The Co-operative Bank

DISCLOSURE STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

TABLE OF CONTENTS

INCOME STATEMENT for the six months ended 30 September 2016

	Note	Unaudited 6 Months ended 30/09/2016 $000	Unaudited 6 Months ended 30/09/2015 $000
Interest Income		59,576	59,317
Interest Expense		(33,555)	(33,796)
Net Interest Income		**26,021**	**25,521**
Net Insurance Income		3,335	2,911
Fees and Other Operating Income		6,282	5,970
Gain on Financial Instruments at Fair Value		503	302
Net Operating Income		**36,141**	**34,704**
Operating Expenses		(28,053)	(27,422)
Impairment Losses on Loans and Advances	3(d)	(1,117)	(782)
Profit before Tax		**6,971**	**6,500**
Income Tax Expense		(1,959)	(1,658)
Profit after Tax Attributable to Shareholders		**5,012**	**4,842**

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

STATEMENT OF COMPREHENSIVE INCOME for the six months ended 30 September 2016

	Unaudited 6 Months ended 30/09/2016 $000	Unaudited 6 Months ended 30/09/2015 $000
Profit after Tax Attributable to Shareholders	**5,012**	**4,842**
Items that may be Reclassified Subsequently to Profit or Loss		
Fair Value Movement on Available for Sale Investments	465	1,593
Fair Value Movement on Available for Sale Investments released to the Income Statement	(362)	(262)
Fair Value Movement on Cash Flow Hedging Reserve	2,375	(5,295)
Income Tax Expense relating to Items that may be Reclassified	(698)	1,085
Other Comprehensive Income for the Period, Net of Tax	1,780	(2,879)
Total Comprehensive Income for the Period Attributable to Shareholders	**6,792**	**1,963**

STATEMENT OF CHANGES IN EQUITY for the six months ended 30 September 2016

	Unaudited 6 Months ended 30/09/2016 $000	Unaudited 6 Months ended 30/09/2015 $000
Opening Balance of Equity	156,968	150,266
Profit after Tax Attributable To Shareholders	5,012	4,842
Other Comprehensive Income Attributable to Shareholders	1,780	(2,879)
Closing Balance of Equity	**163,760**	**152,229**
Retained Earnings		
Balance at Beginning of Period	161,684	151,417
Profit after Tax	5,012	4,842
Balance at End of Period	166,696	156,259
Available for Sale Reserve		
Balance at Beginning of Period	2,424	1,277
Fair Value Movement through Other Comprehensive Income	103	1,331
Tax through Other Comprehensive Income	(29)	(373)
Balance at End of Period	2,498	2,235
Cash Flow Hedging Reserve		
Balance at Beginning of Period	(7,140)	(2,428)
Fair Value Movement through Other Comprehensive Income	2,375	(5,295)
Tax through Other Comprehensive Income	(669)	1,458
Balance at End of Period	(5,434)	(6,265)
Total Equity	**163,760**	**152,229**

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

BALANCE SHEET as at 30 September 2016

	Note	Unaudited 30/09/2016 $000	Audited 31/03/2016 $000
Assets			
Cash and Cash Equivalents		25,419	22,837
Receivables and Prepayments		3,466	4,291
Available for Sale Investments		162,954	174,779
Derivatives		3,817	4,304
Fair Value through Profit or Loss Investments		6,260	9,057
Loans and Advances	2	1,969,303	1,803,680
Deferred Tax Asset		782	869
Tax Receivable		-	492
Property, Plant and Equipment		7,470	8,297
Intangible Assets		14,910	12,547
Total Assets		**2,194,381**	**2,041,153**
Liabilities			
Rebates to Shareholders		-	2,100
Payables and Other Liabilities		8,538	7,979
Tax Payable		896	-
Derivatives		12,613	15,135
Deposits		1,910,049	1,788,134
Secured Borrowings	4	78,864	63,796
Life Insurance Net Policy Liabilities	6	4,977	5,444
Capital Notes		-	1,597
Subordinated Notes	8	14,684	-
Total Liabilities		**2,030,621**	**1,884,185**
Net Assets		**163,760**	**156,968**
Equity			
Retained Earnings		166,696	161,684
Available for Sale Reserve		2,498	2,424
Cash Flow Hedging Reserve		(5,434)	(7,140)
Total Equity		**163,760**	**156,968**
Interest Earning and Discount Bearing Assets		2,166,166	2,012,225
Interest and Discount Bearing Liabilities		1,914,812	1,770,893

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

STATEMENT OF CASH FLOWS for the six months ended 30 September 2016

	Unaudited 6 Months ended 30/09/2016 $000	Unaudited 6 Months ended 30/09/2015 $000
Cash Flows from Operating Activities		
Interest Received	58,839	58,966
Other Income Received	9,806	9,443
Payments to Suppliers and Employees	(27,621)	(27,925)
Interest Paid	(33,923)	(32,844)
Tax Paid	(1,182)	(1,397)
Net Cash Flow from Operating Activities before Changes in Operating Assets and Liabilities	**5,919**	**6,243**
Loans and Advances	(166,361)	(120,660)
Available for Sale Investments	12,167	31,633
Fair Value through Profit or Loss Investments	2,900	166
Deposits	122,930	125,753
Secured Borrowings	14,999	(31,795)
Cost of Raising Secured Borrowings	-	(167)
Net Changes in Operating Assets and Liabilities	(13,365)	4,930
Net Cash Flow from Operating Activities	**(7,446)**	**11,173**
Cash Flows from Investing Activities		
Purchase of Property, Plant and Equipment	(304)	(962)
Purchase of Intangible Assets	(2,479)	(2,040)
Net Cash Flow from Investing Activities	**(2,783)**	**(3,002)**
Cash Flows from Investing Activities		
Interest Paid on Capital Notes	(94)	(69)
Repayment of Capital Notes	(1,598)	-
Issuance of Subordinated Notes	15,000	-
Cost of Raising Subordinated Notes	(497)	-
Net Cash Flow from Financing Activities	**12,811**	**(69)**
Net Movement in Cash and Cash Equivalents	**2,582**	**8,102**
Opening Balance of Cash and Cash Equivalents	22,837	18,121
Closing Balance of Cash and Cash Equivalents	**25,419**	**26,223**
Reconciliation of Profit after Tax with Net Cash Flow from Operating Activities		
Profit after Tax Attributable to Shareholders	5,012	4,842
Non-Cash Items	4,300	4,073
Changes in Working Capital	(17,012)	2,189
Items Classified as Financing Activities	254	69
Net Cash Flow from Operating Activities	**(7,446)**	**11,173**

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

NOTES TO THE FINANCIAL STATEMENTS for the six months ended 30 September 2016

1. STATEMENT OF ACCOUNTING POLICIES

(a) 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 is registered under the Co-operative Companies Act 1996. Co-op Bank is an FMC Reporting Entity under the Financial Market Conducts 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 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;
- The Co-operative Bank RMBS Trust ("Co-op RMBS Trust") – special purpose entity holding securitised loans purchased from Co-op Bank;
- PSIS Limited (wholly owned subsidiary) - dormant company.

Details of each entity within the Banking Group are set out in the Banking Group's full year Disclosure Statement for the year ended 31 March 2016. There have been no changes to the Banking Group during the interim financial reporting period.

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

(b) Basis of Preparation

The interim financial statements of the Banking Group included in this Disclosure Statement have been prepared in accordance with the New Zealand equivalent to International Accounting Standard NZ IAS 34: *Interim Financial Reporting*, IAS 34: *Interim Financial Reporting* and the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order"), and should be read in conjunction with the Disclosure Statement for the year ended 31 March 2016.

The accounting policies used in the preparation of these interim financial statements are consistent with the accounting policies used in the preparation of the Disclosure Statement and Annual Report for the year ended 31 March 2016.

These interim financial statements were authorised for issue by the Board of Directors (the "Board") on 17 November 2016.

(c) Presentation Currency and Rounding

The functional and presentation currency of the Banking Group is New Zealand dollars. All amounts contained in the interim financial statements are presented in thousands of New Zealand dollars ($000), unless otherwise stated.

(d) Comparatives

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

NOTES TO THE FINANCIAL STATEMENTS for the six months ended 30 September 2016

2. LOANS AND ADVANCES

Advances to Customers	Unaudited 30/09/2016 $000	Audited 31/03/2016 $000
Residential Mortgage Loans	1,836,354	1,671,403
Non-Mortgage Loans	137,027	136,051
	1,973,381	1,807,454
Provisions for Credit Impairment	(4,078)	(3,774)
Net Loans and Advances	**1,969,303**	**1,803,680**

As at 30 September 2016 Residential Mortgage Loans include securitised receivables of $322.1 million (31 March 2016: $318.1 million). These residential mortgage loans are subject to one or other of the securities referred to in Note 4.

3. ASSET QUALITY AND PROVISIONS FOR CREDIT IMPAIRMENT

(a) Gross Impaired Assets

	Unaudited 30/09/2016 Mortgage $000	Unaudited 30/09/2016 Non-Mortgage $000	Unaudited 30/09/2016 Total $000	Audited 31/03/2016 Total $000
Opening Balance	1,665	-	1,665	1,333
Additions	1,137	-	1,137	2,053
Amounts Written Off	(314)	-	(314)	(1,538)
Remediations/Releases	(694)	-	(694)	(183)
Closing Balance	**1,794**	**-**	**1,794**	**1,665**

As at 30 September 2016, the amount of security held to back these assets at original valuation was approximately $1.3 million (31 March 2016: $1.1 million). There were no other undrawn balances on individually impaired lending commitments or other assets under administration at 30 September 2016 or 31 March 2016.

(b) Aging of Past Due but not Impaired Assets

	Unaudited 30/09/2016 Mortgage $000	Unaudited 30/09/2016 Non-Mortgage $000	Unaudited 30/09/2016 Total $000	Audited 31/03/2016 Total $000
1 - 30 days	41,683	2,449	44,132	52,595
31 - 60 days	4,830	268	5,098	4,355
61 - 90 days	2,477	205	2,682	2,209
90 days plus	2,330	268	2,598	5,644
	51,320	**3,190**	**54,510**	**64,803**

As at 30 September 2016, the amount of security held to back these assets at original valuation was approximately $111.4 million (31 March 2016: $130.7 million).

NOTES TO THE FINANCIAL STATEMENTS for the six months ended 30 September 2016

3. ASSET QUALITY AND PROVISIONS FOR CREDIT IMPAIRMENT CONTINUED

(c) Provisions for Credit Impairment

	Unaudited 30/09/2016 Mortgage $000	Unaudited 30/09/2016 Non-Mortgage $000	Unaudited 30/09/2016 Total $000	Audited 31/03/2016 Total $000
Collective Provision				
Opening Balance	1,522	1,748	3,270	3,177
Charged to Profit before Tax	268	13	281	93
Closing Balance	**1,790**	**1,761**	**3,551**	**3,270**
Individual Provisions				
Opening Balance	504	-	504	823
Additions	267	-	267	695
Amounts Written Off	(88)	-	(88)	(782)
Remediations/Releases	(156)	-	(156)	(232)
Closing Balance	**527**	**-**	**527**	**504**
Total Provisions for Credit Impairment	**2,317**	**1,761**	**4,078**	**3,774**

(d) Impairment Losses Charged to Profit before Tax

	Unaudited 30/09/2016 Mortgage $000	Unaudited 30/09/2016 Non-Mortgage $000	Unaudited 30/09/2016 Total $000	Unaudited 30/09/2015 Total $000
Movement in Collective Provision	268	13	281	178
Movement in Individual Provisions	23	-	23	(100)
Bad Debts Written Off	88	851	939	1,255
Bad Debts Recovered	(3)	(123)	(126)	(551)
Total Impairment Losses Charged to Profit before Tax	**376**	**741**	**1,117**	**782**

NOTES TO THE FINANCIAL STATEMENTS for the six months ended 30 September 2016

4. SECURED BORROWINGS

	Unaudited 30/09/2016 Total $000	Audited 31/03/2016 Total $000
Warehouse Trust	79,115	64,093
Cost of Raising Secured Borrowings	(251)	(297)
	78,864	**63,796**

Of the total securitised receivables of $322.1 million (as included in total Residential Mortgage Loans in Note 2), $183.3 million (31 March 2016: $150.4 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 Warehouse Trust was established solely for the purpose of purchasing mortgages from the Co-op Bank and funding the same by wholesale funding from Westpac Banking Corporation ("Westpac") and Co-op Bank (as the case may be). The Warehouse Trust uses the sale proceeds to repay money owing to Westpac and Co-op Bank.

The remaining securitised receivables of $138.9 million (31 March 2016: $167.7 million) relate to the 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. Co-op Bank holds both 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. As at 30 September 2016, the fair value of the secured borrowings was $78.9 million (31 March 2016: $63.8 million) and the fair value of the securitised receivable was $323.6 million (31 March 2016: $320.0 million).

5. RELATED PARTIES

The Banking Group is controlled by Co-op Bank who is also the ultimate parent. There have been no changes in the composition of the Banking Group since 31 March 2016. At 30 September 2016 there were no material amounts due to or due from any related parties that are outside of the Banking Group.

6. LIFE INSURANCE NET POLICY LIABILITIES

The Banking Group conducts life insurance business through its wholly-owned subsidiary; Co-op Life. An actuarial valuation of the policy liabilities as at 30 September 2016 was prepared by Peter Davies, B.Bus.Sc, FIA, FNZSA, and has been calculated in accordance with NZ IFRS 4: *Insurance Contracts* issued by the External Reporting Board, and Professional Standard No. 20 of the New Zealand Society of Actuaries. There were no material changes to key assumptions used in determining the policy liabilities as at 30 September 2016 since the previous valuation at 30 June 2016.

7. CREDIT RELATED COMMITMENTS AND CONTINGENT LIABILITIES

The Banking Group has approved $62.2 million of loans and advances which had not been paid out at 30 September 2016 (31 March 2016: $53.7 million).

The Banking Group had no material contingent liabilities as at 30 September 2016 (31 March 2016: Nil).

NOTES TO THE FINANCIAL STATEMENTS for the six months ended 30 September 2016

8. SUBORDINATED NOTES

	Unaudited 30/09/2016 $000	Audited 31/03/2016 $000
2016 Issue Subordinated Noted	15,000	–
Issue Costs	(476)	–
Accrued Interest	160	–
	14,684	**–**

On 28 July 2016 Co-op Bank issued $15.0 million of Subordinated Notes. These have a maturity date of 28 July 2026, subject to early redemption on 28 July 2021 or any scheduled interest payment date thereafter, subject to Co-op Bank being able to satisfy the solvency test immediately following the payment. Subordinated Notes may also be redeemed if a regulatory or tax event occurs. Repayment is subject to restrictions, including regulatory approval, and will not occur unless those restrictions are complied with.

For the first five years from issue date, the interest rate will be fixed at 6.0%. From the first optional redemption date (28 July 2021) the interest rate will be floating calculated using the Bank Bill FRA Rate plus a margin (3.50%). Interest will be paid quarterly in arrears on each interest payment date (28 January, April, July and October).

Subordinated Note holders rank behind depositors and other unsecured creditors of Co-op Bank. The Subordinated Notes are not guaranteed by any other member of the Banking Group, or by any other person. Some or all of the Subordinated Notes may be required to be written down if the RBNZ, or a statutory manager appointed by the RBNZ, directs Co-op Bank to write down the Subordinated Notes.

9. RISK MANAGEMENT POLICIES

There have been no material changes in the Banking Group's policies for managing credit risk, interest rate risk, liquidity risk, capital risk and operational risk since 30 June 2016, the reporting date for Co-op Bank's last Disclosure Statement.

NOTES TO THE FINANCIAL STATEMENTS for the six months ended 30 September 2016

10. CONCENTRATIONS OF CREDIT RISK

	Unaudited 30/09/2016 $000	Audited 31/03/2016 $000
Cash on Hand and at NZ Registered Banks	25,419	22,837
Receivables	427	698
Available for Sale Investments	162,954	174,779
Derivatives	3,817	4,304
Fair Value through Profit or Loss Investments	6,260	9,057
Loans and Advances	1,969,303	1,803,680
Total On Balance Sheet Credit Exposures	**2,168,180**	**2,015,355**
Off Balance Sheet Exposures - Undrawn Commitments	62,153	53,688
Total Credit Exposures	**2,230,333**	**2,069,043**
Concentration of Credit Exposures by Sector		
Cash on Hand	1,321	1,398
Local Government	36,950	38,658
Registered Banks – Subordinated Debt	4,715	4,715
Registered Banks - Other	92,106	98,990
Listed Multilateral Development Banks and Other International Organisations	45,511	30,790
Other Corporate Investments	14,030	32,122
Residential Mortgage Lending	1,885,167	1,711,164
Consumer Lending	146,289	146,204
Other	4,244	5,002
Total Credit Exposures	**2,230,333**	**2,069,043**

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 customer 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 30 September 2016, 76% of the Banking Group's mortgage portfolio were owner occupied residential properties (31 March 2016: 80%).

NOTES TO THE FINANCIAL STATEMENTS for the six months ended 30 September 2016

11. 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 financial reporting period for individual counterparties, and then dividing that amount by the Banking Group's Total Equity as at the reporting date.

Peak End of Day Credit Exposures – Non Bank Counterparties Percentage of Total Equity	**Unaudited 6 months ended 30/09/2016 Number**	**Audited Year ended 31/03/2016 Number**
10% to 14%	2	2
20% to 24%	-	1

As at Reporting Date – Non Bank Counterparties Percentage of Total Equity	**Unaudited 30/09/2016 Number**	**Audited 31/03/2016 Number**
10% to 14%	1	1
15% to 19%	-	1

The above tables have been compiled using gross credit exposures and do not include any guarantee arrangements as none have been granted by the Banking Group. The individual non bank counterparties shown in the tables above only include non banks that have a long term rating agency's investment grade rating of A- or short term investment grade rating of A3 or above, or its equivalent.

For the six months ended 30 September 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 2016: Nil).

12. CONCENTRATIONS OF FUNDING

	Unaudited 30/09/2016 $000	**Audited 31/03/2016 $000**
Deposits	1,910,049	1,788,134
Registered Banks	78,864	63,796
Capital Notes	-	1,597
Subordinated Notes	14,684	-
Total Funding	**2,003,597**	**1,853,527**

The funding shown in the table above is presented at amortised cost.

Geographical Distribution of Funding		
North Island	1,501,521	1,383,918
South Island	482,359	450,868
Overseas	19,717	18,741
Total Funding	**2,003,597**	**1,853,527**

NOTES TO THE FINANCIAL STATEMENTS for the six months ended 30 September 2016

13. INTEREST RATE SENSITIVITY ANALYSIS

The following tables include the Banking Group's 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.

Unaudited as at 30 September 2016

	Up to 3 Months $000	3-6 Months $000	6 Months to 1 year $000	1-2 Months $000	Over 2 years $000	Non Interest Bearing $000	Total $000
Assets							
Cash and Cash Equivalents	24,098	-	-	-	-	1,321	25,419
Receivables	-	-	-	-	-	427	427
Available for Sale Investments	49,794	8,052	16,265	10,153	78,690	-	162,954
Derivatives	-	-	-	-	-	3,817	3,817
Fair Value through Profit or Loss Investments	792	201	713	1,146	3,408	-	6,260
Loans and Advances	692,476	180,205	411,780	501,372	187,021	(3,551)	1,969,303
Total Financial Assets	**767,160**	**188,458**	**428,758**	**512,671**	**269,119**	**2,014**	**2,168,180**
Liabilities							
Payables and Other Liabilities	-	-	-	-	-	8,538	8,538
Derivatives	-	-	-	-	-	12,613	12,613
Deposits	775,186	403,712	491,852	110,111	39,675	89,513	1,910,049
Secured Borrowings	79,115	-	-	-	-	(251)	78,864
Subordinated Notes	-	161	-	-	15,000	(477)	14,684
Total Financial Liabilities	**854,301**	**403,873**	**491,852**	**110,111**	**54,675**	**109,936**	**2,024,748**
Net Derivative Notional Principals	282,300	270,700	(90,000)	(360,000)	(103,000)	-	-
Total Interest Rate Sensitivity Gap	**195,159**	**55,285**	**(153,094)**	**42,560**	**111,444**	**(107,922)**	**143,432**

NOTES TO THE FINANCIAL STATEMENTS for the six months ended 30 September 2016

13. INTEREST RATE SENSITIVITY ANALYSIS CONTINUED

Audited as at 31 March 2016

	Up to 3 Months $000	3-6 Months $000	6 Months to 1 year $000	1-2 Months $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 six months ended 30 September 2016

14. 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 30 September 2016, the Banking Group had total committed funding lines with other registered banks of $185.0 million (31 March 2016: $185.0 million). Of these facilities $79.0 million was drawn down at 30 September 2016 (31 March 2016: $64.0 million).

	Unaudited 30/09/2016 $000	Audited 31/03/2016 $000
Cash and Cash Equivalents	25,419	22,837
Available for Sale Investments	162,954	174,779
Fair Value through Profit or Loss Investments	6,260	9,057
Undrawn Wholesale Funding	106,000	121,000
Eligible Co-op RMBS Trust Collateral	108,363	100,779
Total Liquidity	**408,996**	**428,452**

15. 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.

	Unaudited Carrying Value 30/09/2016 $000	Unaudited Fair Value 30/09/2016 $000	Audited Carrying Value 31/03/2016 $000	Audited Fair Value 31/03/2016 $000
Financial Assets				
Loans and Advances	1,969,303	1,975,650	1,803,680	1,813,552
Total	**1,969,303**	**1,975,650**	**1,803,680**	**1,813,552**
Financial Liabilities				
Deposits	1,910,049	1,912,315	1,788,134	1,792,446
Secured Borrowings	78,864	78,865	63,796	63,795
Capital Notes	-	-	1,597	1,627
Subordinated Notes	14,684	14,608	-	-
Total	**2,003,597**	**2,005,788**	**1,853,527**	**1,857,868**

NOTES TO THE FINANCIAL STATEMENTS for the six months ended 30 September 2016

15. FAIR VALUE OF FINANCIAL INSTRUMENTS CONTINUED

(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.

16. CONTRACTUAL MATURITY ANALYSIS

The following tables analyse the Banking Group's financial assets and liabilities into relevant maturity groupings based on the remaining period 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 shown 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 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 14, the Banking Group manages liquidity through the maintenance of a portfolio of liquid assets and committed funding lines rather than on a contractual maturity basis.

NOTES TO THE FINANCIAL STATEMENTS for the six months ended 30 September 2016

16. CONTRACTUAL MATURITY ANALYSIS CONTINUED

Unaudited as at 30 September 2016

	On demands $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	25,419	-	-	-	-	-	25,419
Receivables	-	427	-	-	-	-	427
Available for Sale Investments	-	40,998	18,339	13,890	95,661	5,000	173,888
Fair Value through Profit or Loss Investments	-	1,124	817	1,280	3,821	-	7,042
Derivatives	-	1,150	612	825	1,376	-	3,963
Loans and Advances	52,806	59,230	54,979	107,705	2,543,821	-	2,818,541
Total Financial Assets	**78,225**	**102,929**	**74,747**	**123,700**	**2,644,679**	**5,000**	**3,029,280**
Liabilities							
Payables and Other Liabilities	-	7,430	1,108	-	-	-	8,538
Derivatives	-	5,862	2,910	2,408	2,328	-	13,508
Deposits	622,666	655,374	499,272	115,094	43,866	-	1,936,272
Secured Borrowings	-	1,234	1,119	80,189	-	-	82,542
Subordinated Notes	-	610	450	900	17,545	-	19,505
Total Financial Liabilities	**622,666**	**670,510**	**504,859**	**198,591**	**63,739**	**-**	**2,060,365**
Undrawn Commitments	**48,051**	**14,102**	**-**	**-**	**-**	**-**	**62,153**

Audited as at 31 March 2016

	On demands $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	-	1,032	939	1,878	64,062	-	67,911
Capital Notes	-	1,664	-	-	-	-	1,664
Total Financial Liabilities	**608,210**	**657,514**	**373,468**	**157,333**	**116,840**	**-**	**1,913,365**
Undrawn Commitments	**31,385**	**22,303**	**-**	**-**	**-**	**-**	**53,688**

NOTES TO THE FINANCIAL STATEMENTS for the six months ended 30 September 2016

17. SEGMENT REPORTING

Co-op Bank 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.

Unaudited consolidated segment information for the six months ended 30 September 2016:

	Banking $000	Insurance $000	Total $000
Interest Income	59,350	226	59,576
Interest Expense	(33,555)	-	(33,555)
Other Operating Income	6,670	3,450	10,120
Net Operating Income	32,465	3,676	36,141
Profit before Tax	**5,516**	**1,455**	**6,971**

Unaudited consolidated segment information as at 30 September 2016:

	Banking $000	Insurance $000	Total $000
Total Assets	2,182,188	12,193	2,194,381
Total Liabilities	2,025,595	5,026	2,030,621

Unaudited consolidated segment information for the six months ended 30 September 2015:

	Banking $000	Insurance $000	Total $000
Interest Income	59,506	261	59,317
Interest Expense	(33,796)	-	(33,796)
Other Operating Income	6,205	2,978	9,183
Net Operating Income	31,465	3,239	34,704
Profit Before Tax	**5,289**	**1,211**	**6,500**

Audited consolidated segment information as at 31 March 2016:

	Banking $000	Insurance $000	Total $000
Total Assets	2,026,165	14,988	2,041,153
Total Liabilities	1,878,818	5,367	1,884,185

18. CAPITAL COMMITMENTS

The Banking Group had no capital expenditure commitments at 30 September 2016 that were not provided for in these interim financial statements (31 March 2016: nil).

19. SUBSEQUENT EVENTS

There have been no events subsequent to the reporting date which would materially affect these interim financial statements.

NOTES TO THE FINANCIAL STATEMENTS for the six months ended 30 September 2016

20. 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 has complied with the Reserve Bank 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%;
- Tier 1 capital ratio of the Banking Group is not less than 6%;
- 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 NZ $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, and 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.

NOTES TO THE FINANCIAL STATEMENTS for the six months ended 30 September 2016

20. CAPITAL ADEQUACY CONTINUED

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 30 September 2016, the Banking Group has made an internal capital allocation of $61.3 million (31 March 2016: $57.3 million) to cover these identified risks. This internal capital allocation is in addition to the minimum capital required by the Reserve Bank.

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. Co-op Bank is required by New Zealand generally accepted accounting practice to consolidate these special purpose vehicles in its Banking Group financial statements.

(a) Regulatory Capital Ratios

		Banking Group		Co-Op Bank	
	Minimum Ratio Requirement	Unaudited 30/09/2016	Unaudited 31/03/2016	Unaudited 30/09/2016	Unaudited 31/03/2016
Common Equity Tier One Capital Ratio	4.5%	15.0%	15.7%	14.4%	14.8%
Tier One Capital Ratio	6.0%	15.0%	15.7%	14.4%	14.8%
Total Capital Ratio	8.0%	16.1%	15.8%	15.3%	14.7%
Buffer Ratio	2.5%	8.1%	7.8%	-	-

NOTES TO THE FINANCIAL STATEMENTS for the six months ended 30 September 2016

20. CAPITAL ADEQUACY CONTINUED

(b) Capital

Banking Group	Unaudited 30/09/2016 $000	Unaudited 31/03/2016 $000
Common Equity Tier One Capital		
Retained Earnings (net of appropriations)	161,684	151,417
Accumulated Other Comprehensive Income:		
Profit after Tax	5,012	10,267
Available for Sale Reserve	2,498	2,424
Cash Flow Hedging Reserve	(5,434)	(7,140)
	163,760	**156,968**
Less Deductions from Common Equity Tier One Capital		
Intangible Assets	(14,910)	(12,547)
Deferred Tax Asset	(782)	(869)
Cash Flow Hedging Reserve	5,434	7,140
Total Common Equity Tier One Capital	**153,502**	**150,692**
Additional Tier One Capital	-	-
Total Tier One Capital	**153,502**	**150,692**
Tier Two Capital		
Term Subordinated Debt	10,800	320
Total Tier Two Capital	**10,800**	**320**
Total Capital	**164,302**	**151,012**

As at 30 September 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 cash flow hedging reserve comprises the fair value gains and losses associated with the effective portion of designated cash flow hedging instruments.

Term Subordinated Debt

The term subordinated debt shown under Tier Two Capital consists of unsecured, subordinated, loss absorbing Tier 2 regulatory capital debt securities (“Subordinated Notes”) issued by Co-op Bank on 28 July 2016. For full details on this issue refer to Note 8.

NOTES TO THE FINANCIAL STATEMENTS for the six months ended 30 September 2016

20. CAPITAL ADEQUACY CONTINUED

(c) Credit Risk

(i) Calculation of On Balance Sheet Exposures - Unaudited

As as 30 September 2016	Total Exposure After Credit Risk Mitigation $000	Risk Weight %	Risk Weighted Exposure $000	Pillar One Minimum Capital Requirement $000
Cash	1,321	0%	-	-
Multilateral Development Banks and Other International Organisations	32,053	0%	-	-
Multilateral Development Banks and Other International Organisations	13,458	20%	2,692	215
Public Sector Entities	36,950	20%	7,390	591
Banks	91,981	20%	18,396	1,472
Banks	4,840	50%	2,420	194
Corporate	4,983	20%	997	80
Corporate	9,046	50%	4,523	362
Residential Mortgages Not Past Due (< 80% LVR)	1,432,680	35%	501,438	40,115
Residential Mortgages Not Past Due (80% - 90% LVR)	143,760	50%	71,880	5,750
Residential Mortgages Not Past Due (90% - 100% LVR)	25,332	75%	18,999	1,520
Residential Mortgages Not Past Due (>100% LVR)	1,777	100%	1,777	142
Property Investment Loans				
Residential Mortgages Not Past Due (< 80% LVR)	167,816	40%	67,126	5,370
Residential Mortgages Not Past Due (80% - 90% LVR)	8,825	70%	6,178	494
Residential Mortgages Not Past Due (90% - 100% LVR)	981	90%	883	71
Welcome Home Loans				
Residential Mortgages Not Past Due (<90% LVR)	38,062	35%	13,322	1,066
Residential Mortgages Not Past Due (90% - 100% LVR)	11,872	50%	5,936	475
Past Due Residential Mortgages	2,932	100%	2,932	235
Other Assets	145,978	100%	145,978	11,678
Other Past Due Assets	225	100%	225	18
Non Risk Weighted Assets	19,509	0%	-	-
Total	**2,194,381**		**873,092**	**69,848**

NOTES TO THE FINANCIAL STATEMENTS for the six months ended 30 September 2016

20. CAPITAL ADEQUACY CONTINUED

(c) Credit Risk continued

(i) Calculation of On Balance Sheet Exposures - Unaudited continued

As as 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 six months ended 30 September 2016

20. CAPITAL ADEQUACY CONTINUED

(c) Credit Risk continued

(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 $000
Undrawn Other Commitments						
Original maturity is more than 1 year						
30/09/2016	62,153	50%	31,077	47%	14,459	1,157
31/03/2016	53,688	50%	26,844	49%	13,263	1,061
Market Contracts						
30/09/2016						
Interest Rate Swaps	1,886,212	n/a	9,056	20%	1,811	145
Foreign Exchange Contracts	219	n/a	203	20%	41	3
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

Other Commitments represents the unutilised balances of Members' credit facilities (overdrafts, creditline accounts and revolving credit mortgages), and approved but undrawn loans.

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

	On Balance Sheet 30/09/2016 $000	Off Balance Sheet 30/09/2016 $000	On Balance Sheet 31/03/2016 $000	Off Balance Sheet 31/03/2016 $000
Loan to Value Ratio				
LVR 0% - 80%	1,604,200	50,033	1,475,990	38,747
LVR > 80% - 90%	189,527	1,097	156,579	1,707
LVR > 90%	40,310	-	36,808	1,333
Total	**1,834,037**	**51,130**	**1,669,377**	**41,787**

	Note	30/09/2016 $000	31/03/2016 $000
Reconciliation to Mortgage Related Amounts			
Gross Residential Mortgage Loans	2	1,836,354	1,671,403
Provision for Impairment relating to Residential Mortgages	3(c)	(2,317)	(2,026)
Residential Mortgage Loans net of Provision for Impairment	20 (c)(i), 20 (d)	1,834,037	1,669,377
Off Balance Sheet Exposures – Undrawn Commitments	20 (d)	51,130	41,787
Total On and Off Balance Sheet Residential Mortgage Loans	**10**	**1,885,167**	**1,711,164**

NOTES TO THE FINANCIAL STATEMENTS for the six months ended 30 September 2016

20. CAPITAL ADEQUACY CONTINUED

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

	Implied Risk Weighted Exposure 30/09/2016 $000	Capital Requirement 30/09/2016 $000	Implied Risk Weight Exposure 31/03/2016 $000	Capital Requirement 31/03/2016 $000
Operational Risk	118,847	9,508	112,530	9,002
Market Risk - Interest Rate Risk	13,142	1,051	9,207	736
Market Risk - Foreign Currency Risk	1	-	72	6

The Banking Group did not have any equity exposures as at 30 September 2016 (31 March 2016: Nil).

(f) Banking Group's Market Risk End of Period and Peak End of Day Capital Charges - Unaudited

	End Of Period 30/09/2016 $000	Peak End of Day 30/09/2016 $000	End of Period 31/03/2016 $000	Peak End of Day 31/03/2016 $000
Implied Risk Weighted Exposure	13,143	17,588	9,279	21,057
Aggregate Capital Charge	1,051	1,407	742	1,685
Aggregate Capital Charge Expressed as a Percentage of the Banking Group's Equity	0.64%	0.86%	0.49%	1.12%

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.

(g) Banking Group Total Capital Requirements - Unaudited

	Total Exposure After Credit Risk Mitigation 30/09/2016 $000	Risk Weighted Exposure or Implied Risk Weighted Exposure 30/09/2016 $000	Capital Requirement 30/09/2016 $000
Total Credit Risk	4,142,965	889,403	71,153
Operational Risk	n/a	118,847	9,508
Market Risk	n/a	13,143	1,051
Total Risk Weighted	**4,142,965**	**1,021,393**	**81,712**

	31/03/2016 $000	31/03/2016 $000	31/03/2016 $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**

THE CO-OPERATIVE BANK DISCLOSURE STATEMENT for the six months ended 30 September 2016

This Disclosure Statement has been issued by Co-op Bank for the six months ended 30 September 2016 in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order").

The interim financial statements of Co-op Bank for the six months ended 30 September 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 Statement 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.

GUARANTEE ARRANGEMENTS

There are no guarantees applicable to the Banking Group as at 30 September 2016.

On 25 September 2016, the guarantee provided by Co-op Life to Co-op Bank to all depositors who were depositors at the time and date of bank registration (26 October 2011) ceased following the maturity of the last remaining deposits.

DIRECTORS

There have been no changes to Directors since 25 August 2016, the date that Co-op Bank's 30 June 2016 Disclosure Statement was signed.

CONDITIONS OF REGISTRATION

There were no changes to the conditions of registration that affected the 30 September 2016 Disclosure Statement.

The conditions of registration were amended on 1 October 2016 to refer to a revised version of the RBNZ's Framework for Restrictions on High-LVR Residential Mortgage Lending (BS19). The changes consist of increased restrictions on high loan to value ratio residential mortgage lending.

PENDING PROCEEDINGS OR ARBITRATION

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

SECURITISATION

There have been no material changes to Co-op Bank's involvement in securitisation since 30 June 2016, the reporting date of the previous Disclosure Statement.

CREDIT RATING

As at 30 September 2016 and up until the date of the signing of this Disclosure Statement, Co-op Bank was rated BBB (outlook stable) by Fitch Ratings. The Fitch rating was upgraded to BBB on 5 September 2016, and is not subject to any qualifications.

As at 30 September 2016 and up until the date of the signing of this Disclosure Statement, Co-op Life had a financial strength rating of B++ and Long-Term Issuer Credit Rating of bbb+ (outlook stable) issued by A.M. Best Company Inc. The ratings were re-affirmed by A.M. Best Company Inc. on 15 September 2016.

INSURANCE BUSINESS

The Banking Group conducts insurance business through its wholly-owned subsidiary company, Co-op Life. The total assets of Co-op Life as at 30 September 2016 were $12.2 million (31 March 2016: $15.0 million) which is 0.58% of the total assets of the Banking Group (31 March 2016: 0.73%).

THE CO-OPERATIVE BANK DISCLOSURE STATEMENT for the six months ended 30 September 2016

INDEPENDENT AUDITOR

KPMG
10 Customhouse Quay
Wellington

OTHER MATERIAL MATTERS

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 which would, if disclosed in this Disclosure Statement, 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.

DIRECTORS' STATEMENTS

Each Director of Co-op Bank states that he or she believes, after due enquiry, that:

1. **As at the date on which this 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 six months ended 30 September 2016:**
   (a) the Registered Bank has complied with all conditions of 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 17 November 2016 and has been signed by all Directors:

Steven Fyfe *(Chairman)*

Paul Goulter *(Deputy Chairman)*

Marion Cowden

Sarah Haydon

Dianne Kidd

Brendan O'Donovan

Clayton Wakefield

KPMG

INDEPENDENT AUDITOR'S REVIEW REPORT

To the Shareholders of The Co-operative Bank Limited

We have reviewed pages 2 to 25 of the half year disclosure statement of The Co-operative Bank Limited (the "Registered Bank") and its subsidiaries (the "Banking Group") which includes interim financial statements prepared and disclosed in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order") and supplementary information prescribed in schedules 5, 7, 9, 13, 16 and 18 of the Order.

The interim financial statements and supplementary information provide information about the past financial performance and cash flows of the Banking Group for the six-month period ended 30 September 2016 and its financial position as at 30 September 2016.

This report is made solely to the Shareholders as a body. Our review work has been undertaken so that we might state to the Banking Group's Shareholders those matters we are required to state to them in the independent review 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 Banking Group's Shareholders as a body, for our review work, this report or any of the conclusions we have formed.

Directors' responsibilities

The Directors of the Banking Group are responsible for the preparation and presentation of the half year disclosure statement, which includes interim financial statements prepared in accordance with Clause 25 of the Order and NZ IAS 34 *Interim Financial Reporting* ("NZ IAS 34"), which present fairly, in all material respects, the financial position of the Banking Group as at 30 September and its financial performance and cash flows for the six-month period ended on that date.

The Directors are also responsible for such internal controls as they determine are necessary to enable the preparation of the half year disclosure statement that is free from material misstatement whether due to fraud or error.

They are also responsible for the preparation of supplementary information in the half year disclosure statement which fairly states the matters to which it relates in accordance with schedules 5, 7, 9, 13, 16 and 18 of the Order.

Our responsibilities

Our responsibility is to express an independent review opinion on the half year disclosure statement, which includes interim financial statements disclosed in accordance with Clause 25 of the Order, and supplementary information disclosed in accordance with schedules 5, 7, 9, 13, 16 and 18 of the Order, as presented to us by the Directors, and report our opinion to you.

We are responsible for reviewing the interim financial statements (excluding the supplementary information) in order to report to you whether, in our opinion, on the basis of the procedures described below, anything has come to our attention that would cause us to believe that the interim financial statements have not been prepared, in all material respects, in accordance with NZ IAS 34 *Interim Financial Reporting* and do not present fairly, in all material respects, the financial position of the Banking Group as at 30 September 2016 and its financial performance and cash flows for the six-month period ended on that date.

We are responsible for reviewing the supplementary information (excluding the supplementary information relating to capital adequacy) in order to report to you whether, in our opinion, on the basis of the procedures described below, anything has come to our attention that would cause us to believe that the supplementary information does not fairly state the matters to which it relates in accordance with schedules 5, 7, 13, 16 and 18 of the Order.

We are responsible for reviewing the supplementary information relating to capital adequacy in order to state whether, on the basis of the procedures described below, anything has come to our attention that would cause us to believe that the information disclosed in accordance with schedule 9 is not, in all material respects, prepared in accordance with the Registered Bank's Conditions of Registration, Capital Adequacy Framework (Standardised Approach) (BS2A) and disclosed in accordance with Schedule 9 of the Order.

KPMG

INDEPENDENT AUDITOR'S REVIEW REPORT

Basis of opinion

We have performed our review in accordance with the review engagement standard NZ Standard on Review Engagements 2410, *Review of Financial Statements Performed by the Independent Auditor of the Entity* ('NZ SRE 2410') issued by the 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.

A review is limited primarily to enquiries of the Banking Group's personnel and analytical review procedures applied to the financial data, and thus provides less assurance than an audit. 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 those financial statements.

Our firm has provided other services to the Banking Group in relation to review of regulatory returns and agreed upon procedures engagements. 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. These matters have not impaired our independence as auditor of the Banking Group for this engagement. The firm has no other relationship with, or interest in, the Banking Group.

Review opinion

We have examined the interim financial statements and supplementary information and based on our review nothing has come to our attention that causes us to believe that:

(a) the interim financial statements on pages 2 to 25 (excluding the supplementary information disclosed in accordance with schedules 5, 7, 9, 13, 16 and 18 of the Order) have not been prepared, in all material respects, in accordance with NZ IAS 34 *Interim Financial Reporting* and do not present fairly, in all material respects, the financial position of the Banking Group as at 30 September 2016 and its financial performance and cash flows for the six month period ended on that date;

(b) the supplementary information (excluding supplementary information relating to capital adequacy) disclosed in accordance with schedules 5, 7, 13, 16 and 18 of the Order, does not fairly state, in all material respects, the matters to which it relates in accordance with those schedules; and

(c) the supplementary information relating to capital adequacy disclosed in accordance with schedule 9 of the Order, is not, in all material respects prepared in accordance with the Registered Bank's Conditions of Registration, Capital Adequacy Framework (Standardised Approach) (BS2A) and disclosed in accordance with schedule 9 of the Order.

Our review was completed on 17 November 2016 and our opinion is expressed as at that date.

KPMG

17 November 2016
Wellington

The Co-operative Bank

0800 554 554 co-operativebank.co.nz