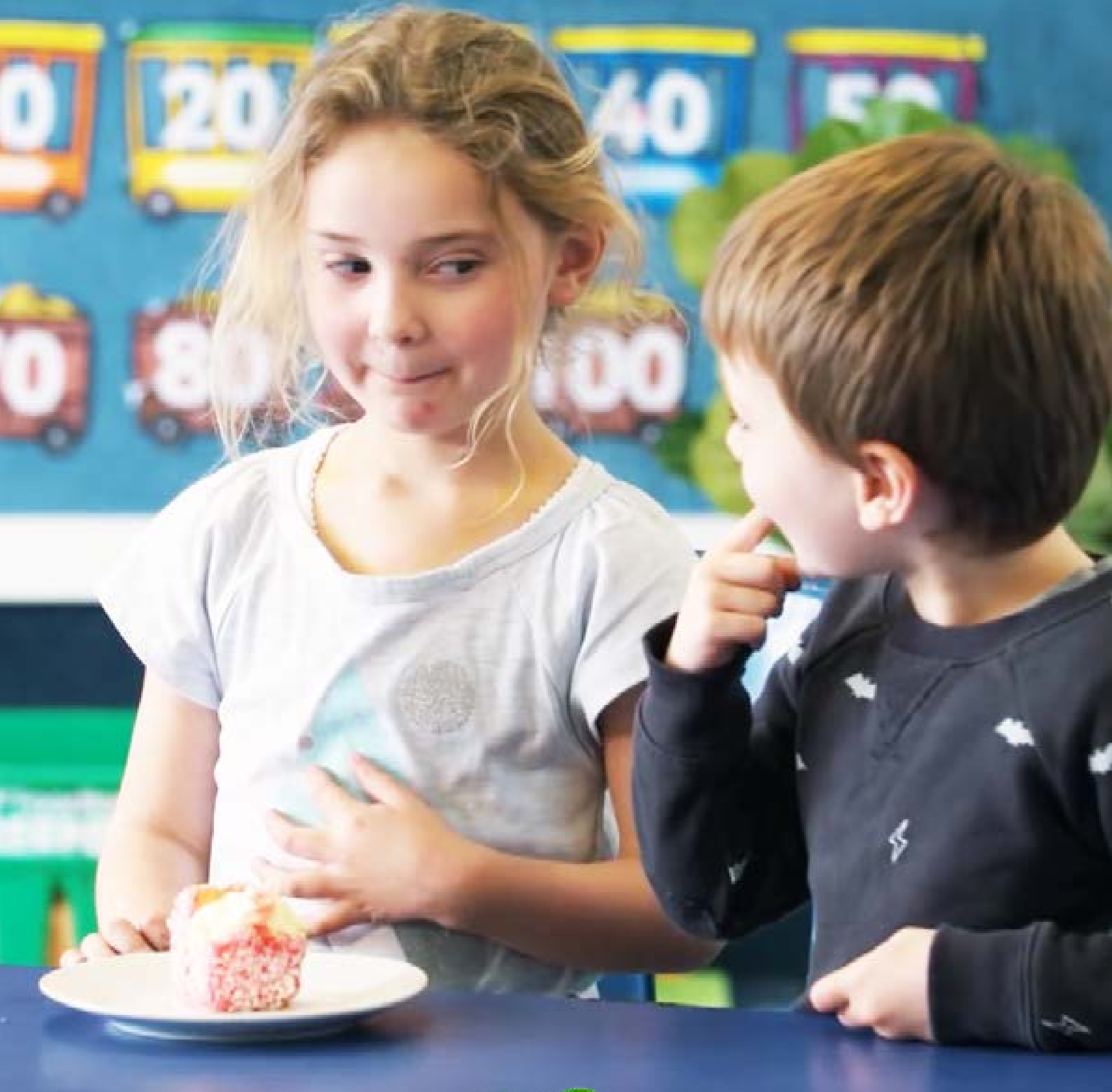
2017 Disclosure Statement & Annual Report

For the year ended 31 March 2017



The Cooperative Bank
Change banking for good

Contents

Highlights

PROFIT BEFORE REBATES & TAX

$16.5m

UP 4%

NET PROFIT AFTER TAX

$10.3m

These are great results in the market and are driven by income being up **3.0%**, expenses contained to a **1.1%** uplift

YEAR END CAPITAL RATIO

16.9%

ONE OF THE HIGHEST IN MARKET

REBATES

$2.1m

=

MAINTAINED

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

CUSTOMERS

156k

HAVE INCREASED TO OVER

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

MORTGAGE LENDING

16.9%

UP

DEPOSITS

13.8%

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 1.1%

Reflecting productivity gains alongside continued investment in the business

Directors' and CEO Report

It has been another milestone year for The Co-operative Bank. Strong customer growth is a standout achievement in the past financial year, one of many transformational outcomes in what has been a year of firsts for the Bank. This customer growth, together with the new products and services we have launched, means we continued to deliver on our strategy in a challenging market.

The Board and management continue to focus on growth, which means not only attracting new customers but, equally as important, growing our relationships with existing customers, increasingly via digital channels.

This mind-set and the forward thinking, can-do attitude of our entire team, will ultimately drive us towards our purpose to *Change Banking for Good*.

11% Customer Growth

With 11% of our customers having joined us in the past year, we can be highly confident that The Co-operative Bank is capturing the imagination of more and more Kiwis who, like us, see a real reason to *Change Banking for Good* here in New Zealand.

Behind this stellar growth other great things are happening with our customers. Last year we had a 35% increase in the number of customers who held three or more products with us. This is very important because it shows we are meeting more of the needs of our existing customers, and they are comfortable to have these services provided by us. It is a competitive banking market in New Zealand and so we never take for granted the choices customers have when they choose to bank with us.

Digital Banking Growth

Our on-going investment in world class internet and mobile app banking continues to win the hearts and confidence of our customers. We continue to have the number one rated New Zealand banking app for Apple and Android Smartphones and logins to internet and mobile banking increased by 60% in the year.

In the past 12 months we have also enabled customers to originate the following products via internet banking and/or our mobile app - personal loans, credit cards, KiwiSaver, overdrafts and term deposits.

We are very focussed on providing a human touch in a digital age and customer feedback tells us we are getting it right.

Solid Growth Across the Board

Customer lending for the year grew 17%, customer deposits grew 14% and Co-op Life Insurance sales were up by 26%. These significant changes were complemented by the launch of our new Fair Rate Credit Card, which has performed above expectations.

The Fair Rate Credit Card, which launched in November 2016, epitomises everything that is great about The Co-operative Bank and reaffirms the Bank is living its beliefs. The card proposition of offering the same low interest rate for purchases and cash advances has re-defined the low rate credit card market and provided further evidence of how we are *Changing Banking for Good*.

Stability

As any business grows, it's crucial that the core infrastructure and risks associated with growth are carefully managed. The Board and management remain very focussed on risk management.

In September 2016, the Bank achieved a credit rating upgrade to BBB from BBB- from Fitch Ratings. The Bank was one of only a few banks globally to achieve a credit rating upgrade in 2016 and this was a major confirmation that recognises even in growth mode we are controlling and managing our risk obligations.

+ The new Fair Rate Credit Card

+ Bruce McLachlan

The Bank retains one of the highest capital ratios of any bank in New Zealand. During the past year we raised $45m of tier 2 capital from both New Zealanders and New Zealand wholesale institutions. This is another endorsement of our current operating practices and confirmation the market sees a strong future for the Bank.

Added to the external endorsements, the effectiveness of the Bank's core systems, strong regulatory ratios, low bad debt levels and many other risk settings, all support the Board's comfort levels in a growing – and well managed – organisation.

Recognition

We are very proud to have won the Consumer New Zealand Bank Satisfaction Award and the Canstar Blue Most Satisfied Customers in Banking Awards in 2016. The Bank was a joint winner of the Consumer NZ award and the outright winner of the Canstar award. We value these awards highly because they are determined by bank customers. As a co-operative, we exist solely for the benefit of our customers, so being judged by them to be the best in the country makes us immensely proud.

The other area of recognition received this year was from our employees. As a leadership group we know we can only be successful for our customers if our employees are engaged in their work. The Employee Engagement Survey result in the past year placed The Bank within the top 25% of employers in New Zealand. Knowing we have engaged employees gives us confidence in our future, secure in the knowledge we will continue to attract and retain the best talent available.

Thanks

We extend our sincere gratitude to Bruce McLachlan who left his role as the Bank's Chief Executive on 31 March 2017 to become the Chief Executive of Fisher Funds. The Bank enjoyed much success under Bruce's leadership and we wish him well for the future.

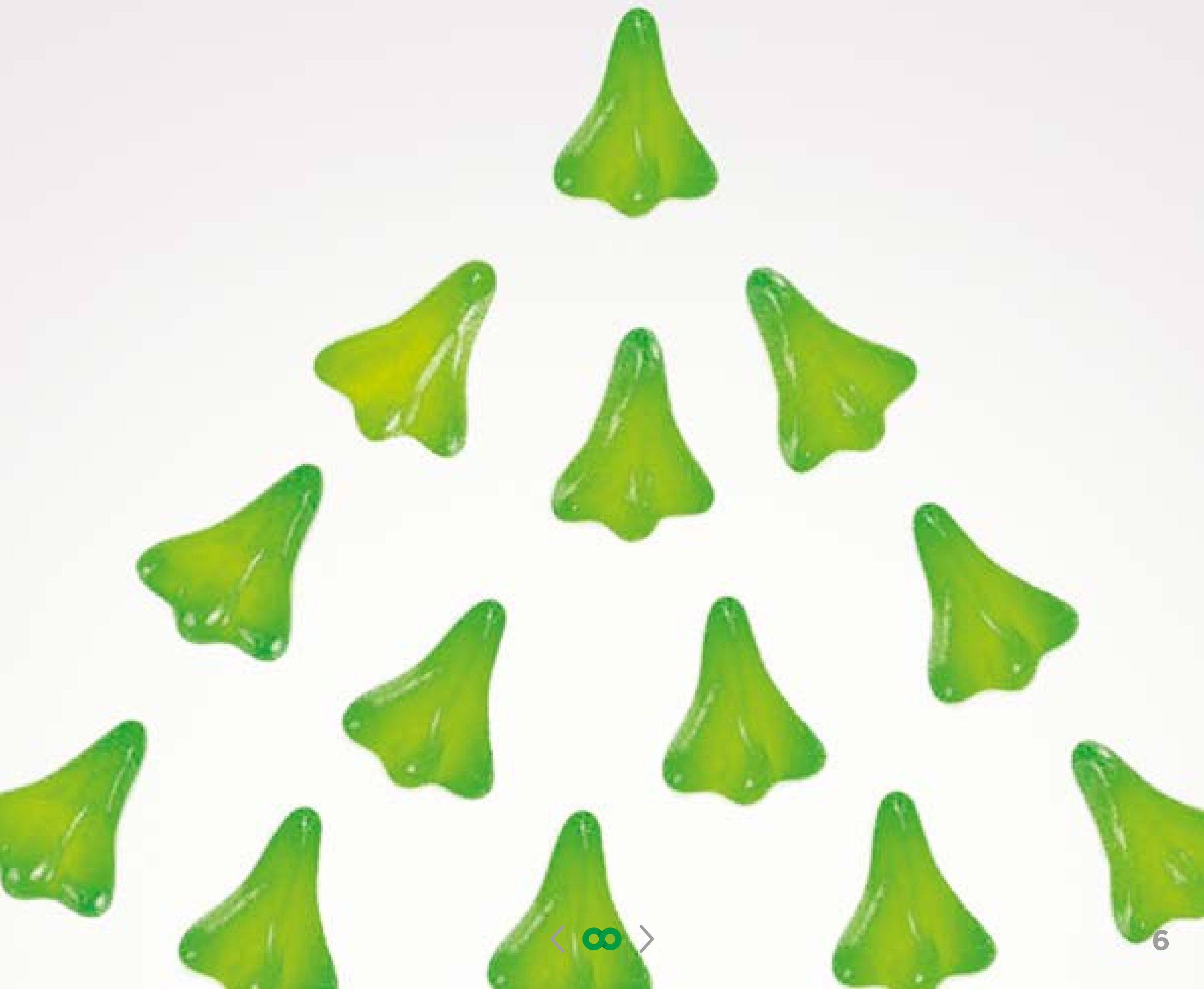
The Board appointed David Cunningham as the new Chief Executive on 1 May 2017. David was previously the Bank's General Manager of Customer Banking, a role he held for four years. The Board was delighted to be able to appoint an internal candidate who has played a part in our previous successes, and who can carry us forward with no loss of momentum.

Finally, the Board and Management sincerely thank our customers, who are also our shareholders, for their ongoing support. While we can recognise this in a unique way by once again paying a rebate in 2017, we know that the relationship is far greater than this. We are delighted that so many of you are taking up more of our products and services, and when we measure our Net Promotor Score (NPS) we are humbled that over 60% of customers say they are extremely likely to recommend our bank to friends and family. We know we can never take this for granted and will continue to work hard to *Change Banking for Good.*

Steven Fyfe,
Chairman

David Cunningham,
Chief Executive

We continue to have the number one rated New Zealand banking app for Apple and Android Smartphones and logins to internet and mobile banking increased by 60% in the year.



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 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:

- Setting the strategic direction and agreeing the goals of the Bank.
- Appointing the Chief Executive and their direct reports and setting their terms of employment and performance objectives.
- Approving the business plan and monitoring operating and financial performance against the plan.
- Setting the Bank's overall risk appetite and framework for managing risk and ensuring that effective risk management procedures and regulatory compliance policies are in place.
- Ensuring the Bank has an appropriate policy framework in place, including codes of conduct and ethical standards, and that it adheres to these.
- Ensuring the ongoing financial viability of the Bank.
- Demonstrating commitment to health and safety in the workplace.
- Ensuring the financial statements are true and fair, and otherwise conform with the law and regulations.
- Ensuring appropriate corporate social responsibility.
- 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 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 with its oversight of financial reporting, external audit, internal controls and internal audit. External and internal auditors attend meetings as required.

The Audit Committee comprises Sarah Haydon (Chairman), Dianne Kidd 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 comprises Steven Fyfe (Chairman), Paul Goulter, Brendan O'Donovan, Sarah Haydon, Dianne Kidd and Clayton Wakefield.

Appointments and Remuneration Committee

The Appointments and Remuneration Committee assists the Board with 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 Clayton Wakefield.

Board Appointments

Every year eligible shareholders have the opportunity to nominate people for the role of Director. At the same time the two longest-serving Directors (since their last election) retire by rotation and can choose to stand for re-election. Individuals 16 and over holding a Class A share can vote for director nominees, giving them a say in how the Bank is governed.

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

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.

Bank Fit and Proper Policy

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

In accordance with the Board Charter, more than half the Directors must be independent. All current Directors are independent.

Director Remuneration

The maximum aggregate Director Remuneration is approved by shareholders at the Annual General Meeting. Director remuneration is benchmarked against the market, including similar companies. The Chairman, Deputy Chairman and Committee Chairs receive additional remuneration 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.

Co-operative Life Limited

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

The Board of Co-operative Life Limited comprises Brendan O'Donovan (Chairman), Sarah Haydon, David Cunningham and Gareth Fleming.

The Bank's governance summary reflects the position as at the date of this report.

Independent Auditor's Report

TO THE SHAREHOLDERS OF THE CO-OPERATIVE BANK LIMITED

Report on the Banking Group Disclosure Statement

Opinion

Opinion on financial statements

In our opinion, the accompanying financial statements (excluding supplementary information relating to Capital Adequacy) of The Co-operative Bank Limited (the company) and its related entities (the Banking Group) on pages 14 to 54:

i. give a true and fair view of the Banking Group's financial position as at 31 March 2017 and its financial performance and cash flows for the year ended on that date; and

ii. comply with New Zealand Generally Accepted Accounting Practice, which in this instance means New Zealand Equivalents to International Financial Reporting Standards ("NZIFRS") and International Financial Reporting Standards.

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 Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order") and is included within notes 12, 19, 27, 28, 29, 31, 32 and 34 of the disclosure statement:

i. 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;

ii. is in accordance with the books and records of the Banking Group in all material respects; and

iii. fairly states the matters to which it relates in accordance with those Schedules

We have audited the accompanying financial statements and supplementary information (excluding supplementary information relating to Capital Adequacy) which comprise:

- the balance sheet as at 31 March 2017;
- the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended;
- notes, including a summary of significant accounting policies and other explanatory information; and
- the information that is required to be disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order.

Basis for Opinion on the financial statements and supplementary information (excluding supplementary information relating to Capital Adequacy)

We conducted our Audit in accordance with International Standards on Auditing (New Zealand) (ISA's (NZ)). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Banking Group in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISA (NZ) are further described in the Auditor's Responsibilities for the Audit of the financial statements (excluding supplementary information relating to Capital Adequacy) section of our report.

Our firm has also provided other services to the Banking Group in relation to Agreed Upon Procedures, Trustee Reporting and Limited Assurance Engagements. Non-Audit Advisory Services were provided in relation to an Impact Assessment on a new Accounting Standard. 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. The firm has no other relationship with, or interest in, the Banking Group.

KPMG

Independent Auditor's Report

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements.

The key audit matter	How the matter was addressed in our audit
Provision for credit impairment	
Refer to Note 12 to the Disclosure Statement. We focussed our audit on the two significant components of the provision for credit impairment; the collective provision and the individual provisions over loans and advances. Loans and advances cover all forms of lending to customers, including mortgages, overdrafts, personal loans and credit cards. The collective and individual provisions are a key audit matter owing to the significance of loans and advances and the high degree of judgement applied by management in determining the provisions. The collective provision is determined by segmenting the portfolio into similar risk profiles and then applying specific risk factors on each segment to derive a provision. The level of judgement involved in arriving at each risk factor requires us to challenge the appropriateness of management's assumptions in the calculation of the provision. The factors have audit complexities where additional estimates are applied to compensate when historic losses are not considered to be an accurate reflection on the current credit risk profile. Management applies judgement in deriving the individual provision balance by estimating the present value of expected future cash flows which are inherently uncertain being principally derived from estimated property sale proceeds.	Our audit procedures, amongst others, included: • Testing of controls around credit risks, including loan monitoring. We also assessed the internal reviews of branch credit-quality and performance which were completed in the financial period. • Testing the key inputs used in the collective provision calculation for both mortgage and non-mortgage lending. This included challenging each lending segment's impairment rate and risk factors, which were judgementally applied by management. • Re-performing the individual impairment provision calculations for a sample of individual mortgages. • Assessing loans in arrears not specifically provided for, to determine whether they were being appropriately monitored and reflected in the provision for credit impairment.

Other Information

The Directors, on behalf of the Banking Group, are responsible for the other information included in the Banking Group's Annual Report. The other information comprises the Directors' and CEO Report, information required to be included in the Disclosure Statement in accordance with Schedule 2 of the Order and that required by s211 of the Companies Act 1993 and is included on pages 4 to 8, page 13 and pages 55 to 67. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditor's Report

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.

Responsibilities of Directors for the financial statements and supplementary information (excluding supplementary information relating to Capital Adequacy)

The Directors, on behalf of the Banking Group, are responsible for:

- the preparation and fair presentation of the financial statements in accordance with Clause 24 of the Order, NZIFRS and International Financial Reporting Standards;
- the preparation and fair presentation of supplementary information (excluding the supplementary information relating to Capital Adequacy), in accordance with Schedules 2, 4, 7, 13, 14, 15 and 17 of the Order;
- implementing necessary internal control to enable the preparation of financial statements that are fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the financial statements and supplementary information (excluding supplementary information relating to Capital Adequacy)

Our objective is:

- to obtain reasonable assurance about whether the disclosure statement, including the financial statements prepared in accordance with Clause 24 of the Order, and supplementary information (excluding the supplementary information relating to Capital Adequacy), in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (New Zealand) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial statements.

A further description of our responsibilities for the Audit of these financial statements is located at the External Reporting Board (XRB) website at:

https://www.xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page1.aspx

This description forms part of our Auditor's Report.

Review conclusion 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 37 to the disclosure statement, is not, in all material respects:

i. prepared in accordance with the Banking Group's conditions of registration; and

ii. disclosed in accordance with Schedule 9 of the Order.

We have reviewed the supplementary information relating to Capital Adequacy, as disclosed in note 37 of the disclosure statement for the year ended 31 March 2017. The supplementary information relating to Capital Adequacy comprises the information that is required to be disclosed in accordance with Schedule 9 of the Order.

Independent Auditor's Report

Basis for conclusion on the supplementary information relating to Capital Adequacy

A review of the supplementary information relating to Capital Adequacy in accordance with NZ SRE 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity ("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. Our responsibilities under that standard are further described in the Auditor's Responsibilities for the Review of the supplementary information relating to capital adequacy section of our report.

As the auditor of The Co-operative Bank Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

Responsibilities of Directors 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 37 to the disclosure statement.

Auditor's Responsibilities for the Review of the supplementary information relating to capital adequacy

Our responsibility is to express a conclusion 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 ("NZ SRE 2410") issued by the New Zealand External Reporting Board. As the auditor of The Co-operative Bank Limited, 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 Banking Group'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.

Use of this Auditor's Report

This report is made solely to the shareholders as a body. Our work has been undertaken so that we might state to the shareholders 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 as a body for our work, this report, or any of the opinions or conclusions we have formed.

Graeme Edwards

For and on behalf of

KPMG

25 May 2017
KPMG
Wellington

The Co-operative Bank Disclosure Statement

For the year ended 31 March 2017

This Disclosure Statement has been issued by The Co-operative Bank Limited (the "Registered Bank" or "Co-op Bank") 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 financial statements of Co-op Bank for the year ended 31 March 2017 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.

THE CO-OPERATIVE BANK DISCLOSURE STATEMENT

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.

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 2017 $000	31 March 2016 $000	31 March 2015 $000	31 March 2014 $000	31 March 2013 $000
Total Interest Income	121,526	118,803	110,639	95,071	92,509
Total Interest Expense	(69,481)	(67,317)	(61,833)	(52,127)	(52,819)
Net Interest Income	**52,045**	**51,486**	**48,806**	**42,944**	**39,690**
Total Other Income	19,936	18,899	17,261	18,282	18,280
Gain/(Loss) on Financial Instruments at Fair Value	991	493	145	(131)	2,308
Net Operating Income	**72,972**	**70,878**	**66,212**	**61,095**	**60,278**
Total Operating Expenses	(54,289)	(53,723)	(51,801)	(49,382)	(49,938)
Total Impairment Losses	(2,187)	(1,354)	(1,004)	(1,469)	(2,335)
Net Profit before Rebate and Tax	**16,496**	**15,801**	**13,407**	**10,244**	**8,005**
Rebate to Shareholders	(2,100)	(2,100)	(1,800)	(1,300)	(1,000)
Net Profit before Tax	**14,396**	**13,701**	**11,607**	**8,944**	**7,005**
Income Tax Expense	(4,053)	(3,434)	(2,719)	(1,800)	(1,242)
Net Profit after Tax	**10,343**	**10,267**	**8,888**	**7,144**	**5,763**
Balance Sheet					
Total Assets	2,363,549	2,041,153	1,806,339	1,623,910	1,521,807
Total Individually Impaired Assets	1,789	1,665	1,333	2,521	4,917
Total Liabilities	2,192,800	1,884,185	1,656,073	1,480,664	1,387,077
Equity	170,749	156,968	150,266	143,246	134,730

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.

The following symbols used throughout the Disclosure Statement represent:

SIGNIFICANT ACCOUNTING POLICY

SIGNIFICANT ACCOUNTING ESTIMATE OR JUDGEMENT

Income Statement For the year ended 31 March 2017

	Note	31 March 2017 $000	31 March 2016 $000
Interest Income		121,526	118,803
Interest Expense		(69,481)	(67,317)
Net Interest Income	4	**52,045**	**51,486**
Fees and Other Operating Income	5	13,049	12,130
Net Insurance Income	5	6,887	6,769
Gain on Financial Instruments at Fair Value	5	991	493
Net Operating Income		**72,972**	**70,878**
Operating Expenses	6	(54,289)	(53,723)
Impairment Losses on Loans and Advances	12	(2,187)	(1,354)
Profit before Rebate and Tax		**16,496**	**15,801**
Rebates to Shareholders	16	(2,100)	(2,100)
Profit before Tax		**14,396**	**13,701**
Income Tax Expense	7	(4,053)	(3,434)
Profit after Tax Attributable to Shareholders		**10,343**	**10,267**

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 2017

	31 March 2017 $000	31 March 2016 $000
Profit after Tax Attributable to Shareholders	**10,343**	**10,267**
Items that may be Reclassified Subsequently to Profit or Loss		
Fair Value Movement on Available for Sale Investments	(1,087)	1,930
Fair Value Movement on Available for Sale Investments released to the Income Statement	(1,057)	(337)
Fair Value Movement on Cash Flow Hedging Reserve	6,913	(6,508)
Income Tax Expense relating to Items that may be Reclassified	(1,331)	1,350
Other Comprehensive Income for the Period, Net of Tax	3,438	(3,565)
Total Comprehensive Income for the Period Attributable to Shareholders	**13,781**	**6,702**

Statement of Changes in Equity For the year ended 31 March 2017

	Note	31 March 2017 $000	31 March 2016 $000
Opening Balance of Equity		156,968	150,266
Profit after Tax Attributable to Shareholders		10,343	10,267
Other Comprehensive Income		3,438	(3,565)
Closing Balance of Equity		**170,749**	**156,968**
Retained Earnings			
Balance at Beginning of Year		161,684	151,417
Profit after Tax		10,343	10,267
Balance at End of Year		172,027	161,684
Available for Sale Reserve			
Balance at Beginning of Year		2,424	1,277
Fair Value Movement through Other Comprehensive Income		(2,144)	1,593
Tax through Other Comprehensive Income	7	600	(446)
Balance at End of Year		880	2,424
Cash Flow Hedging Reserve			
Balance at Beginning of Year		(7,140)	(2,428)
Fair Value Movement through Other Comprehensive Income		6,913	(6,508)
Tax through Other Comprehensive Income	7	(1,931)	1,796
Balance at End of Year		(2,158)	(7,140)
Total Equity		**170,749**	**156,968**

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

Balance Sheet As at 31 March 2017

	Note	31 March 2017 $000	31 March 2016 $000
Assets			
Cash and Cash Equivalents		33,479	22,837
Receivables and Prepayments	8	4,330	4,291
Available for Sale Investments	9	191,238	174,779
Derivatives	15	3,277	4,304
Fair Value through Profit or Loss Investments	10	6,175	9,057
Loans and Advances	11	2,103,253	1,803,680
Deferred Tax Asset	7	413	869
Tax Receivable		–	492
Property, Plant and Equipment		6,431	8,297
Intangible Assets	13	14,953	12,547
Total Assets		**2,363,549**	**2,041,153**
Liabilities			
Provision for Rebates to Shareholders	16	2,100	2,100
Payables and Other Liabilities	17	8,782	7,979
Tax Payable		1,411	–
Derivatives	15	7,532	15,135
Deposits		2,034,738	1,788,134
Secured Borrowings	18	88,912	63,796
Life Insurance Net Policy Liabilities	19	4,620	5,444
Capital Notes		–	1,597
Subordinated Notes	20	44,705	–
Total Liabilities		**2,192,800**	**1,884,185**
Net Assets		**170,749**	**156,968**
Equity			
Retained Earnings		172,027	161,684
Available for Sale Reserve		880	2,424
Cash Flow Hedging Reserve		(2,158)	(7,140)
Total Equity		**170,749**	**156,968**
Interest Earning and Discount Bearing Assets		2,336,561	2,012,225
Interest and Discount Bearing Liabilities		2,070,749	1,770,893

These financial statements were authorised for issue for and on behalf of the Board of Directors on 25 May 2017.

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 2017

	Note	31 March 2017 $000	31 March 2016 $000
Cash Flows from Operating Activities			
Interest Income		120,786	117,920
Other Income		19,407	19,315
Payments to Suppliers and Employees		(47,321)	(47,880)
Interest Expense		(68,519)	(66,007)
Income Tax Paid		(3,077)	(2,335)
Rebates		(2,100)	(1,800)
Net Cash Flow from Operating Activities before Changes in Operating Assets and Liabilities		**19,176**	**19,213**
Change in Loans and Advances		(301,427)	(242,896)
Change in Available for Sale Investments		(18,481)	17,898
Change in Fair Value through Profit or Loss Investments		2,824	597
Change in Deposits		247,480	212,987
Drawdown of Secured Borrowings		25,000	4,217
Cost of Raising Secured Borrowings		–	(167)
Net Changes in Operating Assets and Liabilities		(44,604)	(7,364)
Net Cash Flow from Operating Activities	23	**(25,428)**	**11,849**
Cash Flows from Investing Activities			
Purchase of Property, Plant and Equipment		(563)	(2,554)
Purchase of Intangible Assets		(4,989)	(4,441)
Net Cash Flow from Investing Activities		**(5,552)**	**(6,995)**
Cash Flows from Financing Activities			
Issue of Subordinated Notes		45,000	–
Cost of Raising Subordinated Notes		(666)	–
Interest Paid on Subordinated Notes		(1,020)	–
Repayment of Capital Notes		(1,598)	–
Interest Paid on Capital Notes		(94)	(138)
Net Cash Flow from Financing Activities		**41,622**	**(138)**
Net Movement in Cash and Cash Equivalents		**10,642**	**4,716**
Opening Balance of Cash and Cash Equivalents		22,837	18,121
Closing Balance of Cash and Cash Equivalents		**33,479**	**22,837**
Reconciliation of Cash and Cash Equivalents:			
Cash on Hand		1,342	1,398
Cash at NZ Registered Banks		32,137	21,439
Total Cash and Cash Equivalents		**33,479**	**22,837**

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 2017

1. STATEMENT OF GENERAL ACCOUNTING POLICIES

Reporting Entity

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 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.

These financial statements are for the Banking Group, comprising Co-op Bank and its subsidiaries. For further information on the subsidiaries refer to Note 14.

Basis of Preparation

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").

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.

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 Notes 12 (Asset Quality and Provision for Credit Impairment) and 19 (Life Insurance Net Policy Liabilities).

Recognition and Derecognition of Financial Assets and Financial Liabilities

The Banking Group recognises a financial asset or financial liability on its Balance Sheet when the Banking Group becomes a party to the contractual provisions of the financial asset or financial liability 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.

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.

Comparatives

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

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.

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 2017, however they have had no impact to the Banking Group's reported result or financial position.

Notes to the Financial Statements For the year ended 31 March 2017

1. STATEMENT OF GENERAL ACCOUNTING POLICIES cont.

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 Financial Instruments

This standard will replace NZ IAS 39 *Financial Instruments: Recognition and Measurement*. It introduces a forward looking expected credit loss ("ECL") impairment model, changes to the classification and measurement of financial instruments, as well as how hedge accounting can be applied. An impact assessment of this standard has been performed by Co-op Bank. Whilst it is not yet practical to reliably estimate the financial impact, the major changes under the standard are outlined below:

Impairment:

The biggest area of change will affect how the Banking Group accounts for credit impairment provisions on its loan portfolio. The ECL model will require considerable judgement as to how changes in economic factors affect ECLs. The Banking Group believes the impairment losses are likely to increase and become more volatile.

Classification and Measurement:

NZ IFRS 9 contains a new classification approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. No impact is expected from the adoption of this standard.

Hedge Accounting:

NZ IFRS 9 will require the Banking Group to ensure that hedge accounting relationships are aligned with the Banking Group's risk management objectives and strategy. The preliminary assessment indicated that the hedge accounting relationships currently designated will be capable of meeting the requirements of IFRS 9 and will be easier to designate within a hedge relationship under NZ IFRS 9.

NZ IFRS 15 Revenue from Contracts with Customers

This standard 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 but is not expected to have a material impact.

NZ IFRS 16 Leases

NZ IFRS 16 eliminates the distinction between operating and finance leases. A formal impact assessment is yet to be undertaken, however it is expected that adoption of NZ IFRS 16 will result in the Banking Group having to recognise its property leases on the Balance sheet, and may have an effect on the Income Statement.

Notes to the Financial Statements For the year ended 31 March 2017

2. ACCOUNTING CLASSIFICATION AND MEASUREMENT

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.

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 derecognised 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 subordinated notes.

Notes to the Financial Statements For the year ended 31 March 2017

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 (managed through governance, policies and internal controls). Further details relating to the Banking Group's financial and operational risk management appetite, objectives, policies, strategies, and processes are included in Note 27.

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 the Banking Group relating to its financial risks;
- 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.

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 all components of the Chief Executive's and Senior Management remuneration;
- Reviewing all Senior Management 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.

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

Notes to the Financial Statements For the year ended 31 March 2017

3. RISK MANAGEMENT POLICIES cont.

- Monitoring compliance with health and safety policies and obligations of the Banking Group; and
- Reviewing and monitoring the Anti-Money Laundering/Countering Financing of Terrorism Compliance Programme, policies and risks of the Banking Group.

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 37.

Internal Audit Function

The Banking Group operates a co-sourced internal audit model with 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 Board for approval following review by the Audit Committee. 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. NET INTEREST INCOME

	31 March 2017 $000	31 March 2016 $000
Interest Income		
Loans and Advances[1]	111,587	109,254
Available for Sale Investments	6,145	7,084
Interest Rate Derivative Income	2,966	1,495
Other Interest Income	570	631
Fair Value through Profit or Loss Investments	258	339
Total Interest Income	**121,526**	**118,803**
Interest Expense		
Deposits	54,284	58,486
Interest Rate Derivative Expense	10,365	5,921
Secured Borrowings	3,346	2,770
Subordinated Notes	1,392	-
Capital Notes	94	140
Total Interest Expense	**69,481**	**67,317**
Net Interest Income	**52,045**	**51,486**

Interest Income and Expense

Interest income and expense are 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 include realised and accrued derivative income/expense.

[1] This balance includes $49,625 of interest earned on restructured assets and $10,923 of interest earned on impaired assets for the year ended 31 March 2017 (2016: $64,227 and $10,055 respectively).

Notes to the Financial Statements For the year ended 31 March 2017

5. OTHER INCOME

	31 March 2017 $000	31 March 2016 $000
Fees and Other Operating Income		
Fees and Commission Revenue	12,978	12,091
Other Income	71	39
Total Fees and Other Operating Income	**13,049**	**12,130**
Net Insurance Income		
Insurance Premiums Received and Other Income	10,711	10,342
Outward Reinsurance Premiums	(1,556)	(1,394)
Insurance Operating Expenses	(2,268)	(2,179)
Net Insurance Income	**6,887**	**6,769**
Gain on Financial Instruments at Fair Value		
Fair Value Movement on Available for Sale Investments released to the Income Statement	1,057	427
Assets Backing Life Insurance Contracts	(39)	79
Derivatives	(27)	(13)
Total Gain on Financial Instruments at Fair Value	**991**	**493**

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.

Insurance Premiums

Insurance premium revenue is recognised on receipt. Premiums received in advance and deferred to the Balance Sheet are recognised as income when they are earned in accordance with the pattern of incidence of risk expected under the insurance contract.

6. EXPENSES

	31 March 2017 $000	31 March 2016 $000
Operating Expenses		
Wages and Salaries	24,689	24,432
KiwiSaver Contributions	738	679
Other Employment-Related Expenses	913	757
Leasing and Rental Expenses	4,327	4,098
Building Occupancy Expenses	1,434	1,459
Depreciation of Property, Plant and Equipment	2,283	2,163
Amortisation of Intangible Assets	3,516	2,506
Information Technology	2,035	1,821
Marketing	2,840	3,460
Electronic Channels	4,949	4,944
Bank Charges	1,039	1,051
Other Expenses*	5,526	6,353
Total Operating Expenses	**54,289**	**53,723**

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

Notes to the Financial Statements For the year ended 31 March 2017

6. EXPENSES cont.

	31 March 2017 $000	31 March 2016 $000
Fees Paid to Auditors		
Audit or Review of Financial Statements	218	215
Audit Related Services	23	21
Non-Audit Advisory Services	112	–
Total Fees Paid to Auditors	**353**	**236**

Auditor's remuneration is included within Professional Fees shown in Operating Expenses above. All subsidiary audit fees are paid by Co-op Bank. Audit Related Services were the limited assurance review of Co-op Life's solvency return and trustee and agreed upon procedures reporting in respect of the Trusts. Non-Audit Advisory Services were for an Impact Assessment engagement on a new Accounting Standard.

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.

7. INCOME TAX

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

Profit before Tax	**14,396**	**13,701**
Tax Expense at 28% (2016: 28%)	(4,031)	(3,836)
Non Deductible Expenses	(22)	(22)
Transitional Adjustment for Life Insurance Tax Rules[2]	–	404
Other	–	20
Income Tax Expense	**(4,053)**	**(3,434)**
Comprising:		
Current Tax	(3,597)	(3,002)
Deferred Tax	(456)	(432)
	(4,053)	**(3,434)**

(b) Current Tax recognised directly in Equity:

Fair Value Movements on Available for Sale Investments	600	(446)
Fair Value Movements on Cash Flow Hedging Reserve	(1,931)	1,796
	(1,331)	**1,350**

[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 2017

7. INCOME TAX cont.

(c) Deferred Tax

	31 March 2017			31 March 2016		
	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	(949)	(385)	(1,334)	(704)	(245)	(949)
Secured Borrowings	(83)	25	(58)	(111)	28	(83)
Gross Deferred Tax Assets:						
Life Insurance Net Policy Liabilities	199	(36)	163	88	111	199
Loans and Advances – Provision for Credit Impairment	1,057	147	1,204	1,120	(63)	1,057
Employee Entitlements	242	2	244	257	(15)	242
Property, Plant and Equipment	403	(209)	194	641	(238)	403
Trade and Other Payables	–	–	–	10	(10)	–
Net Deferred Tax Asset	**869**	**(456)**	**413**	**1,301**	**(432)**	**869**

(d) Imputation Credit Account

The imputation credits available to carry forward and utilise in future periods is $15.9 million (2016: $16.0 million).

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.

(i) 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).

(ii) 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.

Notes to the Financial Statements For the year ended 31 March 2017

8. RECEIVABLES AND PREPAYMENTS

	31 March 2017 $000	31 March 2016 $000
Trade Receivables	1,426	198
Reinsurance Recoverable	86	500
Prepayments	2,818	3,593
Total Receivables and Prepayments	**4,330**	**4,291**

9. AVAILABLE FOR SALE INVESTMENTS

Short-Term Deposits with NZ Registered Banks	11,854	1,736
Other Short-Term Deposits	–	201
Rated Corporate Commercial Paper	43,863	30,425
NZ Registered Bank Bonds	72,065	73,250
Local Government Bonds	8,319	35,172
Listed Multilateral Development Banks and Other International Organisations	50,240	29,280
Perpetual Debt Securities	4,897	4,715
Total Available for Sale Investments	**191,238**	**174,779**

The investments in the Listed Multilateral Development Banks and Other International Organisations ("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	5,764	8,633
Other Treasury Investments	411	424
Total Fair Value through Profit or Loss Investments	**6,175**	**9,057**

During the year ended 31 March 2017, 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 (2016: Nil).

11. LOANS AND ADVANCES

Advances to Customers		
Residential Mortgage Loans	1,954,076	1,671,403
Non-Mortgage Loans	153,478	136,051
	2,107,554	1,807,454
Provisions for Impairment	(4,301)	(3,774)
Total Loans and Advances	**2,103,253**	**1,803,680**

As at 31 March 2017 Residential Mortgage Loans include securitised receivables of $419.8 million (2016: $318.1 million). Some of these residential mortgage loans are subject to one or other of the securities referred to in Note 18.

Notes to the Financial Statements For the year ended 31 March 2017

12. ASSET QUALITY AND PROVISION FOR CREDIT IMPAIRMENT

(a) Gross Impaired Assets

	31 March 2017			31 March 2016		
	Mortgage $000	Non-Mortgage $000	Total $000	Mortgage $000	Non-Mortgage $000	Total $000
Opening Balance	1,665	–	1,665	1,333	–	1,333
Additions	1,908	–	1,908	2,053	–	2,053
Amounts Written Off	(141)	–	(141)	(782)	–	(782)
Remediations	(1,643)	–	(1,643)	(939)	–	(939)
Closing Balance	**1,789**	**–**	**1,789**	**1,665**	**–**	**1,665**

There were no other undrawn balances on individually impaired lending commitments or other assets under administration at 31 March 2017 (2016: nil).

(b) Aging of Past Due but not Impaired Assets

1 – 30 days	42,177	2,344	44,521	49,523	3,072	52,595
31 – 60 days	6,650	438	7,088	3,961	394	4,355
61 – 90 days	3,764	295	4,059	1,883	326	2,209
90 days plus	5,315	378	5,693	5,419	225	5,644
	57,906	**3,455**	**61,361**	**60,786**	**4,017**	**64,803**

The amount of security held to back these assets at original valuation is approximately $125.6 million (2016: $130.7 million).

(c) Provision for Credit Impairment

Collective Provision						
Opening Balance	1,522	1,748	3,270	1,713	1,464	3,177
Charged/(Released) to Profit or Loss	38	450	488	(191)	284	93
Total Collective Provision	**1,560**	**2,198**	**3,758**	**1,522**	**1,748**	**3,270**
Individual Provisions						
Opening Balance	504	–	504	823	–	823
New Provisions	523	–	523	695	–	695
Bad Debts Written Off	(141)	–	(141)	(782)	–	(782)
Provisions Released	(343)	–	(343)	(232)	–	(232)
Total Individual Provision	**543**	**–**	**543**	**504**	**–**	**504**
Total Provision for Impairment	**2,103**	**2,198**	**4,301**	**2,026**	**1,748**	**3,774**

(d) Impairment Losses Charged to Profit or Loss

Movement in Collective Provision	38	450	488	(191)	284	93
Movement in Individual Provisions	39	–	39	(319)	–	(319)
Bad Debts Written Off	141	1,806	1,947	782	1,489	2,271
Bad Debts Recovered	(3)	(284)	(287)	(396)	(295)	(691)
Total Impairment Loss/(Release)	**215**	**1,972**	**2,187**	**(124)**	**1,478**	**1,354**

Notes to the Financial Statements For the year ended 31 March 2017

12. ASSET QUALITY AND PROVISION FOR CREDIT IMPAIRMENT cont.

At 31 March 2017, there were four 90 days past due mortgages with a loan to valuation ratio, at original valuation, greater than 80% (2016: four).

At 31 March 2017, Co-op Bank had three restructured assets with a carrying value of $61,000 (2016: two restructured assets at $68,000).

There are no assets acquired through the enforcement of security (2016: Nil).

Impairment of Loans and Advances

Impairment represents the best estimate of the losses incurred or expected to be incurred on the loan portfolio. 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. Loans and advances are reviewed for impairment on a monthly basis.

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.

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.

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.

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. 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.

Credit Impairment Provisioning

Management uses considerable judgement when calculating the level of impairment provisioning. 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.

Notes to the Financial Statements For the year ended 31 March 2017

13. INTANGIBLE ASSETS

	Computer Software $000	Other $000	Total $000
Cost			
Balance at 1 April 2015	23,605	547	24,152
Additions	3,980	–	3,980
Disposals	(239)	–	(239)
Balance at 31 March 2016	**27,346**	**547**	**27,893**
Additions	5,921	–	5,921
Disposals	–	–	–
Cost at 31 March 2017	**33,267**	**547**	**33,814**
Accumulated Amortisation			
Balance at 1 April 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**
Amortisation Expense	3,406	109	3,515
Disposals	–	–	–
Accumulated Amortisation at 31 March 2017	**18,379**	**482**	**18,861**
Net Book Value as at 31 March 2016	12,373	174	12,547
Net Book Value as at 31 March 2017	**14,888**	**65**	**14,953**

No impairment losses have been recognised against the gross carrying amount of intangible assets during the year ended 31 March 2017 (2016: Nil).

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 is 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 between 10% to 36% per annum.

Other intangible assets represent 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 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.

Notes to the Financial Statements For the year ended 31 March 2017

14. INVESTMENT IN SUBSIDIARY

	Voting % Held 31 March 2017	Voting % Held 31 March 2016	Balance Date	Nature of Business
Subsidiaries:				
Co-operative Life Limited ("Co-op Life")	100%	100%	31 March	Life Insurance
PSIS Limited	100%	100%	31 March	Dormant Entity
In-substance Subsidiaries:				
PSIS Warehouse Trust ("Warehouse Trust")	–	–	31 March	Mortgage Securitisation
The Co-operative Bank RMBS Trust ("Co-op RMBS Trust")	–	–	31 March	Mortgage Securitisation

The subsidiaries and in-substance subsidiaries are incorporated in New Zealand. The Warehouse Trust and Co-op RMBS Trust are collectively know as the Securitisation Trusts.

Principles of Consolidation

The consolidated financial statements include those 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.

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 2017 $000	31 March 2016 $000	31 March 2017 $000	31 March 2016 $000	31 March 2017 $000	31 March 2016 $000
Interest Rate Swaps	2,084,498	1,894,358	3,267	4,304	7,532	15,129
Forward Exchange Contracts	378	219	10	–	–	6
Total Derivatives	**2,084,876**	**1,894,577**	**3,277**	**4,304**	**7,532**	**15,135**

Hedges

The Banking Group enters into derivative contracts on interest rate swaps and forward exchange contracts, to manage its exposure to interest rate and foreign exchange risk. Derivatives 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.

Interest rate swaps protect against cash flow exposures from differences in contracted versus current market rates on its fixed rate loans and deposits. Foreign exchange contracts are used for the payment of certain expenditure where there is a firm commitment, and where the payment is denominated in a foreign currency.

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.

No amount was reclassified from Equity during the year ended 31 March 2017 (2016: Nil). No ineffectiveness was recognised in profit or loss during the year ended 31 March 2017 (2016: Nil).

Notes to the Financial Statements For the year ended 31 March 2017

15. DERIVATIVES cont.

Derivative Financial Instruments

Derivatives are initially recognised at fair value on the date a contract is entered into and are subsequently re-measured at each reporting date. 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.

If the derivative meets the hedge accounting requirements and is designated in a hedge relationship, 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.

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).

Any ineffective portion of changes in the fair value of derivatives is recognised immediately in profit or loss. The effectiveness of the cash flow hedges is tested on a monthly basis.

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.

The Banking Group adopts cash flow hedge accounting for all of its interest rate swaps and forward exchange contracts.

16. REBATES TO SHAREHOLDERS

In June 2017 Co-op Bank will pay $2.1 million in rebates to eligible Shareholders (2016: $2.1 million).

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 rebate value varies according to the eligibility criteria. Eligibility criteria include the value of the Shareholder's business with Co-op Bank, how long they have been a customer, and whether their accounts are in good standing.

17. PAYABLES AND OTHER LIABILITIES

	31 March 2017 $000	31 March 2016 $000
Trade Creditors	3,972	2,985
Employee Entitlements	2,696	3,159
Other Payables	2,114	1,835
Total Payables and Other Liabilities	**8,782**	**7,979**

Employee Entitlements

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.

Notes to the Financial Statements For the year ended 31 March 2017

18. SECURED BORROWINGS

	31 March 2017 $000	31 March 2016 $000
Warehouse Trust - Westpac	89,118	64,093
Cost of Raising Secured Borrowings	(206)	(297)
Total Secured Borrowings	**88,912**	**63,796**

Of the total securitised receivables of $419.8 million (as included in total Residential Mortgage Loans in Note 11), $304.5 million (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 remaining securitised receivables of $115.3 million (2016: $167.7 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. Co-op Bank holds the class A and class B bonds for all series of residential mortgage loans sold into the Trust.

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

As at 31 March 2017, the fair value of the Secured Borrowings is $88.9 million (2016: $63.8 million) and the fair value of the securitised receivable is $419.2 million (2016: $320.0 million).

19. LIFE INSURANCE NET POLICY LIABILITIES

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.

Life Insurance Net Policy Liabilities		
Balance at Beginning of Year	5,444	5,139
Net Movement in Policy Liabilities	(824)	305
Balance at End of Year	**4,620**	**5,444**
Comprising:		
Claims under Policies in the Process of Settlement	568	1,181
Claims Incurred But Not Reported	311	298
Deferred Acquisition Costs	(2,309)	(1,968)
Unearned Premium Reserve	6,050	5,933
Total Life Insurance Net Policy Liabilities	**4,620**	**5,444**

The Life Insurance Net Policy Liabilities recorded in the Balance Sheet comprises of the following components:

- *Life Plus and Loan Plus*: An 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 it evenly over the term of the contract in proportion to the profit carriers (gross life and trauma claims). The deferred acquisition costs component of the policy liabilities is separately identified for purposes of calculating deferred tax;
- *LIC*: 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: *Insurance Contracts* ("NZ IFRS 4") is not materially different as the LIC 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 LIC 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.

Notes to the Financial Statements For the year ended 31 March 2017

19. LIFE INSURANCE NET POLICY LIABILITIES cont.

Best Estimate Assumptions

The key assumptions that affect the estimation of policy liabilities used by the Appointed Actuary are set out below:

- *Discount, Inflation, and Tax Rates:* Discount, Inflation, and Tax Rates: Discount rates vary from 1.67% to 2.42% dependent on the product. The discount rate basis is swap rates (2016: swap rates). Inflation and tax are set at 2% and 28% respectively.
- *Mortality:* Life Plus Death cover was assumed 80% of NZ97 (2016: 80%), based on the Company's own experience, adjusted for the smoking status of lives insured. Loan Plus was assumed 55% of NZ97 (2016: 55%).
- *Morbidity:* Life Plus Trauma assumed at 90% of reinsurance rates (2016: 90%); Loan Instalment Care 25% of premiums (2016: 25%).
- *Cancellation Rates:* Life Plus cancellation rates vary from 6% to 20% 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 (2016: 35%).
- *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	$31 per policy per annum (2016: $32)
Loan Plus	$1 per policy per annum (2016: $3)
Loan Instalment Care	13% of premiums (2016: 13% of premiums)

Life Insurance Net Policy Liabilities

Policy liabilities arising from insurance contracts are calculated using the Margin on Service ("MoS") methodology in accordance with PS-20. 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.

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. These are 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.

Estimation of Life Insurance Net Policy Liabilities

Life insurance contract liabilities are valued using actuarial models which are based on recognised actuarial methodologies, standards and principles. The methodologies take into account the risks and uncertainties of the life insurance policies and use best estimate assumptions (detailed on the previous page), which requires a high level of judgement. Variances between best estimate assumptions used and actual experience could affect the value of the life insurance net policy liabilities.

Notes to the Financial Statements For the year ended 31 March 2017

19. LIFE INSURANCE NET POLICY LIABILITIES cont.

Actuarial Information

The valuation of policy liabilities has been calculated by Co-op Life's independent Appointed Actuary Peter Davies, B.Bus. Sc, FIA, FNZSA. The valuation is done in accordance with NZ IFRS 4 and Professional Standard no. 20: *Determination of Life Insurance Policy Liabilities* ("PS-20"), issued by the New Zealand Society of Actuaries. Mr Davies is an independent professional adviser to the Banking Group on insurance related matters.

The valuation of policy liabilities as at 31 March 2017 was dated 10 May 2017. Mr Davies 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 2017 valuation compared to the assumptions used in the 31 March 2016 valuation. There were no qualifications in the actuarial report.

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 2017 in accordance with the RBNZ's Solvency Standard for Life Insurance Business ("the Solvency Standard"). The solvency position is summarised below:

	31 March 2017 $000	31 March 2016 $000
Actual Solvency Capital	6,069	5,996
Minimum Solvency Capital	5,000	5,000
Solvency Margin	**1,069**	**996**
Solvency Ratio	**121%**	**120%**

20. SUBORDINATED NOTES

Subordinated Notes	45,000	–
Issue Costs	(585)	–
Accrued Interest	290	–
Total Subordinated Notes	**44,705**	–

On 28 July 2016 Co-op Bank issued $15.0 million of Subordinated Notes to retail investors, and on 9 December 2016 $30.0 million as a New Zealand wholesale investor placement. The retail issue is listed on the NZX Debt Market, and all securities issued rank equally.

Key terms	Retail Issue	Wholesale Issue
Maturity Date	28 July 2026	9 December 2026
Early Redemption Date*	28 July 2021	9 December 2021
Interest Rate to the first early redemption date - Fixed	6.0%	7.6%
Interest Rate from the first early redemption date		
– Floating rate equal to the 3 month Bank Bill Rate plus a margin of	3.50%	4.80%
Next interest payment	28 April 2017	9 June 2017
Interest payment schedule	Quarterly in arrears	Quarterly in arrears

* Or any scheduled interest payment date following the early redemption date, subject to Co-op Bank being able to satisfy the solvency test immediately following the payment.

Subordinated Notes may be redeemed on the early redemption date or 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. Subordinated Note securities rank behind deposits 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.

Notes to the Financial Statements For the year ended 31 March 2017

21. SHARE CAPITAL

	31 March 2017 Number Shares	31 March 2016 Number Shares
Class A Shares		
Opening Balance	136,519	129,309
Movement during the year	7,461	7,210
Closing Balance	**143,980**	**136,519**
Class B Shares		
Opening Balance	2,166	–
Movement during the year	155	2,166
Closing Balance	**2,321**	**2,166**
Total number of Shares	**146,301**	**138,685**

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 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.

22. LEASE COMMITMENTS

The net operating lease commitments to maturity are as follows:

	31 March 2017 $000	31 March 2016 $000
Not Later than One Year	4,091	4,267
Later than One Year and Not Later than Two Years	3,545	3,971
Later than Two Years and Not Later than Five Years	7,227	9,051
Later than Five Years	12,167	14,066
Total Lease Commitments	**27,030**	**31,355**

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.

Notes to the Financial Statements For the year ended 31 March 2017

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

	31 March 2017 $000	31 March 2016 $000
Profit after Tax Attributable to Shareholders	10,343	10,267
Movement in Non-Cash Items:		
Depreciation	2,283	2,163
Amortisation	3,516	2,506
Impairment losses on Loans and Advances	2,474	2,045
Fair Value Movement on Investments	66	(51)
Derivative Interest Settlement	327	818
Deferred Tax	456	432
Amortised Financing Costs	173	269
(Loss)/Gain on Disposal of Assets	(16)	34
	9,279	8,216
Changes in Working Capital Items:		
Receivables and Prepayments	(39)	(916)
Available for Sale Investments	(18,603)	17,911
Fair Value through Profit or Loss Investments	2,826	614
Loans and Advances	(302,047)	(243,809)
Provision for Rebates to Shareholders	–	300
Payables and Other Liabilities	32	772
Tax Payable	572	662
Deposits	246,604	213,394
Secured Borrowings	25,025	3,995
Life Insurance Net Policy Liabilities	(824)	305
	(46,454)	(6,772)
Items Classified as Financing Activities:		
Interest on Subordinated Notes	1,310	–
Interest on Capital Notes	94	138
	1,404	138
Net Cash Flow from Operating Activities	**(25,428)**	**11,849**

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.

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 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.

Notes to the Financial Statements For the year ended 31 March 2017

24. CAPITAL COMMITMENTS

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

25. CREDIT RELATED COMMITMENTS AND CONTINGENT LIABILITIES

The Banking Group has approved $83.6 million of loans and advances which had not been paid out at 31 March 2017 (31 March 2016: $53.7 million). The Banking Group had no material contingent liabilities as at 31 March 2017 (31 March 2016: Nil).

26. RELATED PARTY TRANSACTIONS

Transactions with Key Management Personnel[3]

(i) Directors' Remuneration

The name of each person holding office as a Director of Co-op Bank throughout the financial year ended 31 March 2017 and the total remuneration received by each Director in relation to Co-op Bank is set out below:

	31 March 2017 $000	31 March 2016 $000
Steven Fyfe	98	78
Paul Goulter	59	59
Sarah Haydon	55	55
Brendan O'Donovan	48	53
Dianne Kidd	48	46
Marion Cowden	48	46
Clayton Wakefield	33	–
Sam Robinson	15	53
Total Directors' Remuneration	**404**	**390**

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 2017 this amount was $440,000 (2016: $427,500). For details on remuneration to Directors of Co-op Bank's subsidiaries, refer to the Annual Report section of this Disclosure Statement.

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	2,466	2,502
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.

[3] 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 2017

26. 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
2017				
Deposits	907	155	1,063	(29)
Subordinated Notes	0	405	405	(16)
Loans and Advances	774	6	780	37
2016				
Deposits	658	249	907	(24)
Loans and Advances	687	87	774	38

The above transactions (including interest rates and collateral) 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 except for balances held on Credit Cards, 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 2017 (2016: Nil).

27. 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 monthly 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 2017 approximately 93% of Co-op Bank's loans and advances were secured by a first mortgage over real property as a minimum (2016: 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 2017

27. 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.

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.

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 overseen by the Risk Committee operating as a Committee of 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 over a certain dollar value.

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 when setting retail rates by taking into consideration wholesale rates, liquidity premiums, as well as appropriate lending credit margins.

Notes to the Financial Statements For the year ended 31 March 2017

27. FINANCIAL RISK MANAGEMENT cont.

Sensitivity Analysis

	Interest Rates Increase by 100 Basis Points		Interest Rates Decrease by 100 Basis Points	
	2017 $000	2016 $000	2017 $000	2016 $000
Cash Flow Positive/(Negative) Impact on Net Interest Income	675	764	(27)	(282)
Fair Value (Negative)/Positive Impact on Net Interest Income	(233)	(279)	252	302
Total Impact on Net Interest Earnings	**442**	**485**	**225**	**20**
Cash Flow Positive/(Negative) Impact on Equity	675	764	(27)	(282)
Fair Value Positive/(Negative) Impact on Equity	5,997	5,031	(5,991)	(4,956)
Total Impact on Equity	**6,672**	**5,795**	**(6,018)**	**(5,238)**

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:

- Day-to-day liquidity requirements. RBNZ liquidity ratios are calculated and monitored daily to ensure that the Banking Group:
  - is compliant with conditions 11 and 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.
- 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.

Notes to the Financial Statements For the year ended 31 March 2017

27. FINANCIAL RISK MANAGEMENT cont.

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 based on the position at 31 March 2017, varying the discount rate used to value policy liabilities for Life Plus and Loan Plus by +1.0% and -1.0%. The policy liabilities for LIC are unaffected by this change, due to this business being valued on the accumulation method, which does not require discounting. However estimation of future claim costs does have a discounting impact. The effect of the change in rates is shown below:

	Discount Rate Increase By 100 Basis Points		Discount Rate Decrease By 100 Basis Points	
	2017 $000	2016 $000	2017 $000	2016 $000
Life Plus – impact on policy liabilities	(217)	(287)	254	341
Loan Plus – impact on policy liabilities	(12)	–	13	–
Loan Instalment Care – impact on Open Claims	(9)	(8)	11	9

Further sensitivity analysis has been completed using a 10% change to the demographic and expense assumptions used. There is no impact on LIC's net policy liabilities because LIC is subject to a loss recognition test. For the Life Plus and Loan Plus products, there is sufficient profit margin in the policy liabilities to absorb any change in actual experience versus best estimate assumptions.

28. CONCENTRATIONS OF CREDIT RISK

	31 March 2017 $000	31 March 2016 $000
Cash on Hand and at NZ Registered Banks	33,479	22,837
Receivables	1,512	698
Available for Sale Investments	191,238	174,779
Derivatives	3,277	4,304
Fair Value through Profit or Loss Investments	6,175	9,057
Loans and Advances	2,103,253	1,803,680
Total On Balance Sheet Credit Exposures	**2,338,934**	**2,015,355**
Off Balance Sheet Exposures – Undrawn Commitments	83,628	53,688
Total Credit Exposures	**2,422,562**	**2,069,043**

Notes to the Financial Statements For the year ended 31 March 2017

28. CONCENTRATIONS OF CREDIT RISK cont.

	31 March 2017 $000	31 March 2016 $000
Concentration of Credit Exposures by Sector		
Cash on Hand	1,342	1,398
Local Government	12,762	38,658
NZ Registered Banks – Subordinated Debt	4,897	4,715
NZ Registered Banks – Other	118,589	98,990
Listed Multilateral Development Banks and Other International Organisations	60,904	30,790
Other Corporate Investments	32,398	32,122
Residential Mortgage Lending	2,003,295	1,711,164
Consumer Lending	183,586	146,204
Other	4,789	5,002
Total Credit Exposures	**2,422,562**	**2,069,043**
Concentration of Credit Exposures by Geographical Location		
North Island	1,773,569	1,554,805
South Island	593,180	478,733
Overseas	55,813	35,505
Total Credit Exposures	**2,422,562**	**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 (revolving credit mortgages, overdrafts, credit card, and creditline accounts) and approved but undrawn lending. Other Corporate Investments include investments in instruments issued by financial institutions. As at 31 March 2017, 82% of the Banking Group's mortgage portfolio were owner occupied residential properties (2016: 80%).

Overseas credit exposures include investments in NZ Registered Banks – Subordinated Debt, and 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 2017 (2016: Nil).

29. CONCENTRATION OF CREDIT EXPOSURES

Concentration of Credit Exposures to Individual Counterparties

Concentrations of credit exposures to individual counterparties and groups of closely related counterparties shown below are based on actual credit exposures, net of allowances for impairment loss. This excludes 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 Equity as at the reporting date.

	31 March 2017 Number		31 March 2016 Number	
	End of Period Exposure	Peak Exposure	End of Period Exposure	Peak Exposure
Percentage of Equity				
10% to 14%	1	1	2	1
15% to 19%	–	1	–	1
20% to 24%	–	–	1	–

Notes to the Financial Statements For the year ended 31 March 2017

29. CONCENTRATION OF CREDIT EXPOSURES cont.

The tables on the previous page 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 2017, the Banking Group had no 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 (2016: Nil).

Credit Exposures to Connected Persons

The connected persons of Co-op Bank are the Directors. There are no non bank connected persons. Credit exposure concentrations are actual credit exposures calculated on a gross basis (net of individual credit impairment allowances and excluding advances of a capital nature) in accordance with Co-op Bank's conditions of registration and Connected Exposures Policy. Peak end of day credit exposures have been calculated using the Banking Group's tier 1 capital at the end of the reporting period.

The rating-contingent limit is 15%, which is the same as the overall rating-contingent sub-limit. There have been no changes to this limit during the last year. There are no credit impairment allowances against these credit exposures.

	31 March 2017		31 March 2016	
	End of Period Exposure	Peak Exposure	End of Period Exposure	Peak Exposure
Value of credit exposure ($000)	20	20	–	–
% of total tier 1 capital	0.01%	0.01%	–	–

30. CONCENTRATIONS OF FUNDING

	31 March 2017 $000	31 March 2016 $000
Deposits	2,034,738	1,788,134
Registered Banks	88,912	64,093
Subordinated Notes	44,705	–
Capital Notes	–	1,597
Total Funding	**2,168,355**	**1,853,824**

The funding is presented at amortised cost. All deposits are unsecured unsubordinated bank deposits issued by Co-op Bank. The Subordinated Notes and 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.

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.

Geographical Distribution of Funding

North Island	1,639,536	1,384,215
South Island	508,354	450,868
Overseas	20,465	18,741
Total Funding	**2,168,355**	**1,853,824**

Notes to the Financial Statements For the year ended 31 March 2017

31. INTEREST RATE REPRICING PROFILE

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 2017	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	32,137	–	–	–	–	1,342	33,479
Receivables	–	–	–	–	–	1,512	1,512
Available for Sale Investments	87,645	8,592	5,067	21,081	68,853	–	191,238
Derivatives	–	–	–	–	–	3,277	3,277
Fair Value through Profit or Loss Investments	1,491	303	395	840	3,146	–	6,175
Loans and Advances	630,983	233,054	431,757	549,698	261,519	(3,758)	2,103,253
Total Financial Assets	**752,256**	**241,949**	**437,219**	**571,619**	**333,518**	**2,373**	**2,338,934**
Liabilities							
Payables and Other Liabilities	–	–	–	–	–	10,882	10,882
Derivatives	–	–	–	–	–	7,532	7,532
Deposits	872,456	420,166	471,981	136,310	35,383	98,442	2,034,738
Secured Borrowings	89,163	–	–	–	–	(251)	88,912
Subordinated Notes	290	–	–	–	45,000	(585)	44,705
Total Financial Liabilities	**961,909**	**420,166**	**471,981**	**136,310**	**80,383**	**116,020**	**2,186,769**
Net Derivative Notional Principals	363,000	188,500	4,500	(413,000)	(143,000)	–	–
Total Interest Rate Sensitivity Gap	**153,347**	**10,283**	**(30,262)**	**22,309**	**110,135**	**(113,647)**	**152,165**

Notes to the Financial Statements For the year ended 31 March 2017

31. INTEREST RATE REPRICING PROFILE cont.

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**

32. LIQUIDITY RISK

The following financial assets are held for the purpose of managing liquidity risk. Total liquidity includes committed but undrawn funding lines. As at 31 March 2017, the Banking Group had total committed funding lines with other registered banks of $275 million (2016: $185 million). Of these facilities $89 million was drawn down at 31 March 2017 (2016: $64 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 2017 $000	31 March 2016 $000
Cash and Cash Equivalents	33,479	22,837
Available for Sale Investments	191,238	174,779
Fair Value through Profit or Loss Investments	6,175	9,057
Undrawn Wholesale Funding	186,000	121,000
Eligible Co-op RMBS Trust Collateral	110,668	100,779
Total Liquidity	**527,560**	**428,452**

Notes to the Financial Statements For the year ended 31 March 2017

33. FAIR VALUE OF FINANCIAL INSTRUMENTS

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 2017 $000	Fair Value 31 March 2017 $000	Carrying Value 31 March 2016 $000	Fair Value 31 March 2016 $000
Financial Assets				
Loans and Advances	2,103,253	2,099,470	1,803,680	1,813,552
Total	**2,103,253**	**2,099,470**	**1,803,680**	**1,813,552**
Financial Liabilities				
Deposits	2,034,738	2,035,757	1,788,134	1,792,446
Secured Borrowings	88,912	88,910	63,796	63,794
Subordinated Notes	44,705	44,415	–	–
Capital Notes	–	–	1,597	1,627
Total	**2,168,355**	**2,169,082**	**1,853,527**	**1,857,867**

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, fair value is measured using the quoted price in an active market. A market is active if transactions 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.

Valuation hierarchy for financial instruments held at fair value

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.

34. CONTRACTUAL MATURITY ANALYSIS

The following tables analyse the financial assets liabilities into relevant maturity groupings based on the 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 that include interest.

Notes to the Financial Statements For the year ended 31 March 2017

34. CONTRACTUAL MATURITY ANALYSIS cont.

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 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 27, 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 2017	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	33,479	–	–	–	–	–	33,479
Receivables	–	1,512	–	–	–	–	1,512
Available for Sale Investments	–	84,027	2,385	24,234	89,762	5,000	205,408
Derivatives	–	913	603	842	1,103	–	3,461
Fair Value through Profit or Loss Investments	–	1,914	495	961	3,646	–	7,016
Loans and Advances	58,068	80,707	55,610	112,128	2,672,893	–	2,979,406
Total Financial Assets	**91,547**	**169,073**	**59,093**	**138,165**	**2,767,404**	**5,000**	**3,230,282**
Liabilities							
Payables and Other Liabilities	–	9,902	980	–	–	–	10,882
Derivatives	–	4,142	1,164	1,192	1,537	–	8,035
Deposits	619,118	783,604	479,181	142,548	39,162	–	2,063,613
Secured Borrowings	–	1,248	1,130	2,261	89,081	–	93,720
Subordinated Notes	–	603	1,590	3,180	53,243	–	58,616
Total Financial Liabilities	**619,118**	**799,499**	**484,045**	**149,181**	**183,023**	**–**	**2,234,866**
Undrawn Commitments	**70,860**	**12,768**	**–**	**–**	**–**	**–**	**83,628**
As at 31 March 2016							
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**

Notes to the Financial Statements For the year ended 31 March 2017

34. CONTRACTUAL MATURITY ANALYSIS cont.

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
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**

35. 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.

	31 March 2017			31 March 2016		
	Banking $000	Insurance $000	Total $000	Banking $000	Insurance $000	Total $000
Interest Income	121,083	443	121,526	118,282	521	118,803
Interest Expense	(69,481)	–	(69,481)	(67,317)	–	(67,317)
Other Operating Income	14,079	6,848	20,927	12,544	6,848	19,392
Net Operating Income	**65,681**	**7,291**	**72,972**	**63,509**	**7,369**	**70,878**
Profit before Rebate and Tax	13,658	2,838	16,496	12,615	3,186	15,801
Rebates to Shareholders	(2,100)	–	(2,100)	(2,100)	–	(2,100)
Profit before Tax	**11,558**	**2,838**	**14,396**	**10,515**	**3,186**	**13,701**
Total Assets	**2,352,849**	**10,700**	**2,363,549**	**2,026,165**	**14,988**	**2,041,153**
Total Liabilities	**2,188,214**	**4,586**	**2,192,800**	**1,878,818**	**5,367**	**1,884,185**

36. 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 2017

37. 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 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.

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 2017, the Banking Group has made an internal capital allocation of $67.5 million (2016: $57.3 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 2017

37. CAPITAL ADEQUACY cont.

(a) Regulatory Capital Ratios

	Minimum Ratio Requirement	Banking Group		Co-op Bank	
		Unaudited 31 March 2017	Unaudited 31 March 2016	Unaudited 31 March 2017	Unaudited 31 March 2016
Common Equity Tier One Capital Ratio	4.5%	14.0%	15.7%	13.5%	14.8%
Tier One Capital Ratio	6.0%	14.0%	15.7%	13.5%	14.8%
Total Capital Ratio	8.0%	16.9%	15.8%	16.3%	14.7%
Buffer Ratio	2.5%	8.0%	7.8%	–	–

(b) Capital

	Unaudited 31 March 2017 $000	Unaudited 31 March 2016 $000
Common Equity Tier 1 Capital		
Retained Earnings (net of appropriations)	161,684	151,417
Accumulated Other Comprehensive Income:		
Profit after Tax	10,343	10,267
Available for Sale Reserve	880	2,424
Cash Flow Hedging Reserve	(2,158)	(7,140)
	170,749	**156,968**
Less deductions from Common Equity Tier One Capital		
Intangible Assets	(14,953)	(12,547)
Deferred Tax Asset	(413)	(869)
Cash Flow Hedging Reserve	2,158	7,140
Total Common Equity Tier One Capital	**157,541**	**150,692**
Additional Tier One Capital	–	–
Total Tier One Capital	**157,541**	**150,692**
Tier Two Capital		
Term Subordinated Debt	32,400	320
Total Tier Two Capital	**32,400**	**320**
Total Capital	**189,941**	**151,012**

As at 31 March 2017 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.

Term Subordinated Debt

The term subordinated debt shown as Tier Two Capital consists of unsecured, subordinated, loss absorbing Tier 2 regulatory capital debt securities ("Subordinated Notes"). The Subordinate Notes are not subject to phase-out from eligibility as capital. For full details of this issue refer to Note 20.

Notes to the Financial Statements For the year ended 31 March 2017

37. CAPITAL ADEQUACY cont.

(c) Credit Risk

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

31 March 2017	Total Exposure After Credit Risk Mitigation $000	Risk Weight %	Risk Weighted Exposure $000	Minimum Pillar One Capital Requirement $000
Cash	1,342	0%	–	–
International Organisations	43,688	0%	–	–
International Organisations	17,216	20%	3,443	275
Public Sector Entities	12,554	20%	2,511	201
Public Sector Entities	208	50%	104	8
Banks	104,979	20%	20,996	1,680
Banks	18,507	50%	9,254	740
Corporate	32,398	50%	16,199	1,296
Residential Mortgages				
Residential Mortgages Not Past Due (< 80% LVR)	1,327,978	35%	464,792	37,183
Residential Mortgages Not Past Due (80% – 90% LVR)	111,696	50%	55,848	4,468
Residential Mortgages Not Past Due (90% – 100% LVR)	17,601	75%	13,201	1,056
Residential Mortgages Not Past Due (>100% LVR)	1,105	100%	1,105	88
Property Investment Residential Mortgages				
Residential Mortgages Not Past Due (< 80% LVR)	388,571	40%	155,428	12,434
Residential Mortgages Not Past Due (80% – 90% LVR)	19,862	70%	13,903	1,112
Residential Mortgages Not Past Due (90% – 100% LVR)	163	90%	147	12
Residential Mortgages Not Past Due (>100% LVR)	206	100%	206	16
Welcome Home Loan Residential Mortgages				
Residential Mortgages Not Past Due (< 90% LVR)	68,444	35%	23,955	1,916
Residential Mortgages Not Past Due (90% – 100% LVR)	10,202	50%	5,101	408
Past Due Residential Mortgages	6,145	100%	6,145	492
Other Assets	161,780	100%	161,780	12,942
Other Past Due Assets	261	100%	261	21
Non Risk Weighted Assets	18,643	0%	–	–
Total On Balance Sheet	**2,363,549**		**954,379**	**76,348**

(ii) Calculation of Off Balance Sheet Credit Exposures - Unaudited

31 March 2017	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	83,628	50%	41,814	60%	25,134	2,011
Market Contracts						
Interest Rate Swaps	2,084,498	n/a	9,366	20%	1,873	150
Foreign Exchange Contracts	378	n/a	390	20%	78	6
Total Off Balance Sheet	**2,168,504**		**51,570**		**27,085**	**2,167**
Total Credit Risk	**4,532,053**		**51,570**		**981,464**	**78,515**

Undrawn Other Commitments represents the unutilised balances of Customer's credit facilities (revolving credit mortgages, overdrafts, credit card and creditline accounts), and approved but not drawn loans. Original maturity is more than 1 year.

Notes to the Financial Statements For the year ended 31 March 2017

37. CAPITAL ADEQUACY cont.

(c) Credit Risk cont.

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

31 March 2016	Total Exposure After Credit Risk Mitigation $000	Risk Weight %	Risk Weighted Exposure $000	Minimum Pillar One Capital Requirement $000
Cash	1,398	0%	–	–
International Organisations	16,934	0%	–	–
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				
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 Residential Mortgages				
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 Loan Residential Mortgages				
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 On Balance Sheet	**2,041,153**		**820,386**	**65,633**

(ii) Calculation of Off Balance Sheet Credit Exposures - Unaudited

31 March 2016	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	53,688	50%	26,844	49%	13,263	1,061
Market Contracts						
Interest Rate Swaps	1,894,358	n/a	9,549	20%	1,910	153
Foreign Exchange Contracts	219	n/a	214	20%	43	3
Total Off Balance Sheet	**1,948,265**		**36,607**		**15,216**	**1,217**
Total Credit Risk	**3,989,418**		**36,607**		**835,602**	**66,850**

Undrawn Other Commitments represents the unutilised balances of Customer's credit facilities (revolving credit mortgages, overdrafts, credit card and creditline accounts), and approved but not drawn loans. Original maturity is more than 1 year.

Notes to the Financial Statements For the year ended 31 March 2017

37. CAPITAL ADEQUACY cont.

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

	Implied Risk Weighted Exposure 31 March 2017 $000	Capital Requirement 31 March 2017 $000	Implied Risk Weighted Exposure 31 March 2016 $000	Capital Requirement 31 March 2016 $000
Operational Risk	126,256	10,101	112,530	9,002
Market Risk - Interest Rate Risk	16,436	1,315	9,207	736
Market Risk - Foreign Currency Risk	124	10	72	6

The Banking Group did not have any equity exposures as at 31 March 2017 (31 March 2016: 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 2017 $000	Peak End of Day 31 March 2017 $000	End of Period 31 March 2016 $000	Peak End of Day 31 March 2016 $000
Implied Risk Weighted Exposure	16,560	18,312	9,279	21,057
Aggregate Capital Charge	1,325	1,465	742	1,685
Aggregate Capital Charge Expressed as a Percentage of the Banking Group's Equity	0.70%	0.77%	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.

(f) Banking Group Total Capital Requirements - Unaudited

31 March 2017	Note	Total Exposure After Credit Risk Mitigation $000	Risk Weighted Exposure or Implied Risk Weighted Exposure $000	Capital Requirement $000
Total Credit Risk	37 (c)	4,532,053	981,464	78,515
Operational Risk	37 (d)	n/a	126,256	10,101
Market Risk	37 (d) (e)	n/a	16,560	1,325
Total Risk Weighted		**4,532,053**	**1,124,280**	**89,941**
31 March 2016				
Total Credit Risk	37 (c)	3,989,418	835,602	66,850
Operational Risk	37 (d)	n/a	112,530	9,002
Market Risk	37 (d) (e)	n/a	9,279	742
Total Risk Weighted		**3,989,418**	**957,411**	**76,594**

Notes to the Financial Statements For the year ended 31 March 2017

37. CAPITAL ADEQUACY cont.

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

	31 March 2017		31 March 2016	
Loan to Value Ratio	On Balance Sheet $000	Off Balance Sheet $000	On Balance Sheet $000	Off Balance Sheet $000
LVR 0% - 80%	1,725,111	49,931	1,475,990	38,747
LVR > 80% - 90%	197,328	1,391	156,579	1,707
LVR > 90%	29,534	–	36,808	1,333
Total	**1,951,973**	**51,322**	**1,669,377**	**41,787**

Reconciliation of Mortgage Related Amounts	Note	31 March 2017 $000	31 March 2016 $000
Gross Residential Mortgage Loans	11	1,954,076	1,671,403
Provision for Impairment relating to Residential Mortgages	12(c)	(2,103)	(2,026)
Residential Mortgage Loans net of Provision for Impairment	37 (c), 37 (g)	1,951,973	1,669,377
Off Balance Sheet Exposures – Undrawn Commitments	37 (g)	51,322	41,787
Total On and Off Balance Sheet Residential Mortgage Loans	28	**2,003,295**	**1,711,164**

The Co-operative Bank Disclosure Statement For the year ended 31 March 2017

PRIORITY OF CREDITORS' CLAIMS

As at 31 March 2017, all deposits made by Customers of Co-op Bank rank equally with other unsecured and unsubordinated creditors (other than holders of Subordinated Notes) and behind creditors given priority by law.

On liquidation of the Bank, the priority of claims of holders of Subordinated Notes would rank after all other creditors of Co-op Bank that rank in priority to the Subordinated Notes. As at 31 March 2017, that is all creditors of Co-op Bank.

As at 31 March 2017, the Securitisation Trusts have granted a prior charge over their assets to secure funding provided to the Securitisation Trusts (see Note 18). 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

There are no guarantees applicable to the Banking Group as at 31 March 2017.

DIRECTORS

At the annual general meeting on 28 July 2016, Brendan O'Donovan retired by rotation and was re-elected as Director. On the same date Sam Robinson retired as Director and Clayton Wakefield was elected. Marion Cowden resigned as a Director effective 4 May 2017.

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, MInstD, 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) • Auditor Oversight Group (Member) • Inland Revenue Risk & Assurance Committee (Chair) • Inland Revenue – Investment Board (Member) • CBC Holdings Limited (Finance Committee) • France New Zealand Friendship Fund (Trustee) • 185 Thomson Limited (Director)
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 2017

DIRECTORS cont.

CLAYTON WAKEFIELD BSc (Computer Science), GradDip Mgmt, CMInstD	• Wakefield and Walsh Limited (Director) • Walsh Financial Services Limited (Director) • TechX Limited (Executive Director and Shareholder)
SARAH HAYDON BSc, FCA, CMInstD *Company Director*	• Institute of Geological and Nuclear Sciences Limited (Deputy Chair, 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) • R&E Seelye Charitable Trust (Trustee) • Unitec Trust (Trustee) • Cavalier Corporation Limited (Director and Chair) • Co-operative Life Limited (Director) • Wairaka Land Company Limited (Chair) • Sarah Haydon Trust Company Limited (Director and Shareholder) • Ports of Auckland Limited (Director)
DIANNE KIDD BA, Diploma in Teaching, MInstD *Company Director*	• Helensville Birthing Centre Limited (Director) • McEwan-Kidd Partnership Limited (Director) • Unitec Institute of Technology (Deputy Chair) • Hounslow Holdings Limited (Shareholder) • Kaipara Medical Centre Limited (Chairman) • Massey University Foundation Board (Member) • Massey University Agricultural and Life Science Sub Trust (Trustee)
BRENDAN O'DONOVAN MCom (Hons) *Economist*	• Springlands Holding Company Limited (Director and Shareholder) • Medical Assurance Society KiwiSaver Plan (Licensed Independent Trustee) • Medical Assurance Society Retirement Savings Plan (Independent Trustee) • Co-operative Life Limited (Chairman) • Anglican Pension Board (Board Member and Investment Committee Member) • The New Zealand Anglican Church Pension Fund (Trustee) • Koinonia KiwiSaver Scheme (Trustee) • The Retire Fund (Trustee)

The Co-operative Bank Disclosure Statement For the year ended 31 March 2017

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;
- 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 October 2016 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 2017

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 2017

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*	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

* 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).

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.

The Co-operative Bank Disclosure Statement For the year ended 31 March 2017

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 2017

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 property-investment residential mortgage loans with a loan-to-valuation ratio of more than 60%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans 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 non property-investment residential mortgage loans 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 non property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

21. 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 registered 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 2017

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 21,—

"loan-to-valuation ratio", "non property-investment residential mortgage loan", "property-investment residential mortgage loan", "qualifying new mortgage lending amount in respect of property-investment residential mortgage loans", "qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans", 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 October 2016:

"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 March 2017.

Changes in Conditions of Registration
There have been no changes to Co-op Bank's conditions of registration since the signing of the previous Disclosure Statement (period ended 31 December 2016).

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 2017 and up until the date of the signing of this Disclosure Statement, Co-op Bank was rated BBB (outlook stable) by Fitch Ratings ("Fitch"). The Fitch rating was upgraded to BBB on 5 September 2016 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 2017

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

Insurance business

The Banking Group markets and distributes life insurance products through its wholly owned subsidiary company, Co-op Life. 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 2017 were $10.7 million (2016: $15.0 million) which is 0.45% of the total assets of the Banking Group (2016: 0.73%).

More details of Co-op Life's insurance business are stated in Note 19 of the financial statements.

As at 31 March 2017 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 ratings were re-affirmed on 15 September 2016.

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 2017

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

Insurance business 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

Securitisation
As at 31 March 2017, the Banking Group had securitised assets amounting to $419.8 million (2016: $318.1 million). These assets were 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 $7.9 million from the Trusts for services provided during the year ended 31 March 2017 (2016: $7.4 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 bond series it is The Royal Forest and Bird Protection Society of New Zealand Incorporated, for the 2015 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 27).

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.

The Co-operative Bank Disclosure Statement For the year ended 31 March 2017

OTHER MATERIAL MATTERS

Co-op Bank's Chief Executive ("CEO") Bruce McLachlan resigned in December 2016, with his last day at the Co-op Bank on 31 March 2017. On 1 May 2017 David Cunningham was appointed as CEO and a letter of non-objection to this appointment was received from the RBNZ on 10 May 2017. Mr Cunningham has been a member of Co-op Bank's Senior Leadership Team since 2012.

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.

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 2017:

(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 25 May 2017 and has been signed by all of the Directors:

STEVEN FYFE
Chairman

PAUL GOULTER
Deputy Chairman

SARAH HAYDON

DIANNE KIDD

BRENDAN O'DONOVAN

CLAYTON WAKEFIELD

Annual Report For the year ended 31 March 2017

1. CO-OPERATIVE STATUS

On 25 May 2017, 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 2017 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 56 employees in the following remuneration brackets:

Remuneration	Number of Employees 31 March 2017
$100,000 to $109,999	11
$110,000 to $119,999	8
$120,000 to $129,999	5
$130,000 to $139,999	4
$140,000 to $149,999	6
$150,000 to $159,999	1
$160,000 to $169,999	2
$170,000 to $179,999	4
$180,000 to $189,999	1
$190,000 to $199,999	3
$200,000 to $209,999	3
$210,000 to $219,999	1
$260,000 to $269,999	1
$270,000 to $279,999	1
$280,000 to $289,999	1
$310,000 to $319,999	1
$400,000 to $409,999	1
$440,000 to $449,999	1
$880,000 to $889,999	1

3. DONATIONS

No donations were made by the Banking Group during the year ended 31 March 2017 (2016: Nil).

Annual Report For the year ended 31 March 2017

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 2017 were:

Brendan O'Donovan
Sarah Haydon
Gareth Fleming
Bruce McLachlan

Bruce McLachlan resigned as Director on 31 March 2017. On 25 May 2017 David Cunningham was appointed as Director of Co-op Life, subject to regulatory approval. There were no other changes to the Directors of Co-op Life.

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

	31 March 2017 $	31 March 2016 $
Brendan O'Donovan	7,500	7,000
Sarah Haydon	3,750	2,500
Paul Goulter	–	1,000
	11,250	**10,500**

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 55) 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 subsidiary of Co-op Bank employed any person throughout the financial year ended 31 March 2017.

DIRECTORS' STATEMENT

This Annual Report is dated 25 May 2017 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