and older ages and limiting the maximum cover offered by some key products. Policies are sold only to individuals where there is a reasonable diversification of geographic and work-place risk, rather than to employer-based or affinity-based schemes.

Sensitivity Analysis

A sensitivity analysis has been carried out, varying the discount rate used to value policy liabilities by +1.0% and -1.0%. The policy liabilities for the Loan Plus and Loan Instalment Care business are unaffected by this change, due to this business being valued on the accumulation method, which does not require discounting. For the Life Plus the net policy liabilities, and for Loan Instalment Care the claims accrual are affected, as follows:

	31 March 2016		31 March 2015	
	Discount Rate before Tax +1.0% $000	Discount Rate before Tax -1.0% $000	Discount Rate before Tax +1.0% $000	Discount Rate before Tax -1.0% $000
Life Plus	(287)	341	(234)	278
Loan Care	–	–	(33)	34
Loan Instalment Care - Open Claims	(8)	9	(7)	8

Further sensitivity analysis has been completed using a 10% change to the demographic and expense assumptions used. There is no impact on the net policy liabilities because the policy liabilities for Loan Plus and Loan Instalment Care are subject to a loss recognition test. Further the net policy liabilities for all products exceed the central estimate of the present value of future net outflows by a margin. While the central estimate of future policy outflows varies with changes in assumptions, the policy liabilities do not. The future performance of Co-op Life's insurance contracts is affected by actual experience differing from the valuation assumptions. For the Life Plus business, there is sufficient profit margin in the policy liabilities to absorb the change in the assumptions, and the policy liability is therefore unaffected.

Notes to the Financial Statements For the year ended 31 March 2016

28. FINANCIAL RISK MANAGEMENT cont.

Operational Risk
Operational risk is the risk arising from day to day operational activities which may result in direct or indirect loss. These losses may result from inadequate information systems, technology failures, breaches in internal controls, fraud or unforeseen events. Where appropriate, risks are mitigated by insurance.

Each business unit has primary responsibility for the identification and management of operational risk. Regular measurement, monitoring and reporting of operational risk is managed by the Risk Committee with summarised reporting provided to the Board.

Foreign Currency Risk
Foreign currency risk is the risk that the Banking Group would be adversely impacted from unfavourable movements in foreign currency rates. The Banking Group does not normally have exposure to foreign currency risk, other than certain payments for fixed assets and operating expenditure, which are hedged by entering into forward exchange contracts. Forward exchange contracts must be acquired for exposures that are certain.

Derivatives
Derivative instruments are contracts whose value is derived from one or more underlying financial instruments or indices defined in the contract. The Banking Group may enter into derivative transactions including swaps, forward rate agreements, futures, options and combinations of these instruments for the purpose of managing the Banking Group's exposure to interest rate risk and currency risk.

Market Risk
Market risk is the risk that movements in the level or volatility of market interest rates and prices will affect the Banking Group's income or the value of its financial instruments.

Notes to the Financial Statements For the year ended 31 March 2016

29. CONCENTRATIONS OF CREDIT RISK

	31 March 2016 $000	31 March 2015 $000
Cash on Hand and at NZ Registered Banks	22,837	18,121
Receivables	698	372
Available for Sale Investments	174,779	191,097
Derivatives	4,304	1,963
Fair Value through Profit or Loss Investments	9,057	9,738
Loans and Advances	1,803,680	1,561,916
Total On Balance Sheet Credit Exposures	**2,015,355**	**1,783,207**
Off Balance Sheet Exposures – Undrawn Commitments	53,688	50,334
Total Credit Exposures	**2,069,043**	**1,833,541**
Concentration of Credit Exposures by Sector		
Cash on Hand	1,398	1,394
Local Government	38,658	59,347
NZ Registered Banks – Subordinated Debt	4,715	4,779
NZ Registered Banks – Other	98,990	108,901
Listed Multilateral Development Banks and Other International Organisations	30,790	15,178
Other Corporate Investments	32,122	29,357
Residential Mortgage Lending	1,711,164	1,475,363
Consumer Lending	146,204	136,887
Other	5,002	2,335
Total Credit Exposures	**2,069,043**	**1,833,541**
Concentration of Credit Exposures by Geographical Location		
North Island	1,554,805	1,414,517
South Island	478,733	399,067
Overseas	35,505	19,957
Total Credit Exposures	**2,069,043**	**1,833,541**

The credit exposures shown in the table above are based on actual credit exposures, net of allowances for impairment loss. Off Balance Sheet Exposures – Undrawn Commitments represents the unutilised balances of Member credit facilities (overdrafts, creditline accounts and revolving credit mortgages) and approved but undrawn lending. Other Corporate Investments include investments in instruments issued by financial institutions. As at 31 March 2016, 80% of the Banking Group's mortgage portfolio were owner occupied residential properties (31 March 2015: 81%).

Overseas credit exposures include investments in NZ Registered Banks – Subordinated Debt and Listed Multilateral Development Banks and Other International Organisations. These investments are New Zealand dollar denominated but the counterparty is domiciled overseas.

Of the drawn balances on credit facilities with undrawn commitments, there were none that are classified as individually impaired, or balances under administration as at 31 March 2016 (31 March 2015: None).

Notes to the Financial Statements For the year ended 31 March 2016

30. CONCENTRATION OF CREDIT EXPOSURES TO INDIVIDUAL COUNTERPARTIES

The Banking Group's disclosure of concentrations of credit exposures to individual counterparties and groups of closely related counterparties shown below is based on actual credit exposures, net of allowances for impairment loss, excluding credit exposures to connected persons, the central government of any country with a long-term credit rating of A- or A3 or above, or its equivalent, and banks with a long-term credit rating of A- or A3 or above, or its equivalent.

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

Peak End of Day Credit Exposures – Non Bank Counterparties	Year Ended 31 March 2016 Number	Year Ended 31 March 2015 Number
Percentage of Total Shareholders' Reserves		
10% to 14%	2	1
20% to 24%	1	1

As at Reporting Date – Non Bank Counterparties	31 March 2016 $000	31 March 2015 $000
Percentage of Total Shareholders' Reserves		
10% to 14%	1	1
15% to 19%	1	1

The above tables have been compiled using gross credit exposures and do not include any guarantee arrangements. The individual non bank counterparties shown in the tables above only 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.

For the year ended 31 March 2016, the Banking Group had no peak or reporting date credit exposures to individual bank or non bank counterparties with a long-term credit rating below A- or short term investment grade rating below A3, or its equivalent or which do not have a long term credit rating (31 March 2015: Nil).

Credit Exposures to Connected Persons
The connected persons of Co-op Bank are the Directors. There are no non bank connected persons. There were no credit exposures to connected persons at either reporting date.

31. CONCENTRATIONS OF FUNDING

	31 March 2016 $000	31 March 2015 $000
Deposits	1,788,134	1,574,740
Registered Banks	64,093	38,088
Institutional Investors	–	21,446
Capital Notes	1,597	1,595
Total Funding	**1,853,824**	**1,635,869**

The funding shown in the table above comprises deposits, secured borrowings and capital notes and is presented at amortised cost.

All deposits are unsecured unsubordinated bank deposits issued by Co-op Bank. The Capital Notes are unsecured subordinated obligations.

The securitised receivables that have been sold to the Warehouse Trust have been secured by the Trustee of the Warehouse Trust for the benefit of Westpac. The relevant security interest is held by a special purpose security trustee rather than Westpac in its own right, but Westpac is the beneficiary of that security interest.

Notes to the Financial Statements For the year ended 31 March 2016

31. CONCENTRATIONS OF FUNDING cont.

The securitised receivables that have been sold to the Co-op RMBS Trust have been secured by the Trust's Trustee for the benefit of the bondholders. The Class A bondholders rank in priority of entitlement to payment ahead of the Class B bondholders. The relevant security interest is held by a special purpose trustee rather than the bondholders in their own right, but the bondholders are the beneficiaries of that security interest.

	31 March 2016 $000	31 March 2015 $000
Geographical Distribution of Funding		
North Island	1,384,215	1,213,300
South Island	450,868	404,984
Overseas	18,741	17,585
Total Funding	**1,853,824**	**1,635,869**

32. INTEREST RATE SENSITIVITY ANALYSIS

The following tables include financial assets and financial liabilities at their carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The Net Derivative Notional Principals are the principal values of interest rate swaps at contractual repricing dates, less principal values at maturity date.

As at 31 March 2016	Up to 3 Months $000	3 - 6 Months $000	6 Months to 1 Year $000	1 - 2 Years $000	Over 2 Years $000	Non-Interest Bearing $000	Total $000
Assets							
Cash and Cash Equivalents	21,439	–	–	–	–	1,398	22,837
Receivables	–	–	–	–	–	698	698
Available for Sale Investments	58,136	3,556	6,373	24,121	82,593	–	174,779
Derivatives	–	–	–	–	–	4,304	4,304
Fair Value through Profit or Loss Investments	3,386	604	203	813	4,051	–	9,057
Loans and Advances	594,046	140,188	405,561	520,862	146,293	(3,270)	1,803,680
Total Financial Assets	**677,007**	**144,348**	**412,137**	**545,796**	**232,937**	**3,130**	**2,015,355**
Liabilities							
Payables and Other Liabilities	–	–	–	–	–	10,079	10,079
Derivatives	–	–	–	–	–	15,135	15,135
Deposits	748,775	405,242	361,132	144,577	45,365	83,043	1,788,134
Secured Borrowings	64,204	–	–	–	–	(408)	63,796
Capital Notes	–	1,598	–		–	(1)	1,597
Total Financial Liabilities	**812,979**	**406,840**	**361,132**	**144,577**	**45,365**	**107,848**	**1,878,741**
Net Derivative Notional Principals	373,800	224,500	(102,800)	(418,500)	(77,000)	–	–
Total Interest Rate Sensitivity Gap	**237,828**	**(37,992)**	**(51,795)**	**(17,281)**	**110,572**	**(104,718)**	**136,614**

Notes to the Financial Statements For the year ended 31 March 2016

32. INTEREST RATE SENSITIVITY ANALYSIS cont.

As at 31 March 2015	Up to 3 Months $000	3 - 6 Months $000	6 Months to 1 Year $000	1 - 2 Years $000	Over 2 Years $000	Non-Interest Bearing $000	Total $000
Assets							
Cash and Cash Equivalents	16,727	–	–	–	–	1,394	18,121
Receivables	–	–	–	–	–	372	372
Available for Sale Investments	86,854	10,499	7,821	4,204	81,719	–	191,097
Derivatives	–	–	–	–	–	1,963	1,963
Fair Value through Profit or Loss Investments	3,612	162	1,365	605	3,994	–	9,738
Loans and Advances	533,068	69,246	244,551	526,351	191,877	(3,177)	1,561,916
Total Financial Assets	**640,261**	**79,907**	**253,737**	**531,160**	**277,590**	**552**	**1,783,207**
Liabilities							
Payables and Other Liabilities	–	–	–	–	–	9,283	9,283
Derivatives	–	–	–	–	–	5,586	5,586
Deposits	712,638	318,511	318,080	107,722	46,040	71,749	1,574,740
Secured Borrowings	59,829	–	–	–	–	(295)	59,534
Capital Notes	–	233	–	1,365	–	(3)	1,595
Total Financial Liabilities	**772,467**	**318,744**	**318,080**	**109,087**	**46,040**	**86,320**	**1,650,738**
Net Derivative Notional Principals	359,400	147,900	39,500	(429,300)	(117,500)	–	–
Total Interest Rate Sensitivity Gap	**227,193**	**(90,937)**	**(24,843)**	**(7,227)**	**114,051**	**(85,768)**	**132,469**

33. LIQUIDITY RISK

The Banking Group holds the following financial assets for the purpose of managing liquidity risk. Total liquidity includes committed but undrawn funding lines. As at 31 March 2016, the Banking Group had total committed funding lines with other registered banks of $185 million (31 March 2015: $100 million). Of these facilities $64 million was drawn down at 31 March 2016 (31 March 2015: $38 million). The Banking Group also has the Co-op RMBS Trust that issues securities which can be used as collateral for borrowing from the RBNZ under its liquidity management arrangements. Whilst not intended to be used for standard daily liquidity requirements, this facility is available as contingent funding and accordingly the total liquidity shown below includes this facility.

	31 March 2016 $000	31 March 2015 $000
Cash and Cash Equivalents	22,837	18,121
Available for Sale Investments	174,779	191,097
Fair Value through Profit or Loss Investments	9,057	9,738
Undrawn Wholesale Funding	121,000	62,000
Eligible Co-op RMBS Trust Collateral	100,779	79,356
Total Liquidity	**428,452**	**360,312**

Notes to the Financial Statements For the year ended 31 March 2016

34. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are measured on an on-going basis either at fair value or amortised cost. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the reporting date.

(a) Comparison of Fair Values and Carrying Values

The following tables summarise the carrying amounts and fair values of those financial assets and financial liabilities that are not presented at fair value in the Balance Sheet.

	Carrying Value 31 March 2016 $000	Fair Value 31 March 2016 $000	Carrying Value 31 March 2015 $000	Fair Value 31 March 2015 $000
Financial Assets				
Loans and Advances	1,803,680	1,813,552	1,561,916	1,567,856
Total	**1,803,680**	**1,813,552**	**1,561,916**	**1,567,856**
Financial Liabilities				
Deposits	1,788,134	1,792,446	1,574,740	1,576,356
Secured Borrowings	63,796	63,794	59,534	59,536
Capital Notes	1,597	1,627	1,595	1,660
Total	**1,853,527**	**1,857,867**	**1,635,869**	**1,637,552**

(b) Fair Value Valuation Methodology

A number of financial instruments are carried on the Balance Sheet at fair value. The best evidence of fair value is a quoted market price in an active market. Therefore, where possible, fair value is based on quoted market prices. Where a quoted market price for an instrument is not available, the fair value is based on discounted cash flow models incorporating current market observable data for similar instruments or other valuation techniques based on current market conditions.

The following fair value hierarchy, as set out in NZ IFRS 13: *Fair Value Measurement*, has been used to categorise the inputs to valuation techniques used to measure the financial assets and financial liabilities which are carried at fair value:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

All of the Banking Group's financial instruments that are recognised and measured at fair value on a recurring basis sit within Level 2. There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the reporting period. The Banking Group determines the valuation of financial instruments classified in Level 2 as follows:

Derivative Assets and Derivative Liabilities
The fair values are obtained from market yields and discounted cash flow models.

Available for Sale Investments and Fair Value through Profit or Loss Investments
The fair values are estimated using present value or other market acceptable valuation techniques, using methods or assumptions that are based on observable market conditions and risks existing as at the reporting date.

Notes to the Financial Statements For the year ended 31 March 2016

35. CONTRACTUAL MATURITY ANALYSIS

The following tables analyse the Banking Group's financial assets and financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The figures reported include interest and principal cash flows expected to maturity, as well as the commitment to make amounts available in instalments. The total amount is different from the amount on the Balance Sheet as the cash flows shown below are undiscounted cash flows.

The contractual maturity analysis is not used by the Banking Group to manage liquidity as these maturity groupings are not considered to be indicative of actual future cash flows. This is primarily because the majority of the longer term Loans and Advances are housing loans, which are likely to be repaid earlier than their contractual terms. In addition Deposits include substantial Customer savings deposits and cheque accounts which are at call and deposits which are renewed at maturity and therefore do not have a cash flow impact. Historical experience has shown that the re-investment of such deposit accounts is a stable source of long-term funding for the Banking Group.

As set out in Note 28, the Banking Group manages liquidity risk on a cash flow mismatch and core funding basis through the maintenance of a portfolio of liquid assets and committed funding lines rather than on a contractual maturity basis.

As at 31 March 2016	On Demand $000	Within 6 Months $000	6 – 12 Months $000	1 – 2 Years $000	Over 2 Years $000	No Maturity $000	Total $000
Assets							
Cash and Cash Equivalents	22,837	–	–	–	–	–	22,837
Receivables	–	698	–	–	–	–	698
Available for Sale Investments	–	54,084	3,802	26,726	94,325	5,000	183,937
Derivatives	–	1,539	743	977	1,247	–	4,506
Fair Value through Profit or Loss Investments	–	4,110	292	949	4,405	–	9,756
Loans and Advances	45,035	58,073	50,162	101,619	2,375,283	–	2,630,172
Total Financial Assets	**67,872**	**118,504**	**54,999**	**130,271**	**2,475,260**	**5,000**	**2,851,906**
Liabilities							
Payables and Other Liabilities	–	9,108	971	–	–	–	10,079
Derivatives	–	6,466	4,375	3,611	2,093	–	16,545
Deposits	608,210	639,244	367,183	151,844	50,685	–	1,817,166
Secured Borrowings	–	64,154	–	–	–	–	64,154
Capital Notes	–	1,664	–	–	–	–	1,664
Total Financial Liabilities	**608,210**	**720,636**	**372,529**	**155,455**	**52,778**	**–**	**1,909,608**
Undrawn Commitments	**31,385**	**22,303**	**–**	**–**	**–**	**–**	**53,688**

Notes to the Financial Statements For the year ended 31 March 2016

35. CONTRACTUAL MATURITY ANALYSIS cont.

As at 31 March 2015	On Demand $000	Within 6 Months $000	6 – 12 Months $000	1 – 2 Years $000	Over 2 Years $000	No Maturity $000	Total $000
Assets							
Cash and Cash Equivalents	18,121	–	–	–	–	–	18,121
Receivables	–	372	–	–	–	–	372
Available for Sale Investments	–	66,156	9,724	30,435	88,678	5,000	199,993
Derivatives	–	705	272	425	644	–	2,046
Fair Value through Profit or Loss Investments	–	2,733	2,661	783	4,287	–	10,464
Loans and Advances	38,053	51,601	43,520	88,304	2,182,212	–	2,403,690
Total Financial Assets	**56,174**	**121,567**	**56,177**	**119,947**	**2,275,821**	**5,000**	**2,634,686**
Liabilities							
Payables and Other Liabilities	–	8,277	1,006	–	–	–	9,283
Derivatives	–	1,597	1,726	2,133	776	–	6,232
Deposits	570,353	543,448	324,694	114,441	52,740	–	1,605,676
Secured Borrowings	–	38,774	568	1,137	49,980	–	90,459
Capital Notes	–	69	69	1,666	–	–	1,804
Total Financial Liabilities	**570,353**	**592,165**	**328,063**	**119,377**	**103,496**	**–**	**1,713,454**
Undrawn Commitments	**26,274**	**24,060**	**–**	**–**	**–**	**–**	**50,334**

36. SEGMENT REPORTING

The Banking Group operates in one geographical segment which is 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 total revenue from any single Customer.

Operating segments are reported in a manner consistent with internal reporting provided to the chief operating decision-maker, being Co-op Bank's Chief Executive. The Chief Executive is responsible for allocating resources and assessing performance of the operating segments.

For segment reporting purposes, the Banking Group is organised into two major business groups – Banking and Insurance. Operating segments have been categorised according to their service nature and business process. Banking is the core operating segment which comprises all of the banking activities. Its range of products includes loans and advances and deposits. The insurance segment encompasses activity associated with Co-op Life and includes the performance of the Life Plus, Loan Plus, and Loan Instalment Care insurance products.

Notes to the Financial Statements For the year ended 31 March 2016

36. SEGMENT REPORTING cont.

Segment Information – Year Ended 31 March 2016	Banking $000	Insurance $000	Total $000
Interest Income	118,282	521	118,803
Interest Expense	(67,317)	–	(67,317)
Other Operating Income	12,544	6,848	19,392
Net Operating Income	**63,509**	**7,369**	**70,878**
Profit before Rebate and Tax	12,615	3,186	15,801
Rebates to Shareholders	(2,100)	–	(2,100)
Profit before Tax	**10,515**	**3,186**	**13,701**
Total Assets	**2,026,165**	**14,988**	**2,041,153**
Total Liabilities	**1,878,818**	**5,367**	**1,884,185**

Segment Information – Year Ended 31 March 2015			
Interest Income	110,086	553	110,639
Interest Expense	(61,833)	–	(61,833)
Other Operating Income	11,527	5,879	17,406
Net Operating Income	**59,780**	**6,432**	**66,212**
Profit before Rebate and Tax	10,771	2,636	13,407
Rebates to Shareholders	(1,800)	–	(1,800)
Profit before Tax	**8,971**	**2,636**	**11,607**
Total Assets	**1,793,233**	**13,106**	**1,806,339**
Total Liabilities	**1,651,095**	**4,978**	**1,656,073**

37. SUBSEQUENT EVENTS

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

Notes to the Financial Statements For the year ended 31 March 2016

38. CAPITAL ADEQUACY

The Banking Group's objectives in relation to the management of capital adequacy are to comply at all times with the regulatory capital requirements set out by the RBNZ, to maintain a strong capital base to cover the inherent risks of the business and maintain a targeted credit rating, and to support future business development and growth.

The Banking Group is subject to regulation by the RBNZ. The RBNZ has set minimum regulatory capital requirements for banks that are consistent with the international 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 Banking Group. The Banking Group complied with the RBNZ minimum capital adequacy ratio as determined in its Conditions of Registration, which are as follows:

- Total capital ratio of the Banking Group is not less than 8%; and
- Tier 1 capital ratio of the Banking Group is not less than 6%; and
- Common Equity Tier 1 capital ratio of the Banking Group is not less than 4.5%; and
- Total capital of the Banking Group is not less than $30 million.

For regulatory purposes, total regulatory capital is defined as the sum of the following categories:

- Tier 1 capital which comprises:

  (i) Common Equity Tier 1 Capital; and

  (ii) Additional Tier 1 capital; and
- Tier 2 capital

Certain deductions are made to arrive at Tier 1 and Tier 2 capital as documented in the RBNZ's Capital Adequacy Framework Standardised Approach (BS2A dated November 2015), the "Standardised Approach".

Tier 1 capital includes revenue and similar reserves and retained profits less intangible assets, cash flow hedging reserves, deferred tax. The Banking Group does not have any items included in Additional Tier 1 capital. Tier 2 capital consists of term subordinated debt.

Regulatory capital adequacy ratios are calculated by expressing capital as a percentage of risk weighted exposures. Risk weighted exposures are derived by assigning risk weight percentages to categories of exposures. These exposures are measured or estimated from selected balance sheet assets and off balance sheet exposures and market contracts. It should be noted that the regulatory risk weightings may not necessarily be consistent with the loss experience of the Banking Group.

The Banking Group has adopted the Basel III "standardised approach" as per BS2A to calculate regulatory capital requirements. Basel III consists of three 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 III 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 Internal Capital Adequacy Assessment Process ("ICAAP") for assessing its overall capital adequacy in relation to its risk profile and a strategy for maintaining adequate capital to support risk.

In addition to the material risks that are explicitly captured in the calculation of the Banking Group's Tier 1 and Total Capital ratios, the Banking Group has identified other areas of material risks which require an internal capital allocation. The other material risks identified by the Banking Group include access to capital, business position and earnings risk. As at 31 March 2016, the Banking Group has made an internal capital allocation of $57.3 million (31 March 2015: $51.4 million) to cover these identified risks. This internal capital allocation is in addition to the minimum capital required by the RBNZ.

The Board has ultimate responsibility for capital management, approves capital policy, and establishes minimum internal capital levels and limits. Management has responsibility for monitoring capital adequacy, identifying trends in capital adequacy, and for implementing action plans.

The internally set capital ratio targets for the Banking Group are higher than the regulatory minimum.

The capital adequacy calculations set out below summarise the composition of regulatory capital and capital adequacy ratios. For the purposes of calculating solo capital adequacy, the securitisation special purpose vehicles (the Warehouse Trust and the Co-op RMBS Trust) are treated as part of Co-op Bank.

Notes to the Financial Statements For the year ended 31 March 2016

38. CAPITAL ADEQUACY cont.

(a) Regulatory Capital Ratios

		Banking Group		Co-op Bank	
	Minimum Ratio Requirement	Unaudited 31 March 2016	Unaudited 31 March 2015	Unaudited 31 March 2016	Unaudited 31 March 2015
Common Equity Tier One Capital Ratio	4.5%	15.7%	16.4%	14.8%	15.7%
Tier One Capital Ratio	6.0%	15.7%	16.4%	14.8%	15.7%
Total Capital Ratio	8%	15.8%	16.5%	14.7%	15.6%
Buffer Ratio	2.5%	7.8%	8.5%	–	–

(b) Capital

(b) Capital	Unaudited 31 March 2016 $000	Unaudited 31 March 2015 $000
Common Equity Tier 1 Capital		
Retained Earnings (net of appropriations)	151,417	142,529
Accumulated Other Comprehensive Income:		
Profit after Tax	10,267	8,888
Available for Sale Reserve	2,424	1,277
Cash Flow Hedging Reserve	(7,140)	(2,428)
	156,968	**150,266**
Less deductions from Common Equity Tier One Capital		
Intangible Assets	(12,547)	(11,106)
Deferred Tax Asset	(869)	(1,301)
Cash Flow Hedging Reserve	7,140	2,428
Total Common Equity Tier One Capital	**150,692**	**140,287**
Additional Tier One Capital	–	–
Total Tier One Capital	**150,692**	**140,287**
Tier Two Capital		
Term Subordinated Debt	320	639
Total Tier Two Capital	**320**	**639**
Total Capital	**151,012**	**140,926**

As at 31 March 2016 the capital structure of the Banking Group comprised the following:

Retained Earnings
Retained earnings comprise the accumulated comprehensive income that has been retained in the Banking Group.

Available for Sale Reserve
The available for sale reserve comprises the changes in the fair value of Available for Sale Investments, net of tax. These changes are recognised in profit or loss as other income when the asset is either derecognised or impaired.

Cash Flow Hedging Reserve
The CFHR comprises the fair value gains and losses associated with the effective portion of designated cash flow hedging instruments.

Notes to the Financial Statements For the year ended 31 March 2016

38. CAPITAL ADEQUACY cont.

Term Subordinated Debt

The term subordinated debt comprises the capital notes issued by Co-op Bank in 2006 with a maturity date of 25 September 2016. The capital notes are medium to long-term unsecured subordinated obligations with either fixed or variable interest coupons. Interest is payable on each six-monthly payment date (30 September and 31 March) and the floating rate is calculated using the six month BKBM plus a margin (2.35%). At maturity date the capital notes will be redeemed by Co-op Bank.

(c) Credit Risk

(i) Calculation of On Balance Sheet Exposures - Unaudited

31 March 2016	Total Exposure After Credit Risk Mitigation $000	Risk Weight	Risk Weighted Exposure $000	Pillar One Minimum Capital Requirement $000
Cash	1,398	0%	–	–
Multilateral Development Banks and Other International Organisations	16,934	0%	–	–
Multilateral Development Banks and Other International Organisations	13,856	20%	2,771	222
Public Sector Entities	37,628	20%	7,526	602
Public Sector Entities	1,030	50%	515	41
Banks	98,990	20%	19,798	1,584
Banks	4,715	50%	2,358	189
Corporate	599	20%	120	10
Corporate	31,523	50%	15,762	1,261
Residential Mortgages Not Past Due (< 80% LVR)	1,427,187	35%	499,515	39,961
Residential Mortgages Not Past Due (80% – 90% LVR)	128,863	50%	64,432	5,155
Residential Mortgages Not Past Due (90% – 100% LVR)	26,815	75%	20,111	1,609
Residential Mortgages Not Past Due (>100% LVR)	1,457	100%	1,457	117
Property Investment Loans				
Residential Mortgages Not Past Due (< 80% LVR)	43,000	40%	17,200	1,376
Residential Mortgages Not Past Due (80% – 90% LVR)	4,954	70%	3,468	277
Welcome Home Loans				
Residential Mortgages Not Past Due (< 90% LVR)	23,267	35%	8,144	652
Residential Mortgages Not Past Due (90% – 100% LVR)	8,016	50%	4,008	321
Past Due Residential Mortgages	5,818	100%	5,818	465
Other Assets	147,158	100%	147,158	11,773
Other Past Due Assets	225	100%	225	18
Non Risk Weighted Assets	17,720	0%	–	–
Total	**2,041,153**		**820,386**	**65,633**

Notes to the Financial Statements For the year ended 31 March 2016

38. CAPITAL ADEQUACY cont.

31 March 2015	Total Exposure After Credit Risk Mitigation $000	Risk Weight	Risk Weighted Exposure $000	Pillar One Minimum Capital Requirement $000
Cash	1,394	0%	–	–
Multilateral Development Banks and Other International Organisations	3,932	0%	–	–
Multilateral Development Banks and Other International Organisations	11,246	20%	2,249	180
Public Sector Entities	57,394	20%	11,479	918
Public Sector Entities	1,953	50%	977	78
Banks	108,952	20%	21,790	1,743
Banks	4,728	50%	2,364	189
Corporate	15,933	20%	3,187	255
Corporate	13,424	50%	6,712	537
Residential Mortgages Not Past Due (< 80% LVR)	1,271,675	35%	445,086	35,608
Residential Mortgages Not Past Due (80% – 90% LVR)	113,301	50%	56,651	4,532
Residential Mortgages Not Past Due (90% – 100% LVR)	37,507	75%	28,130	2,250
Residential Mortgages Not Past Due (>100% LVR)	2,045	100%	2,045	164
Welcome Home Loans				
Residential Mortgages Not Past Due (< 90% LVR)	2,644	35%	925	74
Residential Mortgages Not Past Due (90% – 100% LVR)	3,513	50%	1,756	141
Past Due Residential Mortgages	6,502	100%	6,502	520
Other Assets	135,556	100%	135,556	10,844
Other Past Due Assets	270	100%	270	22
Non Risk Weighted Assets	14,370	0%	–	–
Total	**1,806,339**		**725,679**	**58,055**

(ii) Calculation of Off Balance Sheet Exposures – Unaudited

	Total Exposure $000	Credit Conversion Factor	Credit Equivalent Amount $000	Average Risk Weight	Risk Weighted Exposure $000	Minimum Pillar One Capital Requirement $000
Undrawn Other Commitments						
Original maturity is more than 1 year						
31/03/2016	53,688	50%	26,844	49%	13,263	1,061
31/03/2015	50,334	50%	25,167	51%	12,759	1,021
Market Contracts						
31/03/2016						
Interest Rate Swaps	1,894,358	n/a	9,549	20%	1,910	153
Foreign Exchange Contracts	219	n/a	214	20%	43	3
31/03/2015						
Interest Rate Swaps	1,514,350	n/a	6,332	20%	1,266	101
Foreign Exchange Contracts	1,804	n/a	106	20%	21	2

Undrawn Other Commitments represents the unutilised balances of Customer's credit facilities (overdrafts, creditline accounts and revolving credit mortgages), and approved but not drawn loans.

Notes to the Financial Statements For the year ended 31 March 2016

38. CAPITAL ADEQUACY cont.

(d) Banking Group's Operational and Market Risk - Unaudited

	Implied Weight Risk Exposure 31 March 2016 $000	Capital Requirement 31 March 2016 $000	Implied Weight Risk Exposure 31 March 2015 $000	Capital Requirement 31 March 2015 $000
Operational Risk	112,530	9,002	103,424	8,274
Market Risk - Interest Rate Risk	9,207	736	11,350	908
Market Risk - Foreign Currency Risk	72	6	1,876	150

The Banking Group did not have any equity exposures as at 31 March 2016 (31 March 2015: Nil).

(e) Group's Market Risk End of Period and Peak End of Day Capital Charges (Interest Rate Risk) - Unaudited

	End of Period 31 March 2016 $000	Peak End of Day 31 March 2016 $000	End of Period 31 March 2015 $000	Peak End of Day 31 March 2015 $000
Implied Risk Weighted Exposure	9,279	21,057	13,226	13,226
Aggregate Capital Charge	742	1,685	1,058	1,058
Aggregate Capital Charge Expressed as a Percentage of the Banking Group's Equity	0.49%	1.12%	0.75%	0.75%

The end of period aggregate capital charge and peak end of day aggregate capital charge as a percentage of the Banking Group's Equity at the end of the reporting period are derived by following the risk methodology for measuring capital requirements within Part 9 of the Standardised Approach. The peak end of day aggregate capital charge is derived by determining the maximum end of month capital charge over the reporting period. Based on the portfolio of the Banking Group's risk exposures, it is considered by Management that the difference between end of month aggregate capital charge and end of day aggregate capital charge is insignificant. Peak exposures are calculated using the Banking Group's Equity at the end of the reporting period.

(f) Banking Group Total Capital Requirements - Unaudited

31 March 2016	Total Exposure After Credit Risk Mitigation $000	Risk Weighted Exposure or Implied Risk Weighted Exposure $000	Capital Requirement $000
Total Credit Risk	3,989,418	835,602	66,850
Operational Risk	n/a	112,530	9,002
Market Risk	n/a	9,279	742
Total Risk Weighted	**3,989,418**	**957,411**	**76,594**

31 March 2015			
Total Credit Risk	3,372,826	739,726	59,178
Operational Risk	n/a	103,424	8,274
Market Risk	n/a	13,226	1,058
Total Risk Weighted	**3,372,826**	**856,376**	**68,510**

Notes to the Financial Statements For the year ended 31 March 2016

38. CAPITAL ADEQUACY cont.

(g) Banking Group's Residential Mortgages by Loan to Value Ratio - Unaudited

Loan to Value Ratio	31 March 2016 On Balance Sheet $000	31 March 2016 Off Balance Sheet $000	31 March 2015 On Balance Sheet $000	31 March 2015 Off Balance Sheet $000
LVR 0% - 80%	1,475,990	38,747	1,279,098	35,682
LVR > 80% - 90%	156,579	1,707	116,156	1,840
LVR > 90%	36,808	1,333	41,932	655
Total	**1,669,377**	**41,787**	**1,437,186**	**38,177**

Reconciliation of Mortgage Related Amounts	Note	31 March 2016 $000	31 March 2015 $000
Gross Residential Mortgage Loans	11	1,671,403	1,439,722
Provision for Impairment relating to Residential Mortgages	12(c)	(2,026)	(2,536)
Residential Mortgage Loans net of Provision for Impairment	38 (c)(i), 38 (g)	1,669,377	1,437,186
Off Balance Sheet Exposures – Undrawn Commitments	38 (g)	41,787	38,177
Total On and Off Balance Sheet Residential Mortgage Loans	29	**1,711,164**	**1,475,363**

The Co-operative Bank Disclosure Statement For the year ended 31 March 2016

PRIORITY OF CREDITORS' CLAIMS

As at 31 March 2016, all deposits made by Customers of Co-op Bank rank equally with other unsecured and unsubordinated creditors and behind creditors given priority by law.

As at 31 March 2016, the Securitisation Trusts have granted a prior charge over their assets to secure funding provided to the Securitisation Trusts (see Note 19 to the Financial Statements). The priority of claims of creditors of Co-op Bank is not affected by the prior charge granted by each Securitisation Trust. Each Securitisation Trusts' assets and funding are recognised as part of Co-op Bank's assets and liabilities for accounting purposes only and do not form part of the assets and liabilities of Co-op Bank that would be available for distribution to its creditors.

GUARANTEE ARRANGEMENTS

As at the date Co-op Bank's Directors signed this Disclosure Statement, Co-op Life guaranteed the obligations of Co-op Bank to all depositors who were depositors at the time and date of bank registration (26 October 2011). 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. There are no credit ratings applicable to this guarantee.

Co-op Life is a member of the Banking Group. Its address for service is Co-operative Life Limited, 20-26 Ballance Street, Wellington. The net assets of Co-op Life were $9.6 million as at 31 March 2016, and may fluctuate from time to time.

There are no material conditions applicable to the guarantee other than non-performance by Co-op Bank. On 1 July 2012, Co-op Life established a statutory fund in accordance with the requirements of the Insurance (Prudential Supervision) Act 2010. The statutory fund gives priority to policy holders to the assets held in the statutory fund ahead of the claims of any other creditor, including any depositor with Co-op Bank who has the benefit of the guarantee from Co-op Life described above. There are no other material legislative or regulatory restrictions in Co-op Life's country of incorporation (New Zealand) which would have the effect of subordinating the claims under the guarantee of any of the creditors of Co-op Bank on the assets of Co-op Life, to other claims on Co-op Life, in a winding up of Co-op Life.

No other member of the Banking Group guarantees the obligations of Co-op Bank.

As at 31 March 2016 and up until the date of the signing this Disclosure Statement, Co-op Life had a financial strength rating of B++ (outlook stable) and an issuer credit rating of bbb+ (outlook stable) issued by A.M. Best Company Inc ("A.M. Best"). The financial strength rating and credit rating were re-affirmed by A.M. Best Company Inc. on 19 October 2015.

Following is a summary of the descriptions of A.M. Best's Financial Strength Rating:

Rating	Descriptor	Definition
A++, A+	Superior	Superior ability to meet on-going insurance obligations.
A, A-	Excellent	Excellent ability to meet on-going insurance obligations.
B++, B	Good	Good ability to meet on-going insurance obligations.
B, B-	Fair	Fair ability to meet on-going insurance obligations. Financial strength is vulnerable to adverse changes in underwriting economic conditions.
C++, C+	Marginal	Marginal ability to meet on-going insurance obligations. Financial strength is vulnerable to adverse changes in underwriting economic conditions.
C, C-	Weak	Weak ability to meet on-going insurance obligations. Financial strength is very vulnerable to adverse changes in underwriting economic conditions.
D	Poor	Poor ability to meet on-going insurance obligations. Financial strength is extremely vulnerable to adverse changes in underwriting economic conditions.
E	Under Regulatory Supervision	Companies (and possible subsidiaries/affiliates) placed under a significant form of regulatory supervision, control or restraint.
F	In Liquidation	In liquidation by court of law or by a forced liquidation.
S	Suspended	Sudden and significant events affect balance sheet strength or operating performance and rating implications cannot be evaluated due to lack of timely or relevant information.

The Co-operative Bank Disclosure Statement For the year ended 31 March 2016

GUARANTEE ARRANGEMENTS cont.

Following is a summary of the descriptions of A.M. Best's Issuer Credit Rating

Rating	Descriptor	Definition
aaa	Exceptional	Exceptional ability to meet on-going senior financial obligations.
aa	Superior	Superior ability to meet on-going senior financial obligations.
a	Excellent	Excellent ability to meet on-going senior financial obligations.
bbb	Good	Good ability to meet on-going senior financial obligations.
bb	Fair	Fair ability to meet on-going senior financial obligations. Financial strength is vulnerable to adverse changes in underwriting economic conditions.
b	Marginal	Marginal ability to meet on-going senior financial obligations. Financial strength is vulnerable to adverse changes in underwriting economic conditions.
ccc, cc	Weak	Weak ability to meet on-going senior financial obligations. Financial strength is very vulnerable to adverse changes in underwriting economic conditions.
c	Poor	Poor ability to meet on-going senior financial obligations. Financial strength is extremely vulnerable to adverse changes in underwriting economic conditions.
rs	Regulatory Supervision/ Liquidation	Companies (and possible subsidiaries/affiliates) placed under a significant form of regulatory supervision, control or restraint or in liquidation by court of law or by a forced liquidation

DIRECTORS

All Directors of Co-op Bank reside in New Zealand and are independent non-executive Directors. All communications to the Directors can be sent to Co-op Bank, P.O. Box 54, Wellington. The Directors' names, occupations, qualifications and interests are listed below:

STEVEN FYFE
BCA, CA, C Inst D, FFin
(Chairman)
Company Director

- Upland Consulting Limited (Director and Shareholder)
- Cigna Life Insurance New Zealand Limited (Chairman)
- Royal New Zealand Ballet (Trustee)
- Midway Moorhouse Limited (Director and Shareholder)
- Midway Moorhouse West Limited (Director)
- Midway Moorhouse East Limited (Director)
- Red Cross Foundation (Trustee)
- Victoria University Foundation (Trustee)
- 500 Victoria Limited (Director and Shareholder)
- Wellington Regional Stadium Trust (Trustee)
- Dumbarton Land Company Limited (Director and Shareholder)
- Ministry of Justice Advisory Board (Advisor)
- Auditor Regulation Advisory Group (Member)
- Inland Revenue Risk & Assurance Committee (Chair)
- Inland Revenue Investment Board (Member)

PAUL GOULTER
LLB, MA (Hons), BA
National Secretary of NZEI Te Riu Roa

- First Union (Life Member)
- National Affiliates Council – NZCTU (Member)
- NZEI Te Riu Roa (National Secretary)

The Co-operative Bank Disclosure Statement For the year ended 31 March 2016

DIRECTORS cont.

MARION COWDEN MBA (Hons), BSc, BCom, FCA, CMA, C Inst D *Company Director*	• Muireall Olaghair Properties Limited (Director and Shareholder) • Institute of Environmental Science and Research Limited (Director) • Energy Efficiency and Conservation Authority (Member) • Age Concern Wellington Incorporated (President) • St John of God Hauora Trust (Trustee) • Student Job Search Aotearoa Incorporated (National Councillor) • Thorndon Residents Association (Treasurer) • Nazareth Care Charitable Trust (Trustee) • Real Estate Agents Authority (Member) • Ministry for Environment Audit Committee (Chair)
SARAH HAYDON CA, C Inst D *Company Director*	• Institute of Geological and Nuclear Sciences Limited (Director, Chair – Audit and Risk Committee) • Unitec Institute of Technology (Chair – Audit and Risk Committee, Council Member) • NZ Riding for the Disabled Association Incorporated (Chairman) • Waste Disposal Services (Auckland Council CCO) (Executive Committee Member) • The Boardroom Practice Limited (Associate) • Dial-A-CFO Limited (Executive) • R&E Seelye Charitable Trust (Trustee) • Unitec Trust (Trustee) • Cavalier Corporation Limited (Chair) • Co-operative Life Limited (Director) • Wairaka Land Company Limited (Chair) • Sarah Haydon Trust Company Limited (Director and Shareholder)
DIANNE KIDD BA, Diploma in Teaching, C Inst D *Company Director*	• Helensville Birthing Centre Limited (Director) • AsureQuality Limited (Director) • McEwan-Kidd Partnership Limited (Director) • Unitec Institute of Technology (Deputy Chair) • Hounslow Holdings Limited (Shareholder) • Kaipara Medical Centre Limited (Chairman)
BRENDAN O'DONOVAN MCom (Hons) *Economist*	• Springlands Holding Company Limited (Director and Shareholder) • Medical Assurance Society KiwiSaver Plan (Independent Trustee) • Medical Assurance Society Retirement Savings Plan (Independent Trustee) • Co-operative Life Limited (Chairman)
SAM ROBINSON BAgSc (Hons), F Inst D *Farmer*	• Centralines Limited (Chairman – notification of leave of absence) • AgResearch Limited (Chairman) • Tourere Water Supply Limited (Director and Shareholder) • Tourere Asset Management Limited (Director and Shareholder) • Opihi Limited (Director and Shareholder) • Brownrigg Agriculture Group Limited (Director) • Hawke's Bay Regional Investment Company Limited (Director) • FAME - Food and Agribusiness Market Experience (Chairman of Trustees)

There were no changes to Directors during the year ended 31 March 2016.

The Co-operative Bank Disclosure Statement For the year ended 31 March 2016

DIRECTORS cont.

Interested Transactions

There have been no transactions between any Director (or any immediate relative or close business associate of any Director) and Co-op Bank, or any member of the Banking Group during the current reporting period, which:

- Have been entered into on terms other than those which would, in the ordinary course of business of Co-op Bank or any member of the Banking Group, be given to any other person of like circumstances or means; or
- Could otherwise be reasonably likely to influence materially the exercise of the Director's duties.

Audit Committee

Co-op Bank has a separate Board Committee covering assurance related matters known as the Audit Committee. Members of the Audit Committee as at the date of this Disclosure Statement are as follows:

- Sarah Haydon (Chairman) – Independent Non-Executive Director;
- Marion Cowden – Independent Non-Executive Director;
- Dianne Kidd – Independent Non-Executive Director; and
- Steven Fyfe – Independent Non-Executive Director.

Conflicts of Interest Policy

The policy of the Board for avoiding or dealing with conflicts of interest which may arise from personal, professional or business interests of the Directors, is that a Director, after becoming aware of the fact that he or she has an interest in a transaction or proposed transaction with Co-op Bank, shall disclose to the Board and cause to be entered in the interests register:

- The nature and monetary value of the Director's interest in a transaction (if its monetary value is able to be quantified); or
- The nature and extent of the Director's interest in a transaction (if its monetary value is not able to be quantified).

INDEPENDENT AUDITOR

KPMG
10 Customhouse Quay
Wellington

CONDITIONS OF REGISTRATION

The Conditions of Registration imposed on the Bank by the Reserve Bank of New Zealand ("Reserve Bank") pursuant to section 74 of the Reserve Bank of New Zealand Act 1989, and which apply to the Bank on and after 1 November 2015 are as follows:

1. That—

   (a) the Total capital ratio of the Banking Group is not less than 8%;

   (b) the Tier 1 capital ratio of the Banking Group is not less than 6%;

   (c) the Common Equity Tier 1 capital ratio of the Banking Group is not less than 4.5%;

   (d) the Total capital of the Banking Group is not less than $30 million; and

   (e) the bank must not include the amount of an Additional Tier 1 capital instrument or Tier 2 capital instrument issued after 1 January 2013 in the calculation of its capital ratios unless it has received a notice of non-objection to the instrument from the Reserve Bank; and

   (f) the Banking Group meets the requirements of Part 3 of the RBNZ document "Application requirements for capital recognition or repayment and notification requirements in respect of capital" (BS16) dated November 2015 in respect of regulatory capital instruments.

For the purposes of this condition of registration:

- the Total capital ratio, the Tier 1 capital ratio, the Common Equity Tier 1 capital ratio and Total capital must be calculated in accordance with the RBNZ document: "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015;
- an Additional Tier 1 capital instrument is an instrument that meets the requirements of subsection 8(2)(a) or (c) of the RBNZ document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015; and
- a Tier 2 capital instrument is an instrument that meets the requirements of subsection 9(2)(a) or (c) of the RBNZ document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015.

The Co-operative Bank Disclosure Statement For the year ended 31 March 2016

CONDITIONS OF REGISTRATION cont.

1A. That—

(a) the Bank has an internal capital adequacy assessment process ("ICAAP") that accords with the requirements set out in the document "Guidelines on a Bank's internal capital adequacy assessment process ('ICAAP')" (BS12) dated December 2007;

(b) under its ICAAP the Bank identifies and measures its "other material risks" defined as all material risks of the Banking Group that are not explicitly captured in the calculation of the Common Equity Tier 1 capital ratio, the Tier 1 capital ratio and the Total capital ratio under the requirements set out in the document "Capital adequacy framework (Standardised Approach)" (BS2A) dated November 2015; and

(c) the Bank determines an internal capital allocation for each identified and measured "other material risk".

1B. That, if the buffer ratio of the Banking Group is 2.5% or less, the Bank must:

(a) according to the following table, limit the aggregate distributions of the Bank's earnings to the percentage limit to distributions that corresponds to the Banking Group's buffer ratio:

Banking Group's buffer ratio	Percentage limit to distributions of the Bank's earnings
0% – 0.625%	0%
> 0.625% – 1.25%	20%
> 1.25% – 1.875%	40%
> 1.875% – 2.5%	60%

(b) prepare a capital plan to restore the Banking Group's buffer ratio to above 2.5% within any timeframe determined by the Reserve Bank for restoring the buffer ratio; and

(c) have the capital plan approved by the Reserve Bank.

For the purposes of this condition of registration —

"buffer ratio", "distributions", and "earnings" have the same meaning as in Part 3 of the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015.

2. That the Banking Group does not conduct any non-financial activities that in aggregate are material relative to its total activities.

In this condition of registration, the meaning of "material" is based on generally accepted accounting practice.

3. That the Banking Group's insurance business is not greater than 1% of its total consolidated assets. For the purposes of this condition of registration, the Banking Group's insurance business is the sum of the following amounts for entities in the Banking Group:

(a) if the business of an entity predominantly consists of insurance business and the entity is not a subsidiary of another entity in the Banking Group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total consolidated assets of the group headed by the entity;

(b) if the entity conducts insurance business and its business does not predominantly consist of insurance business and the entity is not a subsidiary of another entity in the Banking Group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total liabilities relating to the entity's insurance business plus the equity retained by the entity to meet the solvency or financial soundness needs of its insurance business.

In determining the total amount of the Banking Group's insurance business—

(a) all amounts must relate to on balance sheet items only, and must comply with generally accepted accounting practice; and

(b) if products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets must be considered part of the insurance business.

For the purposes of this condition of registration —

"insurance business" means the undertaking or assumption of liability as an insurer under a contract of insurance: "insurer" and "contract of insurance" have the same meaning as provided in sections 6 and 7 of the Insurance (Prudential Supervision) Act 2010.

The Co-operative Bank Disclosure Statement For the year ended 31 March 2016

CONDITIONS OF REGISTRATION cont.

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

Credit Rating of the Bank[6]	Connected exposure limit (% of the Banking Group's Tier 1 capital)
AA/Aa2 and above	75
AA-/Aa3	70
A+/A1	60
A/A2	40
A-/A3	30
BBB+/Baa1 and below	15

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

For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled "Connected exposure policy" (BS8) dated November 2015.

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

6. That the Bank complies with the following corporate governance requirements:

   (a) the board of the Bank must have at least five directors;

   (b) the majority of the board members must be non-executive directors;

   (c) at least half of the board members must be independent directors;

   (d) an alternate director —

      (i) for a non-executive director must be non-executive; and

      (ii) for an independent director must be independent;

   (e) at least half of the independent directors of the Bank must be ordinarily resident in New Zealand;

   (f) the chairperson of the board of the Bank must be independent; and

   (g) the Bank's constitution must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. the Bank).

For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated July 2014.

7. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer, is made in respect of the Bank unless:

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

   (b) the Reserve Bank has advised that it has no objection to that appointment.

8. That a person must not be appointed as chairperson of the board of the Bank unless:

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

   (b) the Reserve Bank has advised that it has no objection to that appointment.

9. That the Bank has a board audit committee, or other separate board committee covering audit matters, that meets the following requirements:

   (a) the mandate of the committee must include: ensuring the integrity of the Bank's financial controls, reporting systems and internal audit standards;

   (b) the committee must have at least three members;

   (c) every member of the committee must be a non-executive director of the Bank;

   (d) the majority of the members of the committee must be independent; and

   (e) the chairperson of the committee must be independent and must not be the chairperson of the Bank.

For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated July 2014.

[6] This table uses the rating scales of Standard & Poor's, Fitch Ratings and Moody's Investors Service (Fitch Ratings' scale is identical to Standard & Poor's).

The Co-operative Bank Disclosure Statement For the year ended 31 March 2016

CONDITIONS OF REGISTRATION cont.

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

11. That the Banking Group complies with the following quantitative requirements for liquidity-risk management:

 (a) the one-week mismatch ratio of the Banking Group is not less than 0% at the end of each business day;

 (b) the one-month mismatch ratio of the Banking Group is not less than 0% at the end of each business day; and

 (c) the one-year core funding ratio of the Banking Group is not less than 75% at the end of each business day.

For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) dated July 2014 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated December 2011.

12. That the Bank has an internal framework for liquidity risk management that is adequate in the Bank's view for managing the Bank's liquidity risk at a prudent level, and that, in particular:

 (a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;

 (b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;

 (c) identifies the principal methods that the Bank will use for measuring, monitoring and controlling liquidity risk; and

 (d) considers the material sources of stress that the Bank might face, and prepares the Bank to manage stress through a contingency funding plan.

13. That no more than 10% of total assets may be beneficially owned by a SPV.

For the purposes of this condition —
"total assets" means all assets of the Banking Group plus any assets held by any SPV that are not included in the Banking Group's assets:

"SPV" means a person—

 (a) to whom any member of the Banking Group has sold, assigned, or otherwise transferred any asset;

 (b) who has granted, or may grant, a security interest in its assets for the benefit of any holder of any covered bond; and

 (c) who carries on no other business except for that necessary or incidental to guarantee the obligations of any member of the Banking Group under a covered bond:

"covered bond" means a debt security issued by any member of the Banking Group, for which repayment to holders is guaranteed by a SPV, and investors retain an unsecured claim on the issuer.

14. That—

 (a) no member of the Banking Group may give effect to a qualifying acquisition or business combination that meets the notification threshold, and does not meet the non-objection threshold, unless:

  (i) the Bank has notified the Reserve Bank in writing of the intended acquisition or business combination and at least 10 working days have passed; and

  (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the Bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and

 (b) no member of the Banking Group may give effect to a qualifying acquisition or business combination that meets the non-objection threshold unless:

  (i) the Bank has notified the Reserve Bank in writing of the intended acquisition or business combination;

  (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the Bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and

  (iii) the Reserve Bank has given the Bank a notice of non-objection to the significant acquisition or business combination.

For the purposes of this condition of registration, "qualifying acquisition or business combination", "notification threshold" and "non-objection threshold" have the same meaning as in the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011.

The Co-operative Bank Disclosure Statement For the year ended 31 March 2016

CONDITIONS OF REGISTRATION cont.

15. That the Bank is pre-positioned for Open Bank Resolution and in accordance with a direction from the Reserve Bank, the Bank can—

    (a) close promptly at any time of the day and on any day of the week and that effective upon the appointment of the statutory manager—

    (i) all liabilities are frozen in full; and

    (ii) no further access by customers and counterparties to their accounts (deposits, liabilities or other obligations) is possible;

    (b) apply a de minimis to relevant customer liability accounts;

    (c) apply a partial freeze to the customer liability account balances;

    (d) reopen by no later than 9am the next business day following the appointment of a statutory manager and provide customers access to their unfrozen funds;

    (e) maintain a full freeze on liabilities not pre-positioned for open bank resolution; and

    (f) reinstate customers' access to some or all of their residual frozen funds.

For the purposes of this condition of registration, "de minimis", "partial freeze", "customer liability account", and "frozen and unfrozen funds" have the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

16. That the Bank has an Implementation Plan that—

    (a) is up-to-date; and

    (b) demonstrates that the Bank's prepositioning for Open Bank Resolution meets the requirements set out in the Reserve Bank document: "Open Bank Resolution Pre-positioning Requirements Policy" (BS 17).

For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

17. That the Bank has a compendium of liabilities that—

    (a) at the product-class level lists all liabilities, indicating which are—

    (i) pre-positioned for Open Bank Resolution; and

    (ii) not pre-positioned for Open Bank Resolution;

    (b) is agreed to by the Reserve Bank; and

    (c) if the Reserve Bank's agreement is conditional, meets the Reserve Bank's conditions.

For the purposes of this condition of registration, "compendium of liabilities", and "pre-positioned and non pre-positioned liabilities" have the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

18. That on an annual basis the Bank tests all the component parts of its Open Bank Resolution solution that demonstrates the Bank's prepositioning for Open Bank Resolution as specified in the Bank's Implementation Plan.

For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

19. That, for a loan-to-valuation measurement period, the total of the bank's qualifying new mortgage lending amount in respect of APIL with a loan-to-valuation ratio of more than 70%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of APIL arising in the loan-to-valuation measurement period.

20. That, for a loan-to-valuation measurement period, the total of the bank's qualifying new mortgage lending amount in respect of ANPIL with a loan-to-valuation ratio of more than 80%, must not exceed 10% of the total of the qualifying new mortgage lending amount in respect of ANPIL arising in the loan-to-valuation measurement period.

21. That, for a loan-to-valuation measurement period, the total of the bank's qualifying new mortgage lending amount in respect of non-Auckland loans with a loan-to-valuation ratio of more than 80%, must not exceed 15% of the total of the qualifying new mortgage lending amount in respect of non-Auckland loans arising in the loan-to-valuation measurement period.

22. That the bank must not make a residential mortgage loan unless the terms and conditions of the loan contract or the terms and conditions for an associated mortgage require that a borrower obtain the bank's agreement before the borrower can grant to another person a charge over the residential property used as security for the loan.

The Co-operative Bank Disclosure Statement For the year ended 31 March 2016

CONDITIONS OF REGISTRATION cont.

In these conditions of registration —

"Banking Group" means The Co-operative Bank Limited (as reporting entity) and all other entities included in the group as defined in section 6(1) of the Financial Markets Conduct Act 2013 for the purposes of Part 7 of that Act.

"generally accepted accounting practice" has the same meaning as in section 8 of the Financial Reporting Act 2013.

In conditions of registration 19 to 22,—

"ANPIL", "APIL", "loan-to-valuation ratio", "non-Auckland loan", "qualifying new mortgage lending amount in respect of [...]" and "residential mortgage loan" have the same meaning as in the Reserve Bank of New Zealand document entitled "Framework for Restrictions on High-LVR Residential Mortgage Lending" (BS19) dated November 2015.

"loan-to-valuation measurement period" means a period of six calendar months ending on the last day of the sixth calendar month, the first of which ends on the last day of April 2016.

Changes in Conditions of Registration
There have been no significant changes to Co-op Bank's conditions of registration since the signing of the previous Disclosure Statement (31 December 2015).

PENDING PROCEEDINGS OR ARBITRATION

There are no pending proceedings that may have a material adverse effect on Co-op Bank or any other member of the Banking Group.

CREDIT RATING

As at 31 March 2016 and up until the date of the signing of this Disclosure Statement, Co-op Bank had a rating issued by Fitch Ratings ("Fitch") of BBB- outlook positive, applicable to its long term unsecured obligations payable in New Zealand. The Fitch rating was updated to a positive outlook position on 9 September 2015 and is not subject to any qualifications.

The following is a summary of the descriptions of the major ratings categories of each rating agency for the rating of long-term senior unsecured obligations. Credit ratings from Fitch and S&P may be modified by the addition of a plus or minus sign to show relative status within the major rating categories below.

Fitch Ratings	Standard & Poor's	Moody's Investors Service	Description of Grade
AAA	AAA	Aaa	Ability to repay principal and interest is extremely strong. This is the highest investment category.
AA	AA	Aa	Very strong ability to repay principal and interest in a timely manner.
A	A	A	Strong ability to repay principal and interest although somewhat susceptible to adverse changes in economic, business or financial conditions.
BBB	BBB	Baa	Adequate ability to repay principal and interest. More vulnerable to adverse changes.
BB	BB	Ba	Significant uncertainties exist which could affect the payment of principal and interest on a timely basis.
B	B	B	Greater vulnerability and therefore greater likelihood of default.
CCC	CCC	Caa	Likelihood of default considered high. Timely repayment of principal and interest is dependent on favourable financial conditions.
CC - C	CC - C	Ca - C	Highest risk of default.
RD to D	D	-	Obligations currently in default.

The Co-operative Bank Disclosure Statement For the year ended 31 March 2016

INSURANCE BUSINESS, SECURITISATION, AND MARKETING AND DISTRIBUTION OF INSURANCE PRODUCTS

Insurance business

The Banking Group markets and distributes life insurance and loan instalment insurance products through its wholly owned subsidiary company, Co-op Life, the business of which is accounted for in the Banking Group's Balance Sheet. On 25 March 2013, Co-op Life obtained its Licence to carry on insurance business in New Zealand under the Insurance (Prudential Supervision) Act 2010 from the Reserve Bank of New Zealand. Co-op Life's assets are managed and accounted for separate to Co-op Bank's assets.

The total assets of Co-op Life calculated under condition number 3 of the Conditions of Registration as at 31 March 2016 were $15.0 million (31 March 2015: $13.1 million) which is 0.73% of the total assets of the Banking Group (31 March 2015: 0.73%).

More details of Co-op Life's insurance business are stated in Note 20 of the financial statements.

Securitisation

As at 31 March 2016, the Banking Group had securitised assets amounting to $318.1 million (31 March 2015: $206.7 million). These assets have been sold to the Warehouse Trust and the Co-op RMBS Trust (collectively referred to as "the Trusts"). The Trusts are special purpose vehicles established for the purpose of purchasing qualifying residential mortgages from Co-op Bank and are funded through wholesale funding lines. Co-op Bank provides subordinated funding lines to the Warehouse Trust and has acquired both the Class A and Class B bonds from the two series of bonds issued by the Co-op RMBS Trust. The securitised assets remain on Co-op Bank's Balance Sheet, because Co-op Bank retains a continuing involvement in the transferred assets (funding, liquidity and credit risk remains with Co-op Bank).

AMAL New Zealand Limited is the Trust Manager and Co-op Bank is the servicer of the Trusts. Co-op Bank received an excess servicing fee of $7.4 million from the Trusts, and the Bond Trust which was wound up on 14 December 2015, for services provided during the year ended 31 March 2016 (31 March 2015: $4.2 million).

The income and final beneficiary of the Warehouse Trust is The New Zealand Federation of Family Budgeting Services Incorporated. For the Co-op RMBS Trust 2013-1 bond series it is The Royal Forest and Bird Protection Society of New Zealand Incorporated, for the 2015-1 bond series it is the Halberg Disability Sports Foundation. AMAL New Zealand Limited has appointed Co-op Bank to perform certain parts of the Trust Manager's role as its attorney.

The Trusts do not meet the definition of an "SPV" as per condition 13 of the Conditions of Registration.

The Banking Group's Arrangements in Conducting the Securitisation Activities

The Banking Group has in place policies and procedures to ensure that the securitisation activities identified above are conducted in an appropriate manner. The Banking Group considers that these policies and procedures will ensure that any difficulties arising from these activities will not adversely impact the Banking Group. The policies and procedures include formal and regular review of operations and policies by Management and internal auditors, as well as appropriate hedging arrangements. Further information on the Banking Group's risk management policies and practices are disclosed in the Financial Risk Management section of the Financial Statements (see Note 28).

All transactions conducted between Co-op Bank, the Warehouse Trust, and the Co-op RMBS Trust are conducted on arm's length terms and conditions and at fair value.

OTHER MATERIAL MATTERS

Co-op Bank is considering making an offer of up to $30 million of unsecured, subordinated, loss absorbing, Tier 2 regulatory capital debt securities ("Subordinated Notes") to New Zealand investors. The offer is expected to open in mid-June 2016. No money is currently being sought and Subordinated Notes cannot currently be applied for. If Co-op Bank offers the Subordinated Notes, the offer will be made in accordance with the Financial Markets Conduct Act 2013. The Subordinated Notes are expected to be quoted on the NZX Debt Market.

Co-op Bank's Directors are of the opinion that there are no other matters relating to the business or affairs of Co-op Bank or the Banking Group that are not contained elsewhere in this Disclosure Statement and which would, if disclosed, materially adversely affect the decision of a person to subscribe for debt securities of which Co-op Bank or any member of the Banking Group is the issuer.

The Co-operative Bank Disclosure Statement For the year ended 31 March 2016

DIRECTORS' STATEMENT

Each Director of Co-op 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 2014 (as amended); and

(b) The Disclosure Statement is not false or misleading.

2. For the year ended 31 March 2016:

(a) The Registered Bank has complied with all conditions of the registration that applied during that period;

(b) Credit exposures to connected persons (if any) 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 May 2016 and has been signed by all of the Directors:

STEVEN FYFE
Director

PAUL GOULTER
Deputy Chairman

MARION COWDEN

SARAH HAYDON

DIANNE KIDD

BRENDAN O'DONOVAN

SAM ROBINSON

Annual Report For the year ended 31 March 2016

1. CO-OPERATIVE STATUS

On 26 May 2016, the Directors of Co-op Bank resolved that Co-op Bank was a co-operative company within the meaning of the Co-operative Companies Act 1996 throughout the financial year ended 31 March 2016 on the grounds that throughout that period:

- Co-op Bank provided financial and investment services to its Shareholders as its principal activity, which is a co-operative activity as defined in the Co-operative Companies Act 1996;
- The constitution of Co-op Bank states that its principal activity is to provide financial and investment services to its Shareholders; and
- All the voting rights of Co-op Bank were held by transacting shareholders as that term is defined in the Co-operative Companies Act 1996.

2. EMPLOYEES' REMUNERATION

Remuneration and other benefits in excess of $100,000 per annum were paid to 54 employees in the following remuneration brackets:

	Number of Employees	
Remuneration	**31 March 2016**	**31 March 2015**
$100,000 to $109,999	14	7
$110,000 to $119,999	7	6
$120,000 to $129,999	3	4
$130,000 to $139,999	4	5
$140,000 to $149,999	7	5
$150,000 to $159,999	3	3
$160,000 to $169,999	1	3
$170,000 to $179,999	3	4
$180,000 to $189,999	1	2
$190,000 to $199,999	1	1
$200,000 to $209,000	1	1
$210,000 to $219,999	3	–
$240,000 to $249,999	1	1
$260,000 to $269,999	1	1
$290,000 to $299,999	1	–
$310,000 to $319,999	–	1
$320,000 to $329,999	1	–
$350,000 to $359,999	–	1
$370,000 to $379,999	1	–
$610,000 to $619,999	–	1
$670,000 to $679,999	1	–

3. DONATIONS

No donations were made by the Banking Group during the year ended 31 March 2016 (31 March 2015: Nil).

Annual Report For the year ended 31 March 2016

4. CO-OP BANK SUBSIDIARIES

The names of each person holding office as a Director of Co-op Life through the financial year ended 31 March 2016 were:

Brendan O'Donovan
Sarah Haydon
Gareth Fleming
Paul Goulter
Bruce McLachlan

Paul Goulter retired as a Director on 27 August 2015 and was replaced by Sarah Haydon.

The following fees were paid to the Directors of Co-op Life:

	31 March 2016 $	31 March 2015 $
Brendan O'Donovan	7,000	2,667
Sarah Haydon	2,500	–
Paul Goulter	1,000	2,250
John Isles	–	1,083
	10,500	**6,000**

The interests of Brendan O'Donovan and Sarah Haydon that are listed in the interest register of Co-op Life are the same as those interests noted in the Directors note (page 59) of these Financial Statements, with the exception that Co-operative Life Limited is substituted with The Co-operative Bank Limited. The only other interest noted is for Gareth Fleming in his capacity as a Board Member for Squash NZ.

No subsidary of Co-op Bank employed any person throughout the financial year ended 31 March 2016.

DIRECTORS' STATEMENT

This Annual Report is dated 26 May 2016 and is signed on behalf of the Board by:

Director

Director

CONTACT US 0800 554 554

For general enquiries
Monday to Friday

co-operativebank.co.nz

The Co-operative Bank
Change banking for good