The Co-operative Bank Limited

Disclosure Statement for the 6 months ended 30 September 2011

The Co-operative Bank

Bank like you own the place

Contents

This Disclosure Statement has been issued by The Co-operative Bank Limited ("the Registered Bank") for the six months ended 30 September 2011 in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No 3) 2011 (the "Order").

The condensed consolidated Financial Statements of PSIS Limited (as the Registered bank was formerly named) for the period ended 30 September 2011 form part of and should be read in conjunction with this Disclosure Statement.

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

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

The Co-operative Bank Limited Disclosure Statement

for the six months ended 30 September 2011.

In this Disclosure Statement,

(a) "The Co-operative Bank", the "Bank", the "Registered Bank", or the "Parent" means The Co-operative Bank Limited;

(b) "Banking Group" and "Group" means The Co-operative Bank financial reporting group, which consists of:

   a. The Co-operative Bank Limited;

   b. Co-operative Life Limited;

   c. PSIS Warehouse Trust ("Warehouse Trust");

   d. PSIS RMBS Trust 2010-1 ("Bond Trust"); and

   e. Co-operative PIE Term Fund ("PIE Term Fund"); and

(c) words and phrases defined in the Order have the same meanings when used in this Disclosure Statement.

General Information

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

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

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

Guarantee Arrangements

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

Co-operative Life Limited is a member of the Banking Group. Its address for service is Co-operative Life Limited, PSIS House, corner of Featherston and Ballance Streets, Wellington. The guarantee is limited to the amount of net tangible assets of Co-operative Life Limited, which may fluctuate from time to time. The net tangible assets of Co-operative Life Limited were $11.5 million as at 30 September 2011.

Co-operative Life Limited does not have any credit rating applicable to its long term senior unsecured obligations.

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

Insurance Business, Securitisation, Funds Management, and Marketing and Distribution of Insurance Products

Insurance business

The Banking Group markets and distributes insurance products through The Co-operative Bank Limited's wholly-owned subsidiary company, Co-operative Life Limited (the "Life Company") whose insurance business is managed and accounted for as a separate fund in the Banking Group's Balance Sheet.

On 29 April 2011 a $3.5 million dividend was declared and paid by the Life Company to the Registered Bank. As a result, total assets of the Life Company as at 30 September 2011 were $11.5 million (30 September 2010: $14.4 million; 31 March 2011: $14.7 million) which was 0.78% of the total assets of the Banking Group (30 September 2010: 1.01%; 31 March 2011: 1.01%). The Board of Directors of the Life Company have adopted a dividend policy that will ensure that:

(a) the Life Company remains well capitalised;

(b) the Life Company pays surplus earnings in excess of an agreed prudent amount to the Bank each year; and

(c) the Bank and the Life Company regularly settle their intercompany accounts.

This change in policy mitigates the likelihood of the Life Company breaching the 1% limit which is part of the conditions of registration.

More details of Co-operative Life Limited's insurance business are stated in note 18 of the condensed consolidated financial statements.

Securitisation

As at 30 September 2011, the Banking Group had securitised assets amounting to $147.9 million (30 September 2010: $172.7 million; 31 March 2011: $170.0 million). These assets have been sold to the PSIS Warehouse Trust and the PSIS RMBS Trust 2010-1. Both Trusts are special purpose vehicles established for the purpose of purchasing qualifying residential mortgages from the Registered Bank and funded through wholesale funding lines and institutional investors in New Zealand. In the case of the PSIS Warehouse Trust, the Registered Bank provides significant subordinated funding lines. The securitised assets remain on the Registered Bank's Balance Sheet, as the Registered Bank retains a continuing involvement in the transferred assets (funding, liquidity and credit risk remains with the Registered Bank).

Until 25 October 2011, the Registered Bank was the trust manager, servicer, income beneficiary and final beneficiary of these Trusts. The Registered Bank resigned as trust manager of these trusts, and AMAL New Zealand Limited was appointed as the trust manager of these trusts with effect from 25 October 2011. The Registered Bank remains the servicer of these Trusts. The Registered Bank did not charge the Trusts for services provided up to 30 September 2011. The income and final beneficiary of these Trusts is The New Zealand Federation of Family Budgeting Services Incorporated. AMAL New Zealand Limited is the trust manager, and has appointed the Registered Bank to perform certain parts of the trust manager's role as its attorney.

Funds management

The Banking Group markets and manages Co-operative PIE Term Fund. The Co-operative PIE Term Fund is a portfolio investment entity that manages fund investment with special tax rules.

The Banking Group's Arrangements in Conducting the Fiduciary Activities

The Banking Group has in place policies and procedures to ensure that the fiduciary activities identified above are conducted in an appropriate manner. The Banking Group considers that these policies and procedures should mitigate the risk of difficulties arising from these activities which may impact adversely on the Banking Group. The policies and procedures include formal and regular review of operations and policies by management, as well as appropriate hedging arrangements. Further information on the Banking Group's risk management policies and practices are disclosed in the Risk Management Policy section of the Registered Bank's full year Disclosure Statement as at March 2011.

The Co-operative Bank Limited Disclosure Statement
for the six months ended 30 September 2011

Directors

On 27 October 2011 two new members were appointed to the Bank's Board of Directors.
The new Directors' names, occupations, qualifications and their interests are listed below:

Steven Fyfe BCA, CA, FFin Company Director	• 500 Victoria Limited (Director); • Upland Consulting Limited (Director); • Dumbarton Land Company (Director); • Red Cross Foundation (Trustee); and • Victoria University Foundation (Trustee).
Ross Wilson BA, LLB Executive Chair of Unions Aotearoa International Development Trust (UnionAID)	• Unions Aotearoa International Development Trust (Trustee); and • Tom Wilson Builders Limited (Director).

All Directors of the Registered Bank reside in New Zealand and are independent non-executive Directors.

Auditor

Deloitte
10 Brandon Street
Wellington

Conditions of Registration

Changes in Conditions of Registration

There have been no changes to the conditions of registration imposed on the Registered Bank by the Reserve Bank of New Zealand pursuant to section 74 of the Reserve Bank of New Zealand Act 1989 between 30 June 2011, the reporting date for the Registered Bank's last disclosure statement, and 30 September 2011, the reporting date for this disclosure statement.

However, with effect from 25 Novmeber 2011, there has been the following change to the Conditions of Registration:

Section 11 of the Conditions of Registration refers to a Reserve Bank of New Zealand Document entitled "Liquidity Policy Annex: Liquid Assets" (BS13A) dated March 2010. This document has been replaced with "Liquidity Policy Annex: Liquid Assets" (BS13A) dated November 2011.

Pending Proceedings or Arbitration

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

Credit Rating

As at 30 September 2011 and up until the date of the signing this Disclosure Statement, PSIS Limited was rated BBB-[1] by Standard & Poor's Ratings Services ("S&P's"). The rating is not subject to any qualification. This credit rating is applicable to long term unsecured obligations payable in New Zealand. The Registered Bank's credit rating of BBB- was obtained on 27 May 2011.

Other Material Matters

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

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

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

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

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

The Co-operative Bank Limited Disclosure Statement
for the six months ended 30 September 2011

Directors' Statements

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

1. As at the date on which the Disclosure Statement is signed:
   (a) the Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No 3) 2011 (the "Order"); and
   (b) the Disclosure Statement is not false or misleading.

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

This Disclosure Statement is dated 30 November 2011 and has been signed by or on behalf of all the Directors:

David Gascoigne

Sir David Gascoigne, (Chairman)

Peter Ellis

Steven Fyfe

Paul Goulter

John Isles

Dianne Kidd

Joanna Perry

Sam Robinson

Ross Wilson

Condensed Statement of Comprehensive Income

for the six months ended 30 September 2011

		Consolidated		
	Note	**Unaudited 6 months 30/09/2011 $000**	**Unaudited 6 months 30/09/2010 $000**	**Audited 12 months 31/03/2011 $000**
Interest Income	3	48,859	50,819	103,745
Interest Expense	4	(29,136)	(28,350)	(60,722)
Net Interest Income		19,723	22,469	43,023
Insurance and Loan Care Underwriting Income		3,354	3,445	6,820
Fees and Other Operating Income		5,989	5,620	11,582
Net Operating Income		29,066	31,534	61,425
Insurance and Loan Care Underwriting Expense		(1,723)	(1,723)	(3,731)
Impairment Losses	10	(986)	(1,310)	(3,550)
Employee Entitlements		(10,368)	(9,616)	(19,475)
Occupancy		(2,728)	(2,869)	(5,634)
Information Technology		(1,921)	(1,743)	(3,503)
Marketing		(679)	(1,189)	(2,736)
Administration		(1,397)	(795)	(1,799)
Other Operating Expenses	5	(7,211)	(5,925)	(12,348)
Operating Expenses		(27,013)	(25,170)	(52,776)
Profit Before Fair Value Adjustments		2,053	6,364	8,649
Fair Value Gain/(Loss)	6	172	(584)	696
Profit before Taxation		2,225	5,780	9,345
Taxation		(475)	(1,445)	(2,243)
Profit after Taxation Attributable to Members		1,750	4,335	7,102
Other Comprehensive Income				
Fair Value Movement on Available for Sale Financial Instruments		(54)	(38)	41
Income Tax relating to Fair Value Movement on Available for Sale Financial Instruments		15	11	(11)
Other Comprehensive Income		(39)	(27)	30
Total Comprehensive Income		1,711	4,308	7,132

Condensed Statement of Changes in Members' Reserves

for the six months ended 30 September 2011

		Consolidated		
	Note	**Unaudited 6 months 30/09/2011 $000**	**Unaudited 6 months 30/09/2010 $000**	**Audited 12 months 31/03/2011 $000**
Opening Balance of Members' Reserves		124,004	116,872	116,872
Profit after Taxation Attributable to Members		1,750	4,335	7,102
Other Comprehensive Income		(39)	(27)	30
Closing Balance of Members' Reserves		125,715	121,180	124,004

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

Condensed Balance Sheet as at 30 September 2011

	Note	Consolidated		
		Unaudited 6 months 30/09/2011 $000	Unaudited 6 months 30/09/2010 $000	Audited 12 months 31/03/2011 $000
Assets				
Cash and Cash Equivalents	7	6,838	8,192	5,597
Short Term Deposits	8	92,665	60,764	83,781
Investment Securities	9	43,028	32,178	33,657
Other Financial Assets		103,504	159,473	149,748
Tax Receivable		2,954	592	713
Trade and Other Receivables		1,103	1,218	1,459
Loans and Advances	10	1,189,977	1,145,479	1,163,898
Property, Plant and Equipment		6,723	7,965	7,240
Intangible Assets		4,516	2,957	3,576
Derivatives		237	1,103	490
Deferred Tax Asset		1,878	1,749	1,774
Total Assets		1,453,423	1,421,670	1,451,933
Liabilities				
Deposits		1,189,707	1,133,770	1,162,803
Secured Borrowings	11	112,873	140,075	138,842
PIE Term Fund Borrowings		5,468	5,399	4,577
Derivatives		1,786	2,315	1,893
Trade and Other Payables		4,049	4,624	5,470
Employee Entitlements		1,699	1,388	1,693
Life Insurance Net Policy Liabilities		5,447	6,284	5,976
Capital Notes	13	6,679	6,635	6,675
Total Liabilities		1,327,708	1,300,490	1,327,929
Net Assets		125,715	121,180	124,004
Members' Reserves				
Available for Sale Reserve		10	(10)	48
Retained Earnings		125,705	121,190	123,956
Total Members' Reserves		125,715	121,180	124,004

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

Condensed Statement of Cash Flows for the six months ended 30 September 2011

	Note	Consolidated Unaudited 6 months 30/09/2011 $000	Unaudited 6 months 30/09/2010 $000	Audited 12 months 31/03/2011 $000
Cash Flows from Operating Activities				
Interest Income		49,836	50,091	100,973
Other Income		8,936	8,219	17,324
Payments to Suppliers and Employees		(26,619)	(24,992)	(49,153)
Interest Expense		(28,369)	(25,846)	(56,338)
Taxation Payments		(2,803)	(1,278)	(2,248)
Net Cash Flow from Operating Activities before Changes in Operating Assets and Liabilities		981	6,194	10,558
Loans and Advances*		(26,808)	(23,489)	(42,579)
Short Term Deposits*		(15,372)	(39,363)	16,542
Investment Securities		3,078	-	-
Other Financial Assets*		40,271	(39,969)	(30,402)
Members' Deposits*		26,267	13,591	42,798
PIE Term Fund Borrowings*		892	2,196	1,343
Trade and Other Receivables		357	(61)	-
Secured Borrowings Raised		-	10,000	88,500
Repayment of Secured Borrowings		(25,770)	-	(79,167)
Cost of Raising Secured Borrowings		-	-	(689)
Cost of Securitisation Trust Restructure		(327)	-	-
Changes in Operating Assets and Liabilities		2,588	1,631	(3,654)
Net Cash Flow from Operating Activities	14	3,569	7,825	6,904
Cash Flows from Investing Activities				
Purchase of Property, Plant and Equipment		(976)	(829)	(1,583)
Purchase of Intangible Assets		(1,352)	(943)	(1,863)
Net Cash Flow from Investing Activities		(2,328)	(1,772)	(3,446)
Net Movement in Cash		1,241	6,053	3,458
Opening Balance of Cash		5,597	2,139	2,139
Closing Balance of Cash		6,838	8,192	5,597

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

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

1. Statement of Accounting Policies

(1) Reporting Entity

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

(2) Accounting Policies

(a) Basis of Preparation

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

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

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

These financial statements were authorised for issue by the Board of Directors on 30 November 2011.

(b) Presentation Currency and Rounding

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

2. Underlying Profit before tax

	Consolidated		
	Unaudited 6 months 30/09/2011 $000	Unaudited 6 months 30/09/2010 $000	Audited 12 months 31/03/2011 $000
Profit before Tax	2,225	5,780	9,345
Adjustments for:			
FIP fair value (gain)/loss	1	(1,801)	(3,200)
FIP swap fair value (gain)/loss	441	1,119	1,222
Bank registration costs	860	-	-
Underlying Profit before tax	3,527	5,098	7,367

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

Profit before tax has been adjusted to remove the fair value (gain)/loss of the FIP investment, the fair value (gain)/loss of the swap that hedges this investment and the one-off cost for the six months ended 30 September 2011 incurred in relation to bank registration.

3. Interest Income	Consolidated		
	Unaudited 6 months 30/09/2011 $000	**Unaudited 6 months 30/09/2010 $000**	**Audited 12 months 31/03/2011 $000**
Short Term Deposits	1,887	1,238	2,701
Investment Securities	222	40	78
Other Financial Assets	2,658	3,335	7,067
Loans and Advances	43,636	46,144	91,873
Interest Rate Derivative Income	383	-	1,862
Other Interest Income	73	62	164
Total Interest Income	48,859	50,819	103,745

4. Interest Expense			
Secured Borrowings	3,380	3,305	7,192
Deposits	24,323	23,505	48,742
PIE Term Fund Borrowings	159	154	321
Capital Notes	278	280	560
Interest Rate Derivative Expense	996	1,106	3,907
Total Interest Expense	29,136	28,350	60,722

5. Other Operating Expenses			
Remote Channels	3,039	2,769	5,532
Bank Charges	580	597	1,200
Communications	1,183	935	2,085
Professional Fees	1,169	379	939
Other Expenses	1,240	1,245	2,592
	7,211	5,925	12,348

6. Fair Value Gain/(Loss)	Consolidated		
	Unaudited 6 months 30/09/2011 $000	**Unaudited 6 months 30/09/2010 $000**	**Audited 12 months 31/03/2011 $000**
Unrealised fair value gain/(loss) are recognised with respect to the following financial instruments measured at fair value through profit or loss:			
Assets backing Life Insurance Contracts[1]	276	98	24
FIP Investment[2]	(1)	1,801	3,200
PINS 2005 Investment[2]	17	124	233
PINS 2006 Investment[2]	13	58	100
Derivatives[3]	(133)	(2,665)	(2,861)
	172	(584)	696

7. Cash and Cash Equivalents			
Cash on hand	1,413	556	1,504
Cash held at registered banks	5,425	7,636	4,093
	6,838	8,192	5,597

8. Short Term Deposits			
Call Deposits	2,832	11,035	8,621
Short Term Deposits with Registered Banks	40,562	929	46,334
Rated Commercial Paper	49,271	48,800	28,826
	92,665	60,764	83,781

9. Investment Securities			
Assets backing Life Insurance Contracts	10,602	1,329	1,258
FIP Investment	29,243	27,845	29,244
PINS 2005 Investment	2,311	2,185	2,294
PINS 2006 Investment	872	819	861
	43,028	32,178	33,657

Changes in value of the FIP Investment, PINS 2005 Investment and PINS 2006 Investment are solely fair value movements.

See note 6 for additional information regarding fair value gain/(loss) on Investment Securities.

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

2 These investments have been valued at fair value using the net present value of receiving the combined capital face value ($38.5m) at maturity and assuming no coupon interest will be received to maturity. The interpolated swap interest rate applicable to the maturity of each security, plus the credit risk margins, have been applied as the discount rate for the maturity amounts.

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

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

The table below is an analysis of credit risk adjustments on assets designated at fair value through profit and loss on which there have been changes in fair value that are attributable to changes in credit risk of the financial asset. These assets include the FIPs investment, PINS 2005 Investment and PINS 2006 investment.

	Consolidated		
	Unaudited 6 months 30/09/2011 $000	**Unaudited 6 months 30/09/2010 $000**	**Audited 12 months 31/03/2011 $000**
Opening Balance	(1,715)	(2,391)	(2,391)
Purchases	-	-	-
Sales	-	-	-
Credit Margin Movements	(1,221)	216	676
Closing Balance	(2,936)	(2,175)	(1,715)

10. Loans and Advances[4]			
Advances to Members	1,194,232	1,149,017	1,168,249
Provisions for Impairment	(4,255)	(3,538)	(4,351)
Total Loans and Advances	1,189,977	1,145,479	1,163,898
Collective Provision (a)	(3,126)	(2,690)	(3,247)
Specific Provisions (b)	(1,129)	(848)	(1,104)
Total Provision for Impairment	(4,255)	(3,538)	(4,351)
(a) Collective Provision			
Balance at Beginning of Period	(3,247)	(3,039)	(3,039)
Charged to Profit before Taxation	121	349	(208)
Balance at End of Period	(3,126)	(2,690)	(3,247)
(b) Specific Provisions			
Balance at Beginning of Period	(1,104)	(385)	(385)
New Provisions	(834)	(816)	(1,671)
Bad Debts Written Off	345	299	898
Provisions Released	464	54	54
Balance at End of Period	(1,129)	(848)	(1,104)
Impairment Losses Charged to Profit before Taxation			
Movement in Collective Provision	(121)	(349)	208
Movement in Specific Provisions	25	463	719
Bad Debts Written Off	1,271	1,370	2,954
Bad Debts Recovered	(189)	(174)	(331)
Total Impairment Losses Charged to Profit before Taxation	986	1,310	3,550

4 Total Loans and Advances include securitised receivables of $147.9m (30 September 2010: $172.8m; 31 March 2011: $170.0m). These Loans and Advances are subject to one or other of the securities referred to in note 11.

Asset Quality	Consolidated		
	Unaudited 6 months 30/09/2011	**Unaudited 6 months 30/09/2010**	**Audited 12 months 31/03/2011**
(a) Gross Impaired Assets	**$000**	**$000**	**$000**
Opening Balance	5,206	1,943	1,943
Additions	2,015	4,570	9,713
Amounts Written Off	(1,492)	(375)	(3,821)
Deletions	(2,355)	(3,228)	(2,629)
Closing Balance	3,374	2,910	5,206

The amount of security held to back these assets at original valuation is approximately $2.2m (30 September 2010: $2.0m; 31 March 2011: $3.9m).

(b) Aging of Past Due but not Impaired Assets			
1 – 30 days	22,556	20,711	22,619
31 – 60 days	1,170	2,538	3,367
61 – 90 days	822	1,637	3,321
90 days plus	2,291	2,021	1,193
	26,839	26,907	30,500

The amount of security held to back these assets at original valuation is approximately $51m (30 September 2010: $54m; 31 March 2011: $58m).

No other assets included in the Consolidated Balance sheet are past due but not impaired.

(c) 90 Day Past Due Assets			
Opening Balance	1,193	4,039	4,039
Additions to 90 day Past Due Assets	2,291	1,716	1,193
Amounts Written Off	(926)	(1,371)	(2,056)
Deletion from 90 day Past Due Assets	(267)	(2,363)	(1,983)
Closing Balance	2,291	2,021	1,193

The weighted average number of days past due for these assets is 159 (30 September 2010: 209; 31 March 2011: 142). It is impractical to calculate the fair value of the collateral backing 90 day past due assets as the Group records the security value at time of drawdown. At 30 September 2011, there were three 90 days past due mortgages with a loan to valuation ratio, at original valuation, greater than 80% (30 September 2010: four; 31 March 2011: one).

The Group has 14 restructured assets ($330,000) this year (30 September 2010: 8 restructured assets at $205,000; 31 March 2011: 10 restructured assets at $232,000).

There are no assets acquired through the enforcement of security this year (30 September 2010: Nil; 31 March 2011: Nil).

Of the total value of loans and advances at 30 September 2011, excluding the impaired assets 0.19% have repayments more than three months in arrears (30 September 2010: 0.21%; 31 March 2011: 0.10%).

Of the total value of loans and advances at 30 September 2011, 0.33% is owed by the six largest debtors (30 September 2010: 0.36%; 31 March 2011: 0.32%).

11. Secured Borrowings	Consolidated		
	Unaudited 6 months 30/09/2011 $000	**Unaudited 6 months 30/09/2010 $000**	**Audited 12 months 31/03/2011 $000**
PSIS Warehouse Trust	39,759	140,075	54,384
PSIS RMBS Trust 2010-1	73,114	–	84,458
	112,873	140,075	138,842

Both securitisation trusts are established solely for the purpose of purchasing mortgages from PSIS and funding the same by wholesale funding from Westpac Banking Corporation. The PSIS RMBS Trust 2010-1 was established solely for the purpose of purchasing mortgages from the PSIS Warehouse Trust and funding the same from institutional investors. The PSIS Warehouse Trust used the sale proceeds to repay money owing to Westpac Banking Corporation. The securitised receivables of $147.9m (30 September 2010: $172.8m; 31 March 2011: $170.0m) secure these borrowings by the security trust deeds in favour of security trustees who hold those securities for the benefit of the investors and are included in total Loans and Advances disclosed in note 10.

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

12. Interest Earning Assets and Interest Bearing Liabilities			
Total interest earning and discount bearing assets	1,434,896	1,405,530	1,435,177
Total interest earning and discount bearing liabilities	1,314,727	1,285,880	1,312,897

March 2011 comparative figures have been adjusted to include cash balances that earn interest.

13. Capital Notes	Coupon	Maturity Date			
2006 Issue Fixed Rate	8.75% - 9.15%	25 Sep 2012 – 25 Sep 2016	5,529	5,529	5,529
2006 Issue Floating Rate	4.51% - 4.98%	25 Sep 2012 – 25 Sep 2016	1,172	1,172	1,172
Issue costs			(22)	(66)	(26)
			6,679	6,635	6,675

Interest rates on Floating Rate Capital Notes for the period 1 October 2011 to 31 March 2012 will be 4.73% – 5.20% p.a.

PSIS 2006 Issue Capital Notes are medium to long term unsecured subordinated obligations with either fixed or variable interest coupons. At maturity date the Capital Notes will be redeemed by the Group.

Interest is payable on each six monthly payment date (30 September and 31 March) and the floating rate is calculated using the 6 months Bank Bill Mid Rate ("BKBM") plus a margin (1.88% - 2.35%).

14. Reconciliation of Profit after Taxation with Net Cash Flow from Operating Activities

	Consolidated		
	Unaudited 6 months 30/09/2011 $000	**Unaudited 6 months 30/09/2010 $000**	**Audited 12 months 31/03/2011 $000**
Profit after Taxation	1,750	4,335	7,102
Add/(Less) Non-Cash Items			
Depreciation	1,493	1,600	3,084
Amortisation	412	302	603
Securities Capital Value	-	(4)	(6)
Movement in Collective/Specific Impairment	(96)	114	927
Fair Value Movement on Investments	(172)	584	(694)
Unrealised Derivative Settlement Movement	122	(208)	(133)
Deferred Tax Expense	(87)	274	227
Amortised Financing Costs	162	53	214
Loss on Disposal	-	34	31
	1,834	2,749	4,253
Add/(Less) Movements in Assets/Liabilities:			
Loans and Advances	(25,984)	(23,311)	(42,543)
Short Term Deposits	(15,459)	39,520	16,501
Investment Securities	3,078	-	-
Other Financial Assets	40,510	(41,027)	(31,302)
Tax Payable / Receivable	(2,241)	(107)	(228)
Trade and Other Receivables	357	(61)	(303)
Deposits	26,906	16,281	45,314
PIE Term Fund Borrowings	858	2,278	1,423
Secured Borrowings	(26,096)	9,678	8,353
Employee Entitlements	6	(429)	(123)
Loan Care Claims Provision	-	-	(95)
Life Insurance Net Policy Liabilities	(529)	(638)	(851)
Trade and Other Payables	(1,421)	(1,443)	(597)
Capital Notes	-	-	-
	(15)	741	(4,451)
Net Cash Flow from Operating Activities	3,569	7,825	6,904

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

15. Contingent Liabilities

The Banking Group has approved $34.6m of loans and advances which had not been paid out at reporting date (30 September 2010: $34.0m; 31 March 2011: $33.6m).

16. Directors' Remuneration

	Consolidated		
	Unaudited 6 months 30/09/2011 $000	**Unaudited 6 months 30/09/2010 $000**	**Audited 12 months 31/03/2011 $000**
The name of each person holding office as a director of PSIS throughout the financial period ended 30 September 2011 and the total remuneration received by each director were as follows:			
Sir David Gascoigne	35	33	66
C W Hicks *	-	25	38
J K W Isles	21	20	39
J M G Perry	21	21	41
S A Robinson	20	18	36
D J Kidd	18	18	36
P J Ellis	18	18	36
P S Goulter	18	18	36
	151	171	328

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

17. Financial Instruments

Introduction

The 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, liquidity, interest rate and operational risk. Occasionally foreign exchange risk also arises.

The Board of Directors is responsible for the review and ratification of the 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 formally reports on all aspects of key operational risks to the Board at least four times each year, with Credit and Treasury risks reported monthly. In addition, the following management committees review and manage key risks:

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

Credit Risk

Credit risk is the potential risk of loss arising from the non-performance of a counterparty to a financial instrument or facility.

PSIS' credit risk is considered under credit risk relating to retail lending and credit risk relating to wholesale (treasury) investments.

PSIS is selective in targeting credit risk exposure to retail lending and avoids exposures to any high risk area. Lending at PSIS is limited to the "personal sector" which comprises individuals, couples and family trusts. Before approving a loan, PSIS generally undertakes an independent credit check, seeks an asset valuation where appropriate and assesses the Member's capacity to make repayments, their financial position and their credit history. Collateral is obtained, where appropriate, by PSIS to cover credit risk exposures and such collateral includes real property, deposits, motor vehicles and other assets. In excess of 88% of PSIS advances are secured by a first mortgage over real property as a minimum.

Following any loan approval, PSIS 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.

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 (i) portfolio tier limits by credit rating, (ii) individual tier limits by credit rating, (iii) product category limits, and (iv) term to maturity limits.

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

Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting commitments associated with its financial liabilities.

The primary objectives of the Group's liquidity policies are to:

- Ensure all financial obligations are met when due;
- Provide adequate protection under liquidity stress scenarios.

The Group liquidity policies are to:

- Maintain prudent liquidity buffers. The Board policy is to ensure that the market value of liquid assets must be at least 15% of retail deposits and that total liquidity (liquid assets and committed and irrevocable wholesale facilities) must be at least 20% of retail deposits at all times;
- Manage cash flow mismatches. Cash flows are forecasted daily to ascertain funding requirements and are modelled on a monthly basis, subject to conservative reinvestment and other assumptions. PSIS' policy is for cumulative cash outflows to be no more than 80% of cumulative inflows, over a 6 month period. The 7-12 month cash flows are also monitored to assess the Group's future ability to maintain this limit;
- Maintain secure and diversified sources of funding to ensure the Group is not over-reliant on any one market sector or source of funding;
- Regularly monitor liquidity parameters, including liquidity buffers, cash flow mismatches, reinvestment rates, funding duration, as well as dynamic modelling of liquidity stress scenarios;
- Maintain a liquidity stress management plan.

Liquidity management is delegated to the Treasurer under the oversight of the PSIS ALCO.

Interest Rate Risk

Interest rate risk can take two forms:

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

The primary objective of the 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, at least once a month the Group will review and where necessary acquire interest rate derivatives (including interest rate swaps) to hedge the yearly exposures within conservatively set control limits.

The exposure to net interest income from an adverse reduction in borrowing or lending margins is managed through the pricing requirements of the Treasury policy. This requires wholesale rates, liquidity premiums (when the re-pricing duration of loans is longer than borrowing), as well as appropriate lending credit margins, to be taken into consideration when setting retail rates.

Foreign Currency Risk

Foreign currency risk is the risk that the Group would be adversely impacted from unfavourable movements in foreign currency rates. The 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 foreign exchange contracts. Forward foreign exchange contracts must be acquired for exposures that are certain.

Derivatives

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

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 catastrophes. 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 undertaken by management with summarised reporting provided to the Audit and Risk Review Committee and Board.

Sensitivity Analysis

In accordance with NZ IFRS 7, an assessment has been undertaken of the sensitivity to wholesale interest rate movements.

	Interest Rates Increase by 100 basis points			Interest Rates Decrease by 100 basis points		
	30/09/2011 $000	**30/09/2010 $000**	**31/03/2011 $000**	**30/09/2011 $000**	**30/09/2010 $000**	**31/03/2011 $000**
Impact on						
Net Interest Earnings	(413)	(1,095)	(631)	442	1,140	665
Members' Reserves	(413)	(1,095)	(631)	442	1,140	665

The existing interest rate mismatch between assets and liabilities is used, after taking derivatives into account. The present value of the mismatched assets and liabilities are discounted to maturity against both a 100 basis point parallel increase and decrease in wholesale rates, relative to the current wholesale yield curve.

(a) Interest Rate Repricing Schedule

The following tables include the Group's assets and liabilities at their carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

As at 30 September 2011 (unaudited)	Effective Interest Rate %	Up to 3 Months $000	3–6 Months $000	6–12 Months $000	1–2 Years $000	Over 2 Years $000	Non Interest Bearing $000	Total $000
Assets								
Cash and Cash Equivalents	2.5	5,722	-	-	-	-	1,116	6,838
Short Term Deposits	3.4	83,798	8,867	-	-	-	-	92,665
Investment Securities	0.8	3,103	-	1,952	802	4,744	32,427	43,028
Other Financial Assets	6.1	56,245	-	14,715	19,432	13,112	-	103,504
Trade and Other Receivables	n/a	-	-	-	-	-	1,103	1,103
Loans and Advances	6.8	883,776	55,790	109,984	115,025	25,402	-	1,189,977
Derivatives[5]	n/a	-	-	-	-	-	237	237
Other Assets	n/a	-	-	-	-	-	16,071	16,071
Total Assets		1,032,644	64,657	126,651	135,259	43,258	50,954	1,453,423
Liabilities and Members' Reserves								
Deposits	4.4	598,515	283,816	161,196	56,588	29,173	60,419	1,189,707
Secured Borrowings	4.2	113,824	-	-	-	-	(951)	112,873
PIE Term Fund Borrowings	4.5	1,801	1,676	1,964	216	-	(189)	5,468
Derivatives[5]	n/a	-	-	-	-	-	1,786	1,786
Trade and Other Payables	n/a	-	-	-	-	-	4,049	4.049
Employee Entitlements	n/a	-	-	-	-	-	1,699	1,699
Capital Notes	8.4	-	1,172	2,695	-	2,834	(22)	6,679
Other liabilities	n/a	-	-	-	-	-	5,447	5,447
Members' Reserves	n/a	-	-	-	-	-	125,715	125,715
Total Liabilities and Members' Reserves		714,140	286,664	165,855	56,804	32,007	197,953	1,453,423
Net derivative notional principals[6]		(68,350)	40,000	20,333	42,725	(34,708)	-	-

5 Derivatives include interest rate swaps, which are used to hedge against the price risk (interest rate risk). The instruments are repriced every 3 months, with a maximum maturity date of December 2014.

6 Net derivative notional principals are the principal values of interest rate swaps at contractual repricing date less principal values at maturity date.

As at 30 September 2010 (unaudited)	Effective Interest Rate %	Up to 3 Months $000	3–6 Months $000	6–12 Months $000	1–2 Years $000	Over 2 Years $000	Non Interest Bearing $000	Total $000
Assets								
Cash and Cash Equivalents	n/a	7,636	-	-	-	-	556	8,192
Short Term Deposits	3.8	49,729	-	-	-	-	11,035	60,764
Investment Securities	0.2	27	-	-	-	1,302	30,849	32,178
Other Financial Assets	5.9	71,624	7,361	43,348	19,912	17,228	-	159,473
Trade and Other Receivables	n/a	-	-	-	-	-	1,218	1,218
Loans and Advances	7.6	616,211	72,547	179,601	229,206	47,914	-	1,145,479
Derivatives[7]	n/a	-	-	-	-	-	1,103	1,103
Other Assets	n/a	-	-	-	-	-	13,263	13,263
Total Assets		745,227	79,908	222,949	249,118	66,444	58,024	1,421,670
Liabilities and Members' Reserves								
Deposits	4.8	612,763	252,682	176,891	19,147	11,388	60,899	1,133,770
Secured Borrowings	3.9	140,227	-	-	-	-	(152)	140,075
Owing to PIE Term Fund	5.1	920	2,911	1,736	86	-	(254)	5,399
Derivatives[7]	n/a	-	-	-	-	-	2,315	2,315
Trade and Other Payables	n/a	-	-	-	-	-	4,624	4,624
Employee Entitlements	n/a	-	-	-	-	-	1,388	1,388
Capital Notes	6.4	-	-	-	3,493	3,208	(66)	6,635
Other Liabilities	n/a	-	-	-	-	-	6,284	6,284
Members' Reserves	n/a	-	-	-	-	-	121,180	121,180
Total Liabilities and Members' Reserves		753,910	255,593	178,627	22,726	14,596	196,218	1,421,670
Net derivative notional principals[8]		(161,150)	-	-	68,708	92,442	-	-

7 Derivatives include interest rate swaps, which are used to hedge against the price risk (interest rate risk). The instruments are repriced every 3 months, with a maximum maturity date of December 2014.

8 Net derivative notional principals are the principal values of interest rate swaps at contractual repricing date less principal values at maturity date.

(a) Interest Rate Repricing Schedule (continued)

As at 31 March 2011 (audited)	Effective Interest Rate %	Up to 3 Months $000	3–6 Months $000	6–12 Months $000	1–2 Years $000	Over 2 Years $000	Non Interest Bearing $000	Total $000
Assets								
Cash and Cash Equivalents	2.5	4,093	-	-	-	-	1,504	5,597
Short Term Deposits	3.9	56,177	24,188	3,416	-	-	-	83,781
Investment Securities	0.2	27	-	-	-	1,231	32,399	33,657
Other Financial Assets	5.9	104,480	-	11,265	16,813	17,190	-	149,748
Trade and Other Receivables	n/a	-	-	-	-	-	1,459	1,459
Loans and Advances	7.3	812,521	71,962	108,014	141,127	30,274	-	1,163,898
Derivatives[9]	n/a	-	-	-	-	-	490	490
Other Assets	n/a	-	-	-	-	-	13,303	13,303
Total Assets		977,298	96,150	122,695	157,940	48,695	49,155	1,451,933
Liabilities and Members' Reserves								
Deposits	4.9	589,656	229,959	219,619	39,670	19,621	64,278	1,162,803
Secured Borrowings	3.9	139,591	-	-	-	-	(749)	138,842
PIE Term Fund Borrowings	5.2	2,323	1,462	968	45	-	(221)	4,577
Derivatives[9]	n/a	-	-	-	-	-	1,893	1,893
Trade and Other Payables	n/a	-	-	-	-	-	5,470	5,470
Employee Entitlements	n/a	-	-	-	-	-	1,693	1,693
Capital Notes	8.4	-	1,172	-	2,695	2,834	(26)	6,675
Other liabilities	n/a	-	-	-	-	-	5,976	5,976
Members' Reserves	n/a	-	-	-	-	-	124,004	124,004
Total Liabilities and Members' Reserves		731,570	232,593	220,587	42,410	22,455	202,318	1,451,933
Net derivative notional principals[10]		7,850	-	19,167	20,471	(47,488)	-	-

9 Derivatives include interest rate swaps, which are used to hedge against the price risk (interest rate risk). The instruments are repriced every 3 months, with a maximum maturity date of December 2014.

10 Net derivative notional principals are the principal values of interest rate swaps at contractual repricing date less principal values at maturity date.

(b) Contractual Maturity Analysis

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

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

The contractual maturity analysis is not used by the Group to manage liquidity. Instead cash flow mismatch analysis is used, as outlined in note 17.

As at 30 September 2011 (unaudited)	On Demand $000	Within 6 Months $000	6-12 Month $000s	1-2 Year $000s	Over 2 Years $000	No Maturity $000	Total $000
Assets							
Cash and Cash Equivalents	6,838	-	-	-	-	-	6,838
Short Term Deposits	2,833	90,827	-	-	-	-	93,660
Investment Securities	-	3,302	2,080	3,546	41,512	-	50,440
Other Financial Assets	-	41,169	28,489	20,067	19,272	-	108,997
Trade and Other Receivables	-	1,102	-	-	-	-	1,102
Loans and Advances	-	79,324	41,582	78,615	1,758,142	-	1,957,663
Derivatives	-	101	36	73	36	-	246
Total Financial Assets	9,671	215,825	72,187	102,301	1,818,962	-	2,218,946
Liabilities							
Deposits	362,926	585,518	166,014	59,971	33,242	-	1,207,671
Secured Borrowings	-	2,643	42,030	3,346	168,341	-	216,360
PIE Term Fund Borrowings	-	3,566	1,988	222	-	-	5,776
Derivatives	-	720	428	452	205	-	1,805
Trade and Other Payables	-	4,049	-	-	-	-	4,049
Employee Entitlements	-	1,699	-	-	-	-	1,699
Life Insurance Net Policy Liabilities	-	-	-	-	-	5,447	5,447
Capital Notes	-	275	3,765	276	3,751	-	8,067
Total Financial Liabilities	362,926	598,470	214,225	64,267	205,539	5,447	1,450,874
Undrawn Commitments	20,894	13,711	-	-	-	-	34,605

(b) Contractual Maturity Analysis (continued)

As at 30 September 2010 (unaudited)	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	8,192	-	-	-	-	-	8,192
Short Term Deposits	11,035	50,512	-	-	-	-	61,547
Investment Securities	-	63	36	72	40,321	-	40,492
Other Financial Assets	-	18,582	86,210	34,920	32,298	-	172,010
Trade and Other Receivables	-	1,218	-	-	-	-	1,218
Loans and Advances	-	79,246	42,159	83,163	1,791,512	-	1,996,080
Derivatives	-	242	97	479	313	-	1,131
Total Financial Assets	19,227	149,863	128,502	118,634	1,864,444	-	2,280,670
Liabilities							
Deposits	348,607	591,409	181,137	20,066	11,456	-	1,152,675
Secured Borrowings	-	2,985	2,758	142,539	-	-	148,282
PIE Term Fund Borrowings	-	3,888	1,809	85	-	-	5,782
Derivatives	-	968	647	653	62	-	2,330
Trade and Other Payables	-	4,624	-	-	-	-	4,624
Employee Entitlements	-	1,387	-	-	-	-	1,387
Life Insurance Net Policy Liabilities	-	-	-	-	-	6,285	6,285
Capital Notes	-	275	275	4,039	4,026	-	8,615
Total Financial Liabilities	348,607	605,536	186,626	167,382	15,544	6,285	1,329,980
Undrawn Commitments	20,799	13,210	-	-	-	-	34,009

As at 31 March 2011 (audited)	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	5,597	-	-	-	-	-	5,597
Short Term Deposits	8,621	72,640	3,507	-	-	-	84,768
Investment Securities	-	63	36	2,572	37,785	-	40,456
Other Financial Assets	-	82,931	13,125	31,364	31,491	-	158,911
Trade and Other Receivables	-	1,459	-	-	-	-	1,459
Loans and Advances	-	80,140	41,591	81,288	1,777,486	-	1,980,505
Derivatives	-	217	54	110	118	-	499
Total Financial Assets	14,218	237,450	58,313	115,334	1,846,880	-	2,272,195
Liabilities							
Deposits	356,319	546,415	227,579	42,082	10,578	-	1,182,973
Secured Borrowings	-	2,972	2,714	59,833	187,287	-	252,806
PIE Term Fund Borrowings	-	3,816	1,022	47	-	-	4,885
Derivatives	-	729	477	551	154	-	1,911
Trade and Other Payables	-	5,470	-	-	-	-	5,470
Employee Entitlements	-	1,693	-	-	-	-	1,693
Life Insurance Net Policy Liabilities	-	-	-	-	-	5,976	5,976
Capital Notes	-	273	273	3,901	3,887	-	8,334
Total Financial Liabilities	356,319	561,368	232,065	106,414	201,906	5,976	1,464,048
Undrawn Commitments	21,281	12,326	-	-	-	-	33,607

(c) Cash Flow Mismatch Analysis

As set out on page 20, the Group manages cash flow mismatches by modelling cash flows on a monthly basis to ensure, subject to conservative reinvestment and other assumptions, that cumulative cash outflows are no more than cumulative cash inflows, over a 6 month period. The 7-12 month cash flows are also monitored to assess the Group's future ability to meet this requirement;

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

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

- Borrowing and lending amounts are based on undiscounted principal cash flows. The majority of loans are expected to be repaid earlier than their contractual term.
- Retail deposits are primarily term deposits. The expected maturities of both call and term deposits are derived using appropriate reinvestment rates.
- Most Short Term Deposits, Investment Securities and Other Financial Assets are considered to be realisable within 1 month.
- Other inflows and outflows include cash flows from other assets and liabilities, interest and non-interest income, as well as interest costs and other expenses.
- Our cash flow management is adjusted for off Balance Sheet cash flows such as the unutilised wholesale facility and undrawn loan commitments.

As at 30 September 2011 (unaudited)	**Within 1 Month $000**	**1-6 Months $000**	**7-12 Months $000**
Assets			
Cash	1,626	-	-
Short Term Deposits, Investment Securities and Other Financial Assets	214,505	6,927	-
Loans and Advances	12,136	60,681	72,817
Undrawn Wholesale Funding	82,500	-	-
Other Inflows	10,285	48,587	52,918
Cash Inflows	321,052	116,195	125,735
Cumulative Inflows	321,052	437,247	562,982
Liabilities			
Deposits	32,238	169,031	118,935
Wholesale Funding	-	7,212	6,509
Capital Notes	-	-	3,493
Other outflows	10,502	50,221	55,585
Undrawn Commitments	3,134	-	-
Cash Outflows	45,874	226,464	184,522
Cumulative Outflows	45,874	272,338	456,860
Net Cumulative Inflow	275,178	164,909	106,122

(c) Cash Flow Mismatch Analysis (continued)

As at 31 March 2011 (audited)	Within 1 Month $000	1-6 Months $000	7-12 Months $000
Assets			
Cash	2,054	-	-
Short Term Deposits, Investment Securities and Other Financial Assets	245,614	7,647	-
Loans and Advances	12,004	60,018	72,022
Undrawn Wholesale Funding	71,700	-	-
Other Inflows	10,132	49,477	54,779
Cash Inflows	341,504	117,142	126,801
Cumulative Inflows	341,504	458,646	585,447
Liabilities			
Deposits	33,414	155,219	128,141
Wholesale Funding	-	8,275	7,469
Capital Notes	-	-	-
Other outflows	10,917	53,073	59,242
Undrawn Commitments	3,081	-	-
Cash Outflows	47,412	216,567	194,852
Cumulative Outflows	47,412	263,979	458,831
Net Cumulative Inflow	294,092	144,667	126,616

(d) Carrying Amount and Fair Value

	30 September 2011 Unaudited		30 September 2010 Unaudited		31 March 2011 Audited	
	Carrying Amount $000	**Fair Value $000**	**Carrying Amount $000**	**Fair Value $000**	**Carrying Amount $000**	**Fair Value $000**
Cash and Cash Equivalents (i)	6,838	6,838	8,192	8,192	5,597	5,597
Short Term Deposits (i)	92,665	92,665	60,764	60,764	83,781	83,781
Investment Securities (i) (iii)	43,028	43,028	32,178	32,178	33,657	33,657
Other Financial Assets (ii)	103,504	103,298	159,473	157,908	149,748	148,827
Trade and Other Receivables (i)	1,103	1,103	1,218	1,218	1,459	1,459
Loans and Advances (ii) (iv)	1,189,977	1,221,498	1,145,479	1,171,011	1,163,898	1,215,950
Derivative Financial Assets (i)	237	237	1,103	1,103	490	490
Members' Deposits (ii) (v)	(1,189,707)	(1,191,792)	(1,133,770)	(1,135,444)	(1,162,803)	(1,165,361)
Secured Borrowings (ii) (v)	(112,873)	(112,868)	(140,075)	(140,073)	(138,842)	(138,839)
PSIS PIE Term Fund (ii) (vi)	(5,468)	(5,473)	(5,399)	(5,397)	(4,577)	(4,586)
Derivative Financial Liabilities (i)	(1,786)	(1,786)	(2,315)	(2,315)	(1,893)	(1,893)
Trade and Other Payables (i)	(4,049)	(4,049)	(4,624)	(4,624)	(5,470)	(5,470)
Employee Entitlements (i)	(1,699)	(1,699)	(1,388)	(1,388)	(1,693)	(1,693)
Capital Notes (ii) (vii)	(6,679)	(7,055)	(6,635)	(7,093)	(6,675)	(7,065)

Fair Value Assumptions

(i) Cash and Cash Equivalents, short term deposits, investment securities, derivatives, trade and other receivables, trade and other payables and employee entitlements are either fair valued or stated at approximate fair value on the Balance Sheet. The fair value for instruments at amortised cost (including cash, trade and other receivables, trade and other payables and employee entitlements) is determined by using discounted cash flow models incorporating market observable data for similar instruments. The fair value of short term deposits and investment securities is also determined using discounted cash flow models incorporating market observable data for similar instruments. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates. Interest rate options are valued using option pricing models.

(ii) The fair value of financial instruments is calculated using discounted cash flow models incorporating market observable data for similar assets or liabilities. The market observable discount rates for other financial assets range from 2.85 % to 7.72% (September 2010: 3.22% to 8.87%; March 2011: 3.34% to 8.87%).

(iii) Securities are valued at the quoted prices in active markets for similar assets.

(iv) The fair value of Loans and Advances is based on the interest rate re-pricing and maturity profile of the financial assets. Discount rates applied in this calculation are from 5.65% to 18.5% (September 2010: 6.2% to 18.5%; March 2011: 5.65% to 18.5%). The expected credit loss rates range from 0.1% to 1.2% (September 2010: 0.1% to 1.6%; March 2011: 0.18% to 1.2%).

(v) The fair value of all financial liabilities is based on the interest rate re-pricing and maturity profile of the instruments. The discount rates applied in this calculation range from 2% to 5.75% (September:2010 3% to 6.6%; March 2011: 2% to 6%).

(vi) The fair value of the PIE Term Fund is based on the interest rate re-pricing and maturity profile of the instruments. The discount rates applied in this calculation range from 3.9% to 4.8 % (September 2010: 5.4% to 5.6%; March 2011: 3.6% to 5.2%).

(vii) The fair value of Capital Notes is based on the interest rate re-pricing and maturity profile of the instruments. The discount rates applied in this calculation range from 3.7% to 4.3% (September 2010: 4.2% to 4.7%; March 2011: 4.2% to 4.7%).

Fair value measurements recognised in the Balance Sheet

Under NZ IFRS 7, the fair value of financial instruments is determined on a hierarchical basis that reflects the significance of the inputs used in making the measurements. The fair value hierarchy is:

- 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 financial instruments recognised on the Balance Sheet at fair value sit within Level 2, other than Assets Backing Life Insurance Contracts, whose fair values sit within Level 1.

(e) Geographical Distribution of Loans and Advances

	Consolidated		
	Unaudited 6 months 30/09/2011 $000	Unaudited 6 months 30/09/2010 $000	Audited 12 months 31/03/2011 $000
North Island	919,544	882,158	895,108
South Island	270,433	263,321	268,790
	1,189,977	1,145,479	1,163,898

(f)Concentration of Funding

Deposits (i)	1,189,707	1,133,770	1,162,803
Registered banks (ii)	40,043	140,075	54,385
Financial Investors (iii)	72,830	-	84,458
PSIS PIE Term Fund (iv)	5,468	5,399	4,577
Capital Notes (v)	6,679	6,635	6,675
	1,314,727	1,285,879	1,312,898

Funding comprises Members' deposits, secured borrowings and capital notes and is presented at amortised cost.

(i) All deposits are First Ranking Stock, secured, and issued, under the PSIS Trust Deed. Geographical distribution of Funding is shown below.

(ii) 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, amongst others, Westpac. The relevant security interest is held by a special purpose security trustee rather than Westpac in its own right, but Westpac is the principal beneficiary of that security interest.

(iii) The securitised receivables that have been sold to the Bond Trust have been secured by the Trustee of the Bond Trust for the benefit of the bondholders. The Class A bondholders rank in priority of entitlement to payment ahead of the Class B bondholder. 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.

(iv) The PIE Term Fund has invested solely in First Ranking Stock ("Stock"), secured, and issued under the PSIS Trust Deed. The Stock that the PIE Term Fund invests in ranks equally in all respects with all other Stock, but behind prior charges permitted by the PSIS Trust Deed and creditors required by law to be paid in priority to secured creditors.

(v) The Capital Notes are unsecured subordinated obligations.

(g) Geographical Distribution of Funding

	Consolidated		
	Unaudited 6 months 30/09/2011 $000	Unaudited 6 months 30/09/2010 $000	Audited 12 months 31/03/2011 $000
North Island	1,000,456	997,992	1,009,595
South Island	287,771	261,946	276,384
Overseas	26,500	25,941	26,919
	1,314,727	1,285,879	1,312,898

(h) Concentration of Credit Exposures

Cash and Cash Equivalents	6,838	8,192	5,597
Government, Local Authority and State Owned Enterprises	56,311	1,329	1,258
Registered Banks – subordinated debt	16,482	27,531	25,659
Registered Banks - other	132,434	161,608	196,553
Other Corporate Investments	33,971	61,944	43,716
Residential Mortgage Lending – 1st mortgage	1,056,371	1,020,809	1,030,488
Residential Mortgage Lending – other security	21,221	4,944	16,437
Secured Consumer Loans	60,434	66,955	64,715
Unsecured Loans	51,950	52,772	52,259
Trade and Other Receivables	1,103	1,218	1,459
Undrawn Commitments	34,605	34,009	33,607
	1,471,720	1,441,311	1,471,748

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

Other Corporate Investments include the following industries: Manufacturing (49%); Telecommunications (36%); Investment Banks (11%).

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

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

Peak end of day credit exposures:	**Unaudited** During the half year ended 30 September 2011		**Unaudited** During the half year ended 30 September 2010		**Audited** During the year ended 31 March 2011	
Percentage of Members'	Number of Counterparties		Number of Counterparties		Number of Counterparties	
reserves and funds	**Bank**	**Other**	**Bank**	**Other**	**Bank**	**Other**
10% to 14%	-	-	-	-	-	-
15% to 19%	-	1	-	-	-	1
20% to 24%	-	-	-	1	-	-
25% to 29%	-	-	-	-	-	-
30% to 34%	-	-	-	-	-	-
45% to 49%	-	-	-	-	-	-
70% to 75%	-	-	-	-	-	-

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

As at Reporting Date:

	Unaudited As at 30 September 2011		**Unaudited** As at 30 September 2010		**Audited** As at 31 March 2011	
Percentage of Members'	Number of Counterparties		Number of Counterparties		Number of Counterparties	
reserves and funds	**Bank**	**Other**	**Bank**	**Other**	**Bank**	**Other**
10% to 14%	-	1	-	-	-	1
15% to 19%	-	-	-	1	-	-
20% to 24%	-	-	-	-	-	-
25% to 29%	-	-	-	-	-	-
30% to 34%	-	-	-	-	-	-
34% to 39%	-	-	-	-	-	-
40% to 44%	-	-	-	-	-	-

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

All of the individual counterparties included in "Bank" in the above tables are banks that have a long term Standard & Poor's investment grade rating equivalent to A- or short term investment grade rating of A3 or below, or its equivalent.

All of the individual counterparties included in "Other" include non-banks that have a long term Standard & Poor's Rating Services Limited ("Standard & Poor's") investment grade rating equivalent to A- or short term investment grade rating of A3 or above, or its equivalent.

The comparative information for March 2011 has been amended to reflect the categories stated above per the "Order".

(i) Credit Exposures to Connected Persons

	Unaudited 6 months 30/09/2011 $000	Unaudited 6 months 30/09/2010 $000	Audited 12 months 31/03/2011 $000
As at the reporting date			
• Amount	-	438,563	-
• Percentage of tier one capital	-	0.4%	-
Peak end-of-day credit exposure			
• Amount	-	528,485	525,730
• Percentage of tier one capital	-	0.5%	0.4%

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

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

18. PSIS Life Limited

PSIS Life Limited ("PSIS Life") forms part of the Group. PSIS Life offers Life Plus, Loan Plus and Loan Care insurance products.

PSIS Life Actuarial Information

Policy liabilities for the single premium Loan Plus have been determined using the "accumulation" method outlined in Professional Standard no. 3 of the New Zealand Society of Actuaries. The policy liability equals the unearned premium, amortised on a straight line basis, with a separate deferred acquisition cost asset held in respect of unexpensed commission and other acquisition costs.

Policy liabilities for the regular premium Life Care and Life Plus business, and for the single premium Loan Care business, have been determined on the basis of the projection method in terms of NZ IFRS 4. The provision comprises a best estimate liability, plus the value of future profit margins set so that profits emerge evenly over the life of the policy. The profit carrier is gross death plus trauma claims (Life Care and Life Plus), and death claims (Loan Care).

A provision is retained for claims incurred but not reported ("IBNR"), based on previous claim reporting patterns.

The valuation of policy liability as at 30 September 2011 has been calculated in accordance with NZ IFRS 4 of the New Zealand Institute of Chartered Accountants, and Professional Standard no. 3 of the New Zealand Society of Actuaries. The actuarial valuation of the policy liabilities relating to the position at 30 September 2011 was dated 9th October 2011. The actuarial report was prepared by Peter Davies, B.Bus.Sc, FIA, FNZSA, who is satisfied with the nature, sufficiency and accuracy of the data. There were no qualifications in the actuarial report. Peter Davies is a professional adviser to PSIS Life Limited. He is not, nor is he intended to be, a director, official or employee of any entity within, or related to the Company.

The basis used for the calculation of policy liabilities under the projection method, and for the loss recognition test of the Loan Care business valued using the accumulation method, was as follows:

	Unaudited 30/09/2011	Unaudited 30/09/2010	Audited 31/03/2011
Interest (net of tax):			
Loan Care:	2.19%	4.33%	2.68%
Loan Plus:	1.81%	3.10%	1.86%
Life Care and Life Plus:	3.16%	3.62%	4.05%

Mortality:	
Life Care and Life Plus:	80% of NZ97 (mortality experience of NZ insured lives 1993-1997) with smoker / non-smoker adjustments, and selection adjustments (March 2011: no change)
Loan Plus:	55% of NZ97 (March 2011: no change)
Life Plus:	55% of NZ97 (March 2011: no change)
Morbidity – Life Care and Life Plus trauma:	90% of reinsurance rates (March 2011: no change)
Cancellation rates – Life Care and Life Plus:	Varying by age, 15% p.a. at age 25, reducing to 5% p.a. at age 65. (no change)
Surrenders – Loan Plus:	30% per annum (March 2011: no change)
Surrenders – Loan Care:	Mortgages: 12.5% p.a. (March 2011: no change)
	Loans: 35% p.a. (March 2011: no change)
Surrender values:	
Loan Plus:	Issued prior to 24 August 2008: Pro-rata less fee ($100) Issued on or after 25 August 2008: Rule of 78 less fee ($100)
Loan Care:	Rule of 78 less 10%
Administration costs:	
Life Care and Life Plus renewals:	$24.00 per policy per annum (March 2011: $18.64)
Loan Plus:	$12.00 per policy per annum (March 2011: $9.32)
Loan Care:	$12.00 per policy per annum (March 2011: $9.32)
Future inflation:	2.00% per annum (March 2011: no change)

The actuary has calculated the prudential reserving requirement as at 30 September 2011 under Professional Standard no.5 of the New Zealand Society of Actuaries.

	Prudential Reserve	Assets	Surplus / (Shortfall)
Unaudited 30 September 2011	$5,021	$11,460	$6,439
Unaudited 30 September 2010	$11,280	$14,375	$3,094
Audited 31 March 2011	$5,688	$14,726	$9,038

The actuary has also calculated the solvency position under the Reserve Bank Solvency Standard for Life Insurance Business. The Minimum Solvency Capital Requirement under this standard is zero. Actual solvency capital equals $5.9m, which exceeds the overall minimum required capital of $5m by $0.9m, and exceeds the Minimum Solvency Capital Requirement by $5.9m.

Strategy for managing insurance risk

Portfolio of risks

PSIS Life issues term life cover for individuals.

Risk strategy

In compliance with contractual and policy requirements, a strategy is in place to ensure that the risks underwritten should not adversely affect PSIS Life's ability to pay benefits and claims when due. Continuous monitoring and improvement of the procedures in place is undertaken to minimise the chance of an adverse compliance or operational risk event occurring.

Reinsurance

To limit its exposure, PSIS Life has its own reinsurance program in place. PSIS Life cedes business to external entities, either by surplus or quota share arrangements.

Underwriting procedures

Strategic underwriting decisions are put into effect using the procedures detailed in PSIS Life's underwriting policy.

Claims management

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.

Investment Revenue	Unaudited 6 months 30/09/2011 $000	Unaudited 6 months 30/09/2010 $000	Audited 12 months 31/03/2011 $000
• Interest on Investment Securities	222	40	78
• Fair Value Movement on Investment Securities	276	98	24
• Interest on Other Financial Assets	-	-	203
• Intercompany	-	88	271
	498	226	576
Acquisition Costs	1,023	828	1,836
Policy Maintenance Expenses	175	4	297
PSIS Life Net Policy Liabilities			
Opening Balance	5,976	6,827	6,827
Movement in Net Policy Liabilities	(529)	(543)	(851)
Closing Balance*	5,447	6,284	5,976

* Policy liabilities are effectively on demand as any members could cancel their policies at short notice.

PSIS Life Net Policy Liabilities are secured by Assests Backing Life Insurance Contracts. Refer to Note 9 for additional information.

Sensitivity Analysis

A sensitivity analysis has been completed using a 10% change to the demographic and expense assumptions identified earlier. No impact on net policy liabilities has been identified due to the fact that for Loan Plus, policy liabilities are subject to a loss recognition test, and that for all products the policy liabilities exceed the central estimate of the present value of future net outflows by a significant margin. While the central estimate of future policy outflows varies with changes in assumptions, the policy liabilities do not. The future performance of PSIS Life insurance contracts is affected by actual experience differing from the valuation assumptions. For the Life Care, Life Plus, and Loan Care business, there is sufficient profit margin in the policy liabilities to absorb the change in the assumptions, and the policy liability is therefore unaffected.

A further sensitivity analysis has been carried out, varying the discount rate by 1%. The policy liabilities for the Loan Plus business are unaffected by this change, due to this business being valued on the accumulation method, and due to the significant margin within those liabilities. For the Life Care, Life Plus, and Loan Care business the liabilities are affected as follows:

	Discount rate before tax +1.0% $000	Discount rate before tax -1.0% $000
Life Care and Life Plus:	(133)	152
Loan Care:	(92)	96

19. Segment Reporting

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

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

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

For PSIS, the Chief Executive is the chief operating decision maker.

The segment information for the six months ended 30 September 2011 is as follows (unaudited):

	Banking $000	Insurance $000	Total $000
Interest Income	48,633	226	48,859
Interest Expense	29,136	-	29,136
Total Segment Revenue	55,739	2,463	58,202
Inter Segment Revenue	-	-	-
Reportable Segment Revenue	55,739	2,463	58,202
Depreciation and Amortisation	1,905	-	1,905
Fair Value Movement on Investments	(104)	276	172
Reportable Segment Net Profit/(Loss) Before Taxation	1,314	911	2,225
Total Assets	1,441,963	11,460	1,453,423
Total Liabilities	1,322,687	5,021	1,327,708

The segment information for the six months ended 30 September 2010 is as follows (unaudited):

Interest Income	50,604	354	50,958
Interest Expense	28,350	-	28,350
Total Segment Revenue	56,225	3,798	60,023
Inter Segment Revenue	-	(139)	(139)
Reportable Segment Revenue	56,225	3,659	59,884
Depreciation and Amortisation	1,901	-	1,901
Fair Value Movement on Investments	(584)	-	(584)
Reportable Segment Net Profit/(Loss) Before Taxation	4,546	1,234	5,780
Total Assets	1,407,269	14,401	1,421,670
Total Liabilities	1,294,601	5,889	1,300,490

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

Interest Income	103,440	576	104,016
Interest Expense	60,722	-	60,722
Total Segment Revenue	115,022	7,396	122,418
Inter Segment Revenue	-	(271)	(271)
Reportable Segment Revenue	115,022	7,125	122,147
Depreciation and Amortisation	3,687	-	3,687
Fair Value Movement on Investments	696	-	696
Reportable Segment Net Profit/(Loss) Before Taxation	7,891	1,454	9,345
Total Assets	1,437,207	14,726	1,451,993
Total Liabilities	1,322,241	5,688	1,327,929

20. Capital Adequacy

The Banking Group's objectives in relation to the management of capital adequacy are to comply at all times with the regulatory capital requirements set out by the Reserve Bank, 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 Reserve Bank. The Reserve Bank has set minimum regulatory capital requirements for banks that are consistent with the international agreed framework developed by the Basel Committee on Banking Supervision. 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 Reserve Bank minimum capital adequacy ratio (as determined in its Conditions of Registration) which are as follows:

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

For regulatory purposes, capital comprises two elements, eligible tier one and tier two capital, from which certain deductions are made to arrive at tier one and tier two capital as documented in the Reserve Bank's Capital Adequacy Framework Standardised Approach (BS2A dated October 2010) the ("Standardised Approach"). Tier one capital includes revenue and similar reserves, retained profits, minority interests, less intangible assets and certain other deductions. Tier two capital is divided into two levels: upper tier two capital consists of current period profits, revaluation reserves and perpetual subordinated debt while lower tier two capital consists of term subordinated debt and other qualifying capital instruments. Tier two capital is limited to 100% of net tier one capital. Lower tier two capital is limited to 50% of tier one capital.

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

Pillar Two Capital for Other Material Risk

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

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

The Banking Group has made an internal capital buffer of $49.3 million (September 2010: $49.2 million; March 2011: $48.7 million) to cover these identified risks. This internal capital buffer is in addition to the minimum capital required by the Reserve Bank.

The Board of Directors 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 PSIS Warehouse Trust and the PSIS RMBS Trust 2010-1), are treated as part of the Registered Bank. The Registered Bank is required by generally accepted accounting practice to consolidate these special purpose vehicles in its financial statements. Solo capital adequacy is disclosed on page 43.

	Banking Group		
	Unaudited 30/09/2011 $000	**Unaudited 30/09/2010 $000**	**Audited 31/03/2011 $000**
(a) Capital			
Tier one capital			
Retained earnings	123,955	116,854	116,854
Current year's audited retained profits	-	-	7,102
Less deductions from tier one capital			
Intangible assets	(4,516)	(2,957)	(3,576)
Total tier one capital	119,439	113,897	120,380
Tier two capital			
Upper tier two capital			
Unaudited current period's retained profit	1,750	4,335	-
Revaluation reserves	4	(4)	48
Unrealised revaluation profits on security holdings at 45%	532	482	484
Total upper tier two capital	2,286	4,813	532
Lower tier two capital			
Term subordinated debt	3,256	4,280	4,280
Total tier two capital	5,542	9,093	4,812
Tier one capital plus tier two capital			
Less: Deductions from total capital			
Unrealised revaluation losses on securities holdings	(1,387)	(2,552)	(1,996)
Total Capital	123,594	120,438	123,196

(b) Credit Risk

(i) Calculation of on-balance-sheet exposures	Banking Group Total exposure after credit risk mitigation Unaudited 30/09/2011 $000	Risk weight	Risk weighted exposure Unaudited 30/09/2011 $000	Minimum pillar one capital requirement Unaudited 30/09/2011 $000
Cash	1,413	0%	-	-
Sovereigns and central banks	1,374	0%	-	-
Public sector entities	-	20%	-	-
Banks	110,792	20%	22,158	1,773
Banks	38,572	50%	19,286	1,543
Corporate	77,476	20%	15,495	1,240
Corporate	16,408	50%	8,204	656
Residential mortgages not past due (< 80% loan to value ratio)	994,241	35%	347,984	27,839
Residential mortgages not past due (80 - 90% loan to value ratio)	58,001	50%	29,001	2,320
Residential mortgages not past due (90 - 100% loan to value ratio)	19,538	75%	14,653	1,172
Residential mortgages not past due (>100% loan to value ratio)	1,362	100%	1,362	109
Past due residential mortgages	4,384	100%	4,384	351
Other assets	125,107	100%	125,107	10,009
Non-risk weighted assets	4,755	0%	-	-
Total	1,453,423		587,634	47,012

	Unaudited 30/09/2010 $000		Unaudited 30/09/2010 $000	Unaudited 30/09/2010 $000
Cash	556	0%	-	-
Sovereigns and central banks	1,329	0%	-	-
Public sector entities	-	20%	-	-
Banks	154,812	20%	30,962	2,477
Banks	41,967	50%	20,983	1,679
Corporate	51,410	20%	10,282	823
Corporate	10,533	50%	5,266	421
Residential mortgages not past due (< 80% loan to value ratio)	929,307	35%	325,257	26,021
Residential mortgages not past due (80 - 90% loan to value ratio)	64,406	50%	32,203	2,576
Residential mortgages not past due (>90% loan to value ratio)	27,427	75%	20,572	1,646
Past due residential mortgages	2,609	100%	2,609	209
Other assets	133,255	100%	133,255	10,660
Non-risk weighted assets	4,059	0%	-	-
Total	1,421,670		581,389	46,512

	Banking Group			
	Total exposure after credit risk mitigation	Risk weight	Risk weighted exposure	Minimum pillar one capital requirement
	Audited 31/03/2011		Audited 31/03/2011	Audited 31/03/2011
	$000		$000	$000
Cash	1,504	0%	-	-
Sovereigns and central banks	1,258	0%	-	-
Public sector entities	4,990	20%	998	80
Banks	182,801	20%	36,560	2,925
Banks	43,504	50%	21,752	1,740
Corporate	28,190	20%	5,638	451
Corporate	10,536	50%	5,268	421
Residential mortgages not past due (< 80% loan to value ratio)	957,614	35%	335,165	26,813
Residential mortgages not past due (80 - 90% loan to value ratio)	63,021	50%	31,510	2,521
Residential mortgages not past due (>90% loan to value ratio)	23,291	75%	17,468	1,397
Past due residential mortgages	2,998	100%	2,998	240
Other assets	128,160	100%	128,160	10,253
Non-risk weighted assets	4,066	0%	-	-
Total	1,451,933		585,517	46,841

(ii) Banking Group's Calculation of off-balance sheet exposures

	Exposure Type	Total exposure	Credit conversion factor	Credit equivalent amount	Average risk weight	Risk weighted exposure	Minimum pillar one capital requirement
		$000		$000		$000	$000
30/09/2011	Other commitments (original maturity is more than 1 year)	34,605	50%	17,302	75%	13,045	1,044
30/09/2010		34,009	50%	17,004	76%	12,875	1,030
31/03/2011		33,607	50%	16,804	77%	12,947	1,036

The off-balance sheet exposures represent the unutilised balances of member's credit facilities (overdrafts, creditline accounts and revolving credit mortgages), and approved but not drawn loans. Approved but not drawn loans reflect management estimates based on historical experience.

(iii) Banking Group's Market related contracts

	Exposure Type	Total exposure	Credit conversion factor	Credit equivalent amount	Average risk weight	Risk weighted exposure	Minimum pillar one capital requirement
		$000		$000		$000	$000
30/09/2011	Interest rate swaps	439,460	n/a	1,396	20%	279	22
30/09/2010	Interest rate swaps	398,156	n/a	3,636	20%	727	58
31/03/2011	Interest rate swaps	364,426	n/a	2,121	20%	424	34

(c) Banking Group's Operational and Market risk

	Implied risk weighted exposure			Capital requirement		
	30/09/2011	30/09/2010	31/03/2011	30/09/2011	30/09/2010	31/03/2011
	$000	$000	$000	$000	$000	$000
Operational risk	89,608	82,212	87,612	7,169	6,816	7,009
Market risk (Interest rate risk only)	14,222	29,366	24,072	1,138	2,349	1,926

The Banking Group does not have any equity or FX exposures.

(d) Banking Group's market risk end of period and peak end of day capital charges (interest rate risk)

	End of Period			Peak end of day		
	30/09/2011	30/09/2010	31/03/2011	30/09/2011	30/09/2010	31/03/2011
	$000	$000	$000	$000	$000	$000
Implied risk weighted exposure	14,222	29,366	24,072	42,371	50,833	50,883
Aggregate capital charge	1,138	2,349	1,926	3,390	4,071	4,071
Aggregate capital charge expressed as a percentage of the Banking Group's equity	0.95%	1.95%	1.6%	2.84%	3.4%	3.3%

Peak end-of-day 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 period, are derived by following the risk methodology for measuring capital requirements within Part 10 of the Standardised Approach. 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 period.

(e) Banking Group total capital requirements

	Total exposure after credit risk mitigation			Risk weighted exposure or implied risk weighted exposure			Capital requirement		
	30/09/2011	30/09/2010	31/03/2011	30/09/2011	30/09/2010	31/03/2011	30/09/2011	30/09/2010	31/03/2011
	$000	$000	$000	$000	$000	$000	$000	$000	$000
Total credit risk	1,927,488	1,853,835	1,849,966	600,958	594,991	598,888	48,078	47,600	47,911
Operational risk	n/a	n/a	n/a	89,608	82,212	87,612	7,169	6,816	7,009
Market risk	n/a	n/a	n/a	14,222	29,366	24,072	1,138	2,349	1,926
Total	1,927,488	1,853,835	1,849,966	704,788	706,569	710,572	56,385	56,765	56,846

(f) Banking Group's Capital Ratios

	30/09/2011	30/09/2010	31/03/2011
Tier one capital ratio*	16.9%	16.1%	16.9%
Total capital ratio*	17.5%	17.0%	17.3%

*Expressed as a percentage of total risk weighted exposures

(g) Solo Capital Adequacy

	30/09/2011	30/09/2010	31/03/2011
Tier one capital ratio	16.0%	15.3%	16.0%
Total capital ratio	16.7%	15.8%	16.2%

March 2011 comparative figures for Capital Adequacy have been adjusted as a result of a minor adjustment to the market risk calculation.

21. Subsequent Events

On the 26th of October PSIS Limited became a registered bank and changed its name to The Co-operative Bank Limited. PSIS Life Limited changed its name to Co-operative Life Limited and PSIS PIE Term Fund changed its name to Co-operative PIE Term Fund.

INDEPENDENT ACCOUNTANT'S REVIEW REPORT TO THE SHAREHOLDERS OF THE CO-OPERATIVE BANK LIMITED

We have reviewed the accompanying Disclosure Statement of The Co-operative Bank Limited (the "Registered Bank") and its subsidiaries (the "Banking Group") which consists of the condensed interim financial statements of the Banking Group on pages 9 to 43 and the supplementary information required to be disclosed under Schedules 3, 5, 7, 9, 13, 16 and 18 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No 3) 2011 (the "Order").

The condensed interim financial statements comprise the condensed balance sheet of The Registered Bank, as at 30 September 2011, the condensed statement of comprehensive income, condensed statement of changes in members' reserves and condensed statement of cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory information.

The Co-operative Bank Limited changed its name from PSIS Limited to The Co-operative Bank Limited on 26 October 2011.

Directors' Responsibilities

The Board of Directors is responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice, of condensed interim financial statements which present fairly the financial position of the Banking Group as at 30 September 2011 and the results of operations and cash flows for the six months ended on that date.

The Directors are also responsible for the preparation and presentation of supplementary information which fairly states the matters required to be disclosed under Schedules 3, 5, 7, 9, 13, 16 and 18 of the Order and which is prepared in accordance with any guidelines issued pursuant to Section 78(3) of the Reserve Bank of New Zealand Act 1989 and any Conditions of Registration.

Reviewer's Responsibilities

We are responsible for reviewing the condensed interim financial statements presented by the Directors in order to report to you whether, in our opinion on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the condensed interim financial statements have not been prepared, in all material respects, in accordance with New Zealand Equivalent to International Accounting Standard 34: Interim Financial Reporting and do not present fairly the matters to which they relate.

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

We are also responsible for reviewing the supplementary information presented by the Directors relating to Capital Adequacy in order to report to you whether in our opinion, on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the information is not in all material respects prepared in accordance with the Registered Bank's Conditions of Registration and disclosed in accordance with Schedule 9.

Deloitte.

We conducted our review in accordance with the Review Engagement Standards issued by the New Zealand Institute of Chartered Accountants. These standards require that we plan and perform the review to obtain moderate assurance as to whether the information is free from material misstatement. A review is limited primarily to enquiries of the Banking Group personnel and analytical review procedures applied to financial data, and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Independence

Our firm has also provided audit related services to the Registered Bank and Banking Group and carries out other assignments in the areas of risk management and support to the Banking Group's internal audit programme. Partners and employees of our firm may also deal with the Registered Bank and Banking Group on normal terms within the ordinary course of trading activities of the business of the Registered Bank and Banking Group. These matters have not impaired our independence as auditors of the Registered Bank and Banking Group. The firm has no other relationship with, or interest in, the Registered Bank and Banking Group.

Opinion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that:

- the condensed interim financial statements on pages 9 to 43 have not been prepared, in all material respects, in accordance with NZ IAS 34: Interim Financial Reporting and IAS 34: Interim Financial Reporting and do not present fairly the financial position of the Banking Group as at 30 September 2011 and the results of operations and cash flows for the six months ended on that date;

- the supplementary information disclosed in accordance with Schedules 5, 7, 13, 16, and 18 of the Order does not fairly state the matters to which it relates in accordance with those Schedules; and

- the supplementary information disclosed on pages 38 to 43 relating to Capital Adequacy as required by Schedule 9 of the Order, is not in all material respects prepared in accordance with the Registered Bank's Conditions of Registration and disclosed in accordance with Schedule 9 of the Order.

Deloitte

Chartered Accountants
30 November 2011
Wellington, New Zealand