

ANNUAL REPORT 2015
60 years serving your community



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FIRST CREDIT UNION DIRECTORY

Board of Directors

Chair

Simon Scott

Deputy Chair

Edgar Wilson

Secretary/ Treasurer

Peter Iles

Directors

John Harvey

Paul O'Connor

Kathy Robb

Judith Taane

Malcolm Blair

Executive Management

General Manager

Peter Iles

Assistant General Manager

Terry Edwards

2015 Director Attendance

Director	Board Meetings Eligible to Attend	Board Meetings Attended
Simon Scott	12	12
Peter Iles	12	12
Judith Taane	12	12
Kathy Robb	12	9
Paul O'Connor	12	11
Edgar Wilson	12	10
John Harvey	12	9
Malcolm Blair	5	5

CHAIR'S REPORT



SIMON SCOTT
Chair of Directors

On behalf of the Board of Directors it is my pleasure to present to you the **60th First Credit Union Annual Report** for the year ended 30 June 2015

Financial and Operating Performance

As at 30 June 2015 First Credit Union:

- Had an operating surplus of \$2.4 million
- \$295 million in assets
- Member shares of \$242 million
- A loan book worth \$183 million

We paid \$8.7 million worth of interest on member shares.

First Credit Union paid members \$8.7 million worth of interest this year

Compliance

First Credit Union's Board and Management continue to ensure that we remain compliant and competitive in a rapidly changing business environment by keeping abreast of all regulatory changes that our credit union operates in.

First Credit Union has complied with all regulatory requirements in the 2014/2015 year including:

- Non-bank Deposit Takers Act 2013
- Anti Money Laundering and Countering the Financing of Terrorism Act 2009
- Foreign Account Tax Compliance Act 2010, a US law that came into force in NZ in 2014
- Financial Service Providers (Registration & Dispute Resolution) Amendment Act 2014
- Financial Markets Conduct Act 2013
- Financial Reporting Act 2013

Non-bank Deposit Taker's license

First Credit Union received its Non-bank Deposit Taker's license on 5 March 2015 by the Reserve Bank of New Zealand. First Credit Union has systems in place to ensure compliance with the regulatory requirements which are audited on an on-going basis by the Internal Audit team and annually by the External Auditor.

Audit Committee

The Board Audit Committee meets regularly and the primary role of the Committee is to review the actions of the Directors and Management in carrying out their responsibilities as they relate to the internal controls, rules and legislative compliance of First Credit Union and its business activities.

I would like to thank my fellow Directors, Management team and all the staff at First Credit Union for their hard work this year.

Simon Scott,
CHAIR 2015

THE YEAR BY NUMBERS

105 # of schools participating in our school banking programme

\$69.21m amount members borrowed off us

60 # of prizes we gave away to celebrate our birthday

\$40m amount we grew the loan book by

25.91% of members have a debit card

2.5m profit

6,610 members using our Mobile Banking App

\$242m member shares

61,408
members

\$295M
in assets

MESSAGE FROM OUR GENERAL MANAGER

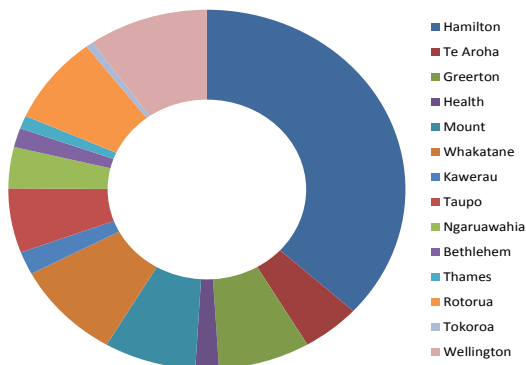


PETER ILES
General Manager

First Credit Union had another busy, but successful year ended 30 June 2015

Membership

As at 30 June 2015 First Credit Union had 61,408 members, represented at a branch level as:



Celebrating 60 years of service

This year First Credit Union celebrated 60 years of serving our local communities. To celebrate this milestone with our members we gave away a prize a day for 60 days and our branches hosted events for their members on our birthday (Friday 10th July).

Congratulations to the members who won one of the amazing prizes up for grabs and thanks to all the members who turned up at their nearest branch to celebrate with us.



Transfer of Engagements

We welcomed two credit unions into the First Credit Union family when they transferred engagements to us this financial year.

NZCU Rotorua was the first to transfer on 01 November 2014, followed by United Credit Union on 01 February 2015.

As a result of these transfers First Credit Union members now have access to a greater branch and ATM network across the North Island.

I would like to take this opportunity to thank the staff and members of these credit unions for making the transfers as smooth as possible for everyone.

The year ahead

We will continue to explore ways to improve the way we serve our members and our products and services.

The online environment provides us with a challenging, but exciting opportunity to better serve our members.

I would like to thank Board, Management, Staff and especially our members for making the year ended 30 June 2015 another successful year for our credit union.

Peter Iles
GENERAL MANAGER



TRUSTEE'S REPORT



EDGAR WILSON
Trustee

First Credit Union's loan book continues to grow and we have seen further increases in the number of applications we receive via the online channel

At the end of the 2014/2015 financial year First Credit Union's:

- Risk weighted capital was 17.55%, with capital quality remaining unchanged
- Liquidity reserves (cash) is now \$100 million (last year \$97 million), or 34% of our total assets

First Credit Union Management monitors the Credit Union's liquidity on a daily basis and liquidity is reviewed and reported to the Board of Directors, Trustee and the RBNZ each month.

For the period ended 30 June 2015 First Credit Union:

- Received 9,784 loan applications through our online channel
- Disbursed \$51,937,417 in personal loans
- Had an average loan disbursement of \$2,956.46
- Had a loan book that was represented by 54% personal loans and 46% mortgages

"Lending continues to be First Credit Union's major business activity"

Lending

First Credit Union has a loans driven growth strategy and as such, lending continues to be First Credit Union's major business activity.

The credit union has always taken a conservative approach in the application of their Loan Policy.

Responsible lending is important to First Credit Union and our lending is based on our philosophy of people helping people. This approach has been validated more so with the introduction of the Responsible Lending Code which came into effect on 01 June 2015.

The following loan types made up First Credit Union's lending as at 30 June 2015:



Edgar Wilson
Trustee

CELEBRATING 60 YEARS



60 years at a glance

- 1955** July- St Mary's Parish Credit Union was formed
August-First loan granted for £100
- 1961** NZ Credit Union League formed, St Mary's was the first affiliated credit union
- 1962** School Banking Programme introduced to local Hamilton schools
- 1963** Name changed to St Mary's Hamilton Credit Union
- 1966** Colin Smith appointed General Manager
- 1985** S6 Loan Provider Account created as a way to build the credit union's loan pool
- 1986** Colin Smith retires, Colin Timms appointed Manager, Peter Iles Deputy Manager
- 1990** Colin Timms retires, Peter Iles appointed Manager
- 1992** Common bond changed to include all residents within Hamilton/ Waikato region, name changed to **Credit Union Hamilton**
- 2007** Common bond changed to include all residents living in New Zealand, name changed to **First Credit Union**

"For all the progress we have made, some things remain unchanged. We're still owned by our members and offer low cost loans and great rates on savings."

Peter Iles, General Manager

IN YOUR COMMUNITY

Over the last 12 months our Community Team have been busy visiting schools, attending events & prize givings, taking part in expos, golf days, funding sports team, agricultural days, school galas and even judging a school talent quest!

Sponsorship

Balloons over Waikato is the Waikato region's iconic festival – we were excited to take part this year and sponsor the “School Hop” which involved a number of our School Banking programme schools getting a visit from a participating balloon, the pilot and their team. These visits are highly anticipated by both the school children and the pilots!

As well as being on board with the Foundation for Youth Development (FYD) Waikato and their Positive Young Star initiative for another year, we have also sponsored the Bay of Plenty Kiwi Can programme.

We have sponsored a number of community projects and charities throughout the year.

Here are just some of the events we have helped out:

- Bay of Plenty Golf Championship
- Quiz Nights
- Taupo Mid-Winter Swim
- Greerton Mainstreet Yarn Bombing
- Fairfield Primary Sports Teams
- Saints United Hockey Teams
- Flyers Basketball Club Tournament
- Special Needs Kids Family Fun Days
- Rotorua Heart Kids
- Kawerau Netball Team
- Hamilton Girls High 7's Team
- Te Teko Rugby
- Berkley Intermediate School Sports Academy
- Waikato Districts Annual Special Needs Pool Party
- Autism Rotorua Children's Party

We're not just in your community, we're a big part of it!

Kiwi Can is a primary school programme aimed at kids aged 5-12, teaching them values such as integrity and respect.

First Credit Union was proud to again sponsor the Hamilton Christmas Charitable Trust.

Our Community Team volunteered at the Carols by Candlelight event helping out backstage, working the video cameras and even supporting Santa!

We also made an appearance in the Tauranga and Ngaruawahia Christmas Parades.

Local Schools

We continue to support our school banking schools by advertising in their school newsletters, attending school galas, helping out at swimming sports and donating prizes. Our spinning wheels are often booked in advance for galas and quiz nights.

Our School Sustainability Fund assists schools in achieving their goals in environmental projects. We have helped schools this year build a seedhouse, purchase gardening equipment, build a leavers garden and purchase native plants.

We are excited to now have on board another 5 schools in our Rotorua area.

IN YOUR COMMUNITY

Putting your community first

1955-2015
60 YEARS
serving your community





Independent auditor's report

To the members of First Credit Union

We have audited the accompanying financial statements of First Credit Union ("the Credit Union") on pages 5 to 42. The financial statements comprise the statement of financial position as at 30 June 2015, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards for Public Benefit Entities) and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Credit Union's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

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

Our firm has also provided other services to the Credit Union in relation to other assurance services. Subject to certain restrictions, partners and employees of our firm may also deal with the Credit Union on normal terms within the ordinary course of trading activities of the business of the Credit Union. These matters have not impaired our independence as auditor of the Credit Union. The firm has no other relationship with, or interest in, the Credit Union.



Opinion

In our opinion, the financial statements on pages 5 to 42 comply with generally accepted accounting practice in New Zealand and present fairly, in all material respects, the financial position of First Credit Union as at 30 June 2015 and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards for Public Benefit Entities.

A handwritten signature in blue ink, appearing to read 'KPMG'.

15 September 2015
Hamilton

FIRST CREDIT UNION
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

FIRST CREDIT UNION

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FIRST CREDIT UNION

DIRECTORY

FOR THE YEAR ENDED 30 JUNE 2015

BOARD OF DIRECTORS

Chairman

Simon Scott

Secretary/Treasurer

Peter Iles

Directors

Peter Iles

John Harvey

Judith Taane

Paul O'Connor

Edgar Wilson

Kathy Robb

Malcolm Blair

Trustees

John Harvey

Edgar Wilson

Judith Taane

KEY MANAGEMENT

General Manager

Peter Iles

Assistant General Manager

Terry Edwards

Finance & Compliance Manager

Stu Geard

**Marketing & Communications
Manager**

Melissa Hay

FIRST CREDIT UNION

DIRECTORY

FOR THE YEAR ENDED 30 JUNE 2015

Auditors

**KPMG
Hamilton**

Bankers

Westpac, BNZ, ANZ

Affiliations

**New Zealand Association of
Credit Unions trading as Coop
Money NZ**

World Council of Credit Unions

FIRST CREDIT UNION

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2015

	Note	Year to 30 Jun 15 \$000	Year to 30 Jun 14 \$000
OPERATING REVENUE			
Interest Revenue	2	20,845	17,879
Interest Expenditure	2	8,743	8,154
Net Interest Margin		12,102	9,725
Other Income	2	6,249	5,696
		18,351	15,421
EXPENDITURE			
Loan Impairment Expenses	2	1,180	1,281
Employee Benefits	2	6,117	5,330
Occupancy		720	581
Depreciation	2	421	442
Amortisation Expenses	9 (a)	96	60
Other Administration Expenses	2	7,392	6,192
Total Operating Expenditure		15,926	13,886
Operating Profit for the Period Attributable to Members		2,425	1,535
OTHER COMPREHENSIVE INCOME			
Revaluation of Property	9 (b)	-	-
Total Other Comprehensive Income		-	-
Total Comprehensive Income for the Period Attributable to Members		2,425	1,535

The attached notes to the financial statements form part of and should be read in conjunction with the financial statements.

FIRST CREDIT UNION

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2015

	Note	Retained Earnings \$000	Property Revaluation Reserve \$000	Total \$000
Balance at 1 July 2014		38,656	1,338	39,994
Profit for the period attributable to members		2,425	-	2,425
Total Comprehensive Income for the Period		2,425	-	2,425
Transfer of Engagements from Credit Union Lakeland and United Credit Union	24	7,536	-	7,536
Balance at 30 June 2015	4	48,617	1,338	49,955
Balance at 1 July 2013		37,121	1,338	38,459
Profit for the period attributable to members		1,535	-	1,535
Total Comprehensive Income for the Period		1,535	-	1,535
Transfer of engagements		-	-	-
Balance at 30 June 2014	4	38,656	1,338	39,994

The attached notes to the financial statements form part of and should be read in conjunction with the financial statements.

FIRST CREDIT UNION

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2015

	Note	30 Jun 15 \$000	30 Jun 14 \$000
MEMBERS' FUNDS			
Retained Earnings	4	48,617	38,656
Property Revaluation Reserve	4	1,338	1,338
Total Members' Funds		49,955	39,994
ASSETS			
Cash and Cash Equivalents	5 (a)	4,475	2,672
Deposits at New Zealand Association of Credit Unions and Trading Banks	5 (b)	95,530	94,422
Trade and Other Receivables	6	1,189	1,178
Loans to Members	7-8	180,613	141,419
Intangible Assets	9 (a)	306	355
Property, Plant and Equipment	9 (b)	7,484	4,504
Capital Notes	10	5,410	4,666
Total Assets		295,007	249,216
LIABILITIES			
Trade and Other Payables	11	3,118	2,455
Members' Deposits	12	241,934	206,767
Total Liabilities		245,052	209,222
Net Assets		49,955	39,994

These Financial Statements are authorised for and on behalf of the Board by:

Director

Date

Director

Date

The attached notes to the financial statements form part of and should be read in conjunction with the financial statements.

FIRST CREDIT UNION

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2015

	Note	Year to 30 Jun 15	Year to 30 Jun 14
CASH FLOWS FROM OPERATING ACTIVITIES		\$000	\$000
Interest Received		21,147	17,811
Fees, Commissions and Other Income		5,520	5,315
Bad Loans Recovered		519	446
Interest Paid		(8,840)	(8,153)
Payments to Suppliers and Employers		(14,900)	(12,458)
Net Cash Provided by Operating Activities	23	3,446	2,961
CASH FLOWS FROM INVESTING ACTIVITIES			
Net Movement in Members' Loans		(16,908)	(12,240)
Purchase of Base Capital Notes		(86)	-
Proceeds from Sale of Property, Plant and Equipment		-	24
Payments for Property, Plant, Equipment and Intangibles		(3,029)	(445)
Movement in Deposits at NZACU and Trading Banks		9,017	(8,037)
Net Cash Used in Investing Activities		(11,006)	(20,698)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net Increase (Decrease) in Member Deposits		8,263	16,409
Net Cash provided by Financing Activities		8,263	16,409
Total Net Increase in Cash and Cash Equivalents Held		703	(1,328)
Cash and Cash Equivalents from Credit Union Lakeland and United Credit Union		1,100	-
Cash and Cash Equivalents at the Beginning of the Period		2,672	4,000
Cash and Cash Equivalents at the End of the Period	5(a)	4,475	2,672

The attached notes to the financial statements form part of and should be read in conjunction with the financial statements.

FIRST CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Reporting Entity

First Credit Union ("The Credit Union") is registered under the Friendly Societies and Credit Unions Act 1982. The Credit Union is an FMC reporting entity for the purposes of the Financial Markets Conduct Act 2013 and the Financial Reporting Act 2013. The financial statements comply with these acts and relevant Securities Regulations.

Nature of Business

The purpose of a Credit Union is to promote savings among its members and to use those savings for their mutual benefit. It operates primarily in the North Island of New Zealand and the Credit Union is domiciled in New Zealand. As the Credit Union is providing a community and social benefit, it is designated a public benefit entity.

The Credit Union is restricted in its borrowings, and members contribute to the Credit Union, by way of share subscriptions. The shares cannot be transferred or sold. Members are able to withdraw their funds subject to certain conditions. The Credit Union makes loans to members or invests funds on the members' behalf. Interest and other income are received by the Credit Union and interest is paid to depositing members in the form of interest on shares.

Trust Deed

To meet the requirements of The Securities Act 1978 a Trust Deed was entered into on the 2 November 2000 between the Trustees of the Credit Union and Trustees Executors Limited. During 2013 a new Trustee, Foundation Corporate Trust, was appointed to act as Trustee from 28 June 2013. Foundation Corporate Trust as the Prudential Supervisor was appointed to act in the interests of the members of the Credit Union by monitoring the compliance by the Credit Union of its obligations, its Rules, the Trust Deed and the Friendly Societies and Credit Unions Act 1982. In addition, the Prudential Supervisor is under duty to exercise reasonable diligence to ascertain whether the Credit Union has:

- (a) committed any breach of the Trust Deed or any of the conditions of issue of the shares; and
- (b) sufficient assets to meet its obligations to members, as they fall due.

1 STATEMENT OF ACCOUNTING POLICIES

The following is a summary of the significant accounting policies adopted by the Credit Union in the preparation of the financial statements for the year ended 30 June 2015. Except where stated, the accounting policies have been consistently applied to all periods presented.

(a) Basis of Preparation

These financial statements were authorised for issue by the Directors on the date set out in the Statement of Financial Position.

These financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice. They comply with the New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and other applicable Financial Reporting Standards as appropriate for public benefit entities. The financial statements also comply with the requirements of International Financial Reporting Standards ('IFRS').

The financial statements have been prepared in accordance with the historical cost convention except for certain assets which are stated at fair value as set out below. Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

FIRST CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

1 STATEMENT OF ACCOUNTING POLICIES (continued)

The External Reporting Board of New Zealand ("XRB") has released a new accounting standards framework which establishes the financial standards to be applied to entities with statutory financial reporting obligations. The Credit Union is currently reporting under NZ IFRS. Under the new XRB framework management expects that the Credit Union will be reporting under the PBE Standards as applicable for Tier 1 entities. Management expects that this will impact the preparation and disclosures included in financial statements although at this time a full assessment of the impact has not been completed.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in notes 7 and 8 and relates to measurement of loans to customers.

The presentational and functional currency is New Zealand dollars, rounded to the nearest thousand.

(b) Revenue

Loans Interest Revenue

Loan interest is calculated on the daily loan balance outstanding and is charged in arrears to the members loan account at the end of each month. Loan interest is recognised in the profit or loss using the effective interest method.

Investment Revenue

Investment interest revenue is recognised using the effective interest method which allocates the interest over the period that it relates to. Dividends on the New Zealand Association of Credit Unions Capital Notes are recorded as income once an entitlement to the income is notified to the Credit Union.

Fees & Commission Revenue

Fees and commissions are brought to account on an accrual basis once a right to receive consideration has been attained. The Credit Union does not charge loan origination fees.

(c) Interest expense

Interest on members' shares is recognised as an expense in the period that it relates to using the effective interest method, which allocates the interest expense over the term of the members' shares to which they relate.

(d) Goods & Services Tax

The Credit Union is registered for GST in relation to its commission sales activities, rental and investment income, and recovers GST on expenditure related to that income. Irrecoverable GST is included in the amounts recognised as expenses and assets.

(e) Income Tax

No amounts have been provided for Income Tax as the Credit Union's income from members is exempt under section CW 44 of the Income Tax Act 2007. Income derived, other than from members, does not produce a taxable profit.

FIRST CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

1 STATEMENT OF ACCOUNTING POLICIES (continued)

(f) Leases

Leases of property, plant and equipment are operating leases if substantial risks and benefits incidental to ownership of the asset are retained by the owner. Lease payments for operating leases are recognised as an expense on a straight line basis over the lease term in profit or loss. Lease incentives under operating leases are recognised as a liability and are amortised on a straight line basis over the life of the lease term.

(g) Intangible Assets

Intangible assets comprise Computer Software

Computer Software is capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over their expected lives on a straight line basis of 20% amortisation.

(h) Property, plant and equipment

Owned Assets

Except for land and buildings items of property, plant and equipment are measured at cost less accumulated depreciation and any impairment losses.

Historical cost includes expenditure directly attributable to the acquisition of the asset and is recognised only when it is probable that future accrued benefits associated with the item will flow to the Credit Union and the cost of the item can be measured reliably.

Land and buildings have been revalued to fair value based on market evidence as determined by an independent valuer. Land and buildings are revalued with sufficient regularity, at least every three years, to ensure that the carrying amount does not differ materially from fair value.

Subsequent costs are included in the assets carrying amount or recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Credit Union and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit and loss during the financial period in which they are incurred.

Revaluations

The results of revaluing are credited or debited to an asset revaluation reserve, where this results in a debit balance in the asset revaluation reserve this balance is expensed in profit or loss unless it reverses a previous credit to the asset revaluation reserve. Any subsequent increase or revaluation of the asset that offsets a previous decrease in value is recognised in profit or loss and will be recognised first in profit or loss up to the amount previously expensed and then credited to the revaluation reserve.

Depreciation

All assets, excluding land which is not depreciated, are depreciated to their residual value over their estimated useful lives from the time the asset is ready for use. Depreciation is charged to profit or loss.

The following rates have been used in the current and prior period:

Buildings	2% – 5%SL
Motor Vehicles	20% SL
Computer Equipment	10%-33% SL
Furniture and Fittings	5%-33% SL

The residual value, depreciation methods and useful lives are reviewed, and adjusted if appropriate, annually.

FIRST CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

1 STATEMENT OF ACCOUNTING POLICIES (continued)

(i) Impairment Testing of Non Financial Assets

The carrying amounts of the Credit Unions non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash flows from continuing use that are largely independent of the cash flows of assets or groups of assets ("the cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (group of units) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the assets carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

(j) Employee Benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave, sick leave and long service leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled on an undiscounted basis. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable. The liability for employee entitlements is carried at the present value of the estimated future cash flows.

(k) Provisions

A provision is recognised when the Credit Union has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pretax rate that reflects current market rates and, where appropriate, the risks specific to the liability. Provisions are not recognised for future operating losses.

Onerous Contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Credit Union from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Credit Union recognises any impairment loss on the assets associated with the contract.

(l) Financial Instruments Recognition

A financial instrument is recognised if the Credit Union becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Credit Union's contractual rights to the cash flows from the financial assets expire or if the Credit Union transfers the financial assets to another party without retaining control or substantially all the risks and rewards of the asset. Financial liabilities are derecognised if the Credit Union's obligations specified in the contract expire or are discharged or cancelled.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit and loss, transaction costs that are directly attributable to its acquisition or issue. Subsequent to initial recognition, financial instruments are measured as described below.

FIRST CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

1 STATEMENT OF ACCOUNTING POLICIES (continued)

A financial asset or liability are offset only when the Credit Union has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Credit Union does not hold any derivative financial instruments.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts repayable on demand.

Deposits at the New Zealand Association of Credit Unions and other banks

These are classified as loans and receivable financial assets. Deposits at the New Zealand Association of Credit Unions and other banks are subsequently measured at amortised cost using the effective interest method, less any impairment losses.

Trade and Other Receivables

These are classified as loans and receivables financial assets. These amounts represent amounts due for interest owing and other services performed by the Credit Union prior to the end of the financial period which are not received. The amounts are expected to be received within a year of recognition. They are subsequently measured at amortised cost using the effective interest method less any impairment allowance. Trade and other receivables are of a short term nature and are not discounted.

Loans to Members

Loans to members are classified as loans and receivables financial assets. Subsequent to initial recognition they are recognised at amortised cost using the effective interest method less allowance for impairment.

Capital Notes

The Capital Notes are classified as available for sale financial assets. They are initially recognised at cost price, which is their fair value at the date of acquisition plus directly attributable transaction costs.

Dividend income from available-for-sale assets is separately recognised in the profit or loss as part of Other Income when the Credit Union's right to receive payments is established (ex-dividend date).

Available-for-sale financial assets are normally carried at fair value in subsequent periods with changes in fair value being recognised in the other comprehensive income. However, as the Capital Notes are equity instruments that do not have a quoted market price in an active market and the fair value cannot be measured reliably, they are measured at cost price less impairment losses in terms of the exemption in accounting standard NZ IAS 39 (Financial Instruments – Recognition and Measurement).

The Credit Union assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of Capital Notes classified as available-for-sale, a significant or prolonged decline in the fair value of the investment below its cost is considered in determining whether the investment is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, is recognised in profit or loss.

Members' Shares (Deposits)

Members' deposits are the members' shares in the Credit Union. For the purposes of financial reporting, members' shares are recognised as debt instruments as they are essentially savings accounts in nature. They are recorded initially at fair value plus directly attributable transaction costs and subsequently at amortised cost. All payments of dividends on these shares are recorded as interest payments. Members have the right to one vote at meetings of the Credit Union, regardless of the number of shares held. Interest on deposits is brought to account on an accrual basis. Interest accrued at reporting date is shown as part of deposits.

FIRST CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

1 STATEMENT OF ACCOUNTING POLICIES (continued)

Trade and Other Payables

Trade and other payables are classified as financial liabilities. These amounts represent liabilities for goods and services provided to the Credit Union prior to the end of the financial period which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

(m) Impairment – Loans and Receivables

All loans are subject to regular management review to assess whether there is any objective evidence that any loan or group of loans is impaired. Impairment loss is measured as the difference between the loan's carrying amount and the value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loan's original effective interest rate.

Individual significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. Impairment allowance accounts are utilised.

Loans which are known to be uncollectible are written off as an expense in profit or loss. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtors credit rating), the previously recognised impairment loss is reversed by adjusting the allowance amount, with the reversal being recognised in profit or loss.

In assessing collective impairment the Credit Union uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends based on prudential standards issued by the NZACU.

Key assumptions in determining the allowance for impairment

In the first instance, and where practical, the likely impairment is calculated on an individual basis taking into account the ability of the member to continue making payments and the value of the security. Thereafter, on the balance of loans not assessed individually, the Credit Union makes a collective assessment of impairment using historical losses arising in past years relative to total loans and the length of time the loan is in arrears. The circumstances may vary for each loan over time resulting in higher or lower impairment losses.

The various components of impaired loans are as follows:

Individually impaired loans are loans and receivables for which there is reasonable doubt that the Credit Union will be able to collect all amounts of principal and interest in accordance with the terms of the agreement and for which an individual assessment of impairment is made.

Collectively impaired loans are loans and receivables that are not individually assessed for which a collective assessment of impairment is made.

Restructured loans are impaired loans where the original contractual terms have been modified to provide for concessions of interest, principal or repayment for reasons related to financial difficulties of the member.

Assets acquired through the enforcement of security are assets acquired in full or partial settlement of a loan or similar facility through the enforcement of security arrangements.

Past due but not impaired loans are loans or similar facilities in arrears when a member has failed to make payments when contractually due which are not impaired loans.

FIRST CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

1 STATEMENT OF ACCOUNTING POLICIES (continued)

(n) Business Combinations

Amalgamation of mutual entities are considered to be a business combination and are accounted for using the acquisition method. When mutual entities combine and no consideration is transferred, consideration is deemed to be the acquisition date fair value of the acquiree's equity.

Goodwill is calculated as the excess of the acquisition date fair value of the consideration given and the acquisition date fair value of the acquiree's identifiable assets acquired and liabilities assumed.

Acquisition related costs are expensed as incurred.

(o) Statement of Cash Flows

The Statement of Cash Flows is prepared using the direct approach.

Definitions of Terms Used in the Statement of Cash Flows:

"Investing Activities" are those activities relating to the acquisition and disposal of current and non-current investments and any other non-current assets. They include loans to members and repayments of loans by members.

"Financing Activities" are those activities relating to changes in the size and composition of the funding structure of the Credit Union.

"Operating Activities" include all transactions and other events that are not investing or financing activities.

Netting of Cash flows

Certain cash flows have been netted in order to provide more meaningful disclosure as many of the cash flows are received and disbursed on behalf of members and reflect the activities of the members rather than those of the Credit Union. These include members' loans and borrowings and members shares.

(p) Critical Estimates, Judgements and Assumptions in Applying the Accounting Policies

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. This has an impact on the critical estimates, being the impairment allowance on loans and receivables (refer note 8) and capital notes (refer note 10)

(q) Standards, Interpretations and Amendments to Published Standards

A number of new or revised standards are not effective for the year ended 30 June 2015, and have not been applied in preparing these financial statements. Those that are applicable to the Credit Union are:

NZ IFRS 9 - 'Financial Instruments' - effective 1 January 2017. This standard simplifies how the Credit Union should classify and measure financial assets. The Credit Union does not plan to early adopt this standard and management have not yet determined the impacts of the change.

There are a number of other standards and interpretations which are not yet effective and management consider they will have no impact on the Credit Union.

FIRST CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

2 Revenue and Expenditure

	Year to 30 Jun 15	Year to 30 Jun 14
REVENUE	\$000	\$000
Interest Revenue		
<u>Interest on Loans and Receivables</u>		
Interest on Loans to Members	16,854	13,988
Interest on Bank Deposits	3,643	3,674
	<u>20,497</u>	<u>17,662</u>
<u>Interest on Available for Sale Financial Assets at Cost</u>		
Dividends on Capital Notes	348	217
Total Interest Revenue	20,845	17,879
Other Income		
Transactional Fee Income-Overdraft, ATM, EFTPOS etc	4,174	3,947
Cost Recoveries	84	130
Bad Debts Recovered	519	446
Commissions Received	1,310	1,096
Rent Received	94	-
Other Income	68	77
Total Other Income	6,249	5,696
Total Operating Income	27,094	23,575

FIRST CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

2 Revenue and Expenditure (continued)

	Year to 30 Jun 15	Year to 30 Jun 14
	\$000	\$000
EXPENDITURE		
Interest Expenditure-Liabilities at Amortised Cost		
Interest on Members Call Shares	2,779	2,395
Interest on Members Term Shares	5,964	5,759
Total Interest Expenditure	8,743	8,154
Other Expenditure		
External Audit of Financial Statements		
- KPMG Fees	66	46
- KPMG Other Services 1	23	-
- BDO Fees	-	5
Internal Audit Costs	13	12
Directors Fees	141	-
Directors' Expenses and Training	88	40
Printing and Stationery	246	180
Data Processing and Support	1,813	1,596
Banking Services Fees	741	663
Accesscard Costs	1,932	1,689
NZACU Member Contributions	97	96
Trust Deed	66	63
Members Protection	48	4
Marketing	767	616
Other Expenses	1,351	1,182
Total Other Expenditure	7,392	6,192

1 KPMG Other Services include audit of the prospectus issued in December 2014, scrutinising the transfer of engagements of Credit Union Lakeland and reporting to the prudential supervisor for 2014.

FIRST CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

2 Revenue and Expenditure (continued)

	Year to	Year to
	30 Jun 15	30 Jun 14
	\$000	\$000
Employee Benefits		
Wages and Salaries	5,563	4,934
Staff Welfare, Benefits, Training etc	429	288
Defined Contribution Expense	125	108
Total Employee Benefits	6,117	5,330
Loan Impairment Expenses		
Bad Debts Written Off to Impairment Allowance	1,066	1,423
Movement in Allowance for Impaired Loans	114	(142)
Total Loan Impairment Expenses	1,180	1,281
Depreciation Expenditure		
Buildings Depreciation	121	157
Computer Equipment Depreciation	149	125
Motor Vehicles Depreciation	46	35
Office Furniture and Equipment Depreciation	105	125
Total Depreciation Expenditure	421	442

FIRST CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

3 Interest Paid

Interest is paid to depositing members and relates to the Credit Union's ability to pay the interest. At times during the period the Credit Union may offer depositors special accounts that have a pre-set interest rate. Interest rates applied to members' deposits for the period were:

	30 Jun 15	30 Jun 14
Call Shares		
Ordinary and Special Purpose Shares	2.00-4.00%	2.00 - 3.75%
Loan Provider Shares	4.00%	4.00%
Christmas Club and Jimmy Jumper Shares	4.00%	4.00%
Money Maker Shares	2.00 - 3.75%	2.00 - 3.75%
Online Saver Shares	4.00%	4.00%
Term Shares		
Term Deposits (3 Months)	3.75 - 5.25%	3.75 - 5.00%
Term Deposits (6 Months)	4.25 - 5.50%	4.25 - 5.20%
Term Deposits (9 Months)	3.00 - 5.00%	4.25 - 5.00%
Term Deposits (1 Year)	2.00 - 5.75%	4.50 - 5.75%
Term Deposits (2 to 3 Years)	4.75 - 5.75%	4.75 - 5.75%

4 Reserves

	Retained Earnings	Property Revaluation Reserve	Total
	\$000	\$000	\$000
Reserves at 30 Jun 2015			
Balance at 30 Jun 2015	48,617	1,338	49,955
The Reserve % to Total Assets	16.48%	0.45%	16.93%
Reserves at 30 Jun 2014			
Balance at 30 Jun 2014	38,656	1,338	39,994
The Reserve % to Total Assets	15.51%	0.54%	16.05%

Retained Earnings

Reserve arising from retained profits accumulated from operations.

Property Revaluation Reserve

Revaluation Reserve relates to the revaluations of the Credit Union's land and buildings at 111 Collingwood Street, Hamilton; 156 Whitaker Street, Te Aroha, 144 The Strand, Whakatane, Totara Street, Mount Maunganui and 524 Cameron Road, Tauranga. All properties are revalued every three years, due again 30 June 2016.

Total Reserves

The Trust Deed requires that the total reserves, including retained earnings, of the Credit Union amount to at least 10% of the total assets of the Credit Union.

FIRST CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

5 Cash and Cash Equivalents and Term Deposits

	Interest Rates	30 Jun 15	30 Jun 14
(a) Cash and Cash Equivalents		\$000	\$000
Cash on Hand	0.00%	2,309	2,217
Bank Balances - On Call	0.50%	2,166	455
Total Cash and Cash Equivalents		4,475	2,672
(b) Deposits at New Zealand Association of Credit Unions and Trading Banks			
New Zealand Association of Credit Unions	3.70-4.35%	48,262	43,985
Westpac Bank	4.08%	7,957	13,004
ANZ	3.64-4.40%	20,345	19,282
BNZ	3.81-4.12%	18,966	18,151
Total Term Deposits		95,530	94,422
Total Deposits and Cash		100,005	97,094

The deposits with the NZACU's central banking facility and trading banks are excess funds held by the Credit Union. The NZACU minimises its exposure to credit risk by maintaining a diversified portfolio with controls over maturity, counter party and concentration of investment risks. All term deposits mature within the next twelve months and are current assets.

6 Trade and Other Receivables

	30 Jun 15	30 Jun 14
	\$000	\$000
Accrued Interest	526	594
Sundry Debtors	554	457
Prepayments	109	127
Total Trade and Other Receivables	1,189	1,178

Trade & other receivables are on 30 day payment terms and are interest free. Trade receivables are of a short duration and are not discounted. Trade & other receivables are current assets.

FIRST CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

7 Loans to Members

Loans are made in accordance with the lending policy of the Credit Union and are repayable on demand in situations of default. An allowance for impairment has been made at the end of the reporting period. Bad loans are written off against the allowance for impairments. Refer to note 19 (d) for interest rates and loan terms.

(a) Loans to Members	30 Jun 15	30 Jun 14
	\$000	\$000
Neither Past Due Nor Impaired	156,490	121,848
Past Due But Not Impaired		
1 to 30 days	17,655	12,119
31 to 90 days	3,130	3,264
over 90 days	1,628	1,430
Total Impaired Loans	4,437	5,065
Gross Loans	183,340	143,726
Less:		
Allowance for Impaired Individually	407	1,106
Allowance for Impaired Restructured	911	432
Allowance for Impaired Collectively	1,409	769
Net Loans to Members	180,613	141,419

The total of past due and impaired loans greater than 90 days in arrears is \$6,166 (2014: \$6,495).

(b) Credit Quality - Security Dissection

Secured by 1st Mortgage Over Real Estate	96,708	76,912
Secured by 2nd Mortgage Over Real Estate	52	58
Caveat Secured Loans	39	86
Partially Secured by Motor Vehicles and Other Collateral	63,888	48,813
Secured by Members Shares	19,094	16,219
Unsecured Loans	3,559	1,638
Gross Loans to Members	183,340	143,726

FIRST CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

7 Loans to Members (continued)

The Credit Union holds collateral against loans to customers in the form of mortgage interests over property, first or second mortgages and caveats. The Credit Union obtains information regarding the value of collateral assessed at the time of borrowing or renewal, and generally are not updated except when a loan is individually assessed as impaired.

It is not practicable to establish an estimate of the fair value of collateral held against all loans at each reporting date due to the large number of assets to be valued to arrive at the amount. At balance date there are \$19.1 million loan provider shares held as security against loans (2014: \$16.2 million).

All loan value ratios are written within the parameters of the lending policy at the time a loan is advanced.

	30 Jun 15	30 Jun 14
Security held as mortgage against real estate is on the basis of:	\$000	\$000
Loan to valuation ratio of less than 80%	61,021	47,144
Loan to valuation ratio of more than 80% (all insured under the Welcome Home Loan structure)	4,443	5,472
Loan to valuation ratio of more than 80%	31,296	24,354
Total Mortgages	96,760	76,970
(c) Current v's Non Current	30 Jun 15	30 Jun 14
Current	37,246	29,399
Non Current	146,094	114,327
Total Loans to Members	183,340	143,726

(d) Credit quality - Concentration of loans

(i) Loans to individual or related groups of members which exceed 10% of member funds in aggregate	NIL	NIL
(ii) Loans to members concentrated to individuals employed in any particular industry	NIL	NIL
(iii) Loans to members concentrated solely in New Zealand and principally within the common bond of the Credit Union	100%	100%

FIRST CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

8 Impairment of Loans and Advances

(a) Impairment Expense

Total provision for doubtful debts and bad debt expense for the year was:

	30 Jun 15	30 Jun 14
	\$000	\$000
Provision for impairment - Increase/(Decrease) in the year	114	(142)
Bad Loans Written Off	1,066	1,423
Loan Impairment Expenditure	1,180	1,281

(b) Key Assumptions in Determining the Allowance for Impairment

In the first instance, and where practical, the likely impairment is calculated on an individual basis taking into account the ability of the member to continue making payments and the value of the security. Thereafter, on the balance of loans not assessed individually, the Credit Union makes a collective assessment of impairment using the length of time the loan is in arrears and the historical losses arising in past years. The circumstances may vary for each loan over time resulting in higher or lower impairment losses.

The various components of impaired loans are as follows:

Individually impaired loans are loans and receivables for which there is reasonable doubt that the Credit Union will be able to collect all amounts of principal and interest in accordance with the terms of the agreement and for which an individual assessment of impairment is made.

Collectively impaired loans are loans and receivables that are not individually assessed for which a collective assessment of impairment is made.

Restructured loans are impaired loans where the original contractual terms have been modified to provide for concessions of interest, principal or repayment for reasons related to financial difficulties of the member.

Assets acquired through the enforcement of security are assets acquired in full or partial settlement of a loan or similar facility through the enforcement of security arrangements.

Past due but not impaired loans are loans or similar facilities in arrears when a member has failed to make payment when contractually due which are not impaired loans.

FIRST CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

8 Impairment of Loans and Advances (continued)

(c) The following movements in provision for doubtful debts arrears occurred during the year:

	30 Jun 15	30 Jun 14
Individually Impaired Assets Provision		
Opening Balance	1,106	1,041
Transfer from Credit Union Lakeland and United Credit Union	201	-
Provisions made during the year	68	872
Provisions reversed during the year	(684)	(401)
Transfer to bad debts written off	(284)	(406)
Closing Balance Including Principal and Interest	407	1,106

Restructured Assets Provision

Opening Balance	432	270
Transfer from Credit Union Lakeland and United Credit Union	-	-
Provisions made during the year	1,146	400
Transfer to bad debts written off	(667)	(238)
Closing Balance Including Principal and Interest	911	432

Collective Assets Provision

Opening Balance	769	1,138
Transfer from Credit Union Lakeland and United Credit Union	106	-
Movement in provision for the year	534	(369)
Closing Balance	1,409	769

(d) Interest on impaired Loans

Interest Revenue on Impaired Loans	261	104
Interest Revenue on Restructured Loans	147	184
Totals Interest and Other Revenue Recognised and Foregone	408	288

(e) Fair Value of Assets Acquired

Assets Acquired Through The Enforcement of Security	6	3
Total Fair Value of Assets Acquired	6	3

The policy is to sell the assets via auction at the earliest opportunity after measures to assist the member to repay the debts are exhausted.

(f) Restructured Loans

Loans that were past due or impaired that have been restructured by the Credit Union are \$1,578 at 30 June 2015 (2014: \$1,223).

FIRST CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

9 (a) Intangible Assets

	2015	2014
Cost or Valuation	\$000	\$000
Cost or Valuation brought forward 1 July 2014	443	240
Additions Transfer from United Credit Union	47	203
Closing Cost at 30 June 2015	490	443
Opening Accumulated Amortisation 1 July 2014	88	28
Amortised During the Year	96	60
Closing Accumulated Amortisation at 30 June 2015	184	88
Net Book Value at 30 June 2015	306	355

9 (b) Property, Plant and Equipment

Movement in Carrying Amounts

Reconciliations of the carrying amounts of each class of property, plant and equipment between the beginning and end of the current financial period are set out below. Property plant and equipment are considered to be a non current asset.

	Land	Buildings	Computer Equipment	Furniture & Fittings and Office Equipment	Motor Vehicles	Total
Cost or Valuation	\$000	\$000	\$000	\$000	\$000	\$000
Cost or Valuation brought forward at 1 July 2014	1,660	2,748	1,214	1,330	171	7,123
Transfer of Engagements - Credit Union Lakeland and United Credit Union	-	-	106	147	119	372
Additions	1,507	447	343	732	-	3,029
Disposals or Written off	-	-	-	-	-	-
Closing Cost 30 June 2015	3,167	3,195	1,663	2,209	290	10,524
Accumulated Depreciation						
Opening Accumulated Depreciation 1 July 2014	-	426	991	1,138	64	2,619
Depreciation for the period	-	121	149	105	46	421
Disposals or Written off	-	-	-	-	-	-
Closing Accumulated Depreciation 30 June 2015	-	547	1,140	1,243	110	3,040
Net Book Value at 30 June 2015	3,167	2,648	523	966	180	7,484

FIRST CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

9 (b) Property, Plant and Equipment (continued)

	Land	Buildings	Computer Equipment	Furniture & Fittings and Office Equipment	Motor Vehicles	Total
Cost or Valuation	\$000	\$000	\$000	\$000	\$000	\$000
Cost or Valuation brought forward at 1 July 2013	1,660	2,655	1,343	1,429	171	7,258
Additions	-	93	67	28	54	242
Revaluations	-	-	-	-	-	-
Disposals	-	-	(196)	(127)	(54)	(377)
Closing Cost 30 June 2014	1,660	2,748	1,214	1,330	171	7,123
Accumulated Depreciation						
Opening Accumulated Depreciation 1 July 2013	-	270	1,062	1,139	59	2,530
Depreciation for the period	-	157	125	125	35	442
Depreciation on Disposals	-	-	(196)	(127)	(30)	(353)
Closing Accumulated Depreciation 30 June 2014	-	427	991	1,137	64	2,619
Net Book Value at 30 June 2014	1,660	2,321	223	193	107	4,504

Revaluations

The valuations of freehold land and buildings at Hamilton, Te Aroha, Mount Maunganui and Whakatane were based on the assessment of their current market value by reference to market evidence of rental prices for similar properties. The independent revaluations on 30 June 2013 were carried out by the Registered Valuers Telfer Young Ltd for Hamilton, Te Aroha and Mount Maunganui properties and Boyes James McKay for the Whakatane property. All valuers are independent of the Credit Union and its officers. Valuations are undertaken on a capitalised rental basis. Land and buildings acquired subsequent to 30 June 2013 are held at cost which is considered to be fair value and will be revalued in the upcoming valuation cycle, being 30 June 2016. The registered values of the properties at 30 June 2013 were as follows :

	\$000
Hamilton	\$1,950 (Freehold)
Te Aroha	\$ 270 (Freehold)
Mount Maunganui	\$1,340 (Freehold)
Whakatane	\$ 485 (Leased Land)

10 Capital Notes

NZACU Capital Notes are classified as "available for sale" financial assets and issued by the New Zealand Association of Credit Unions' Business Services Division as Trust Base Capital Notes (Capital Notes). These represent monies invested with the NZACU Business Services Division Trust and rank equally and without priority or preference among themselves. The Capital Notes rank after creditors in the event of the winding up of the NZACU Business Services Division Trust. Capital Notes may only be sold or transferred to another Credit Union that is a member of the NZACU Business Services Division Trust and with consent of the NZACU Business Services Division Trust Board of Directors.

FIRST CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

10 Capital Notes (continued)

There is no active market for these securities which have no guaranteed rate of return. Due to the variability in the rate of return and estimation uncertainty related to other intrinsic benefits obtained from holding the notes, the Credit Union has concluded that the variability in any discounted cash flow fair value estimate would be too significant and too judgemental to utilise as a reliable measure of fair value. The Credit Union thus measured Capital Notes at cost under the exemption in NZ IAS 39; Financial Instruments – Recognition and Measurement. At reporting date First Credit Union has no intention to dispose of the Capital Notes in the foreseeable future.

Dividends are payable on a six monthly basis subject to the profitability of the NZACU Business Services Division Trust.

The Credit Union's investment in these Capital Notes enables the New Zealand Association of Credit Unions to provide the Credit Union with essential services such as the core operating system, data processing and support, banking services, accesscard and text banking services, a central bank and "treasury" function, debit card facilities, and insurance products.

Capital Notes are non-current assets.

	30 Jun 15	30 Jun 14
	\$000	\$000
Capital Notes	4,666	4,666
Capital Notes Purchased from Credit Union Central and NZ Fire Credit Union	86	-
Capital Notes acquired through transfer of engagement from Credit Union Lakeland and United Credit Union	658	-
Total Available-For-Sale Investments at Cost	5,410	4,666

	30 Jun 15	30 Jun 14
	\$000	\$000
Trade Payables	949	885
Sundry Creditors and Accrued Expenses	616	785
Accesscard Settlement	910	342
Employee Entitlements	643	443
Total Trade and Other Payables	3,118	2,455

Trade and other Payables generally have terms of 30 days and are interest free. Trade and other Payables are of a short duration and are not discounted. Trade and other Payables are current liabilities.

FIRST CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

12 Member's Deposits

	30 Jun 15	30 Jun 14
Call Shares	\$000	\$000
Ordinary, and Special Purpose Shares	39,251	25,021
Loan Provider Shares	27,616	22,946
Christmas Club and Children's Account Shares	4,802	3,931
Money Maker Shares	14,457	14,151
Online Savings Shares	18,597	15,798
Total Call Shares	104,724	81,847
Term Shares		
Term shares maturing:		
- within 1 month	10,060	10,248
- over 1 month and up to 3 months	27,483	27,595
- over 3 months and up to 6 months	35,400	37,193
- over 6 months and up to 12 months	51,950	47,608
Total Term Shares	124,893	122,644
Total Current Members' Deposits	229,617	204,491
Non Current Members' Deposits		
- over 1 year and up to 2 years	10,065	2,258
- over 2 years and up to 3 years	2,252	18
Total Non Current Members' Deposits	12,317	2,276
Total Members' Deposits	241,934	206,767

Refer to Note 3 for interest rates on member shares.

Members shares are secured by a first ranking equitable assignment by way of security over the whole of the Credit Union's present and future undertaking, property, assets and revenues, including the proceeds received for the subscription of shares and unpaid capital (if any). The equitable assignment by way of security was granted in favour of Foundation Corporate Trust on 28 June 2013, the Prudential Supervisor of the Credit Union, under Trust Deed dated 2 November 2000, which has been registered with the Registrar of Companies.

The Credit Union has also granted to Foundation Corporate Trust from 28 June 2013 a security interest in all its present and after-acquired personal property as additional security for the members' shares. Foundation Corporate Trust has registered a financing statement under the Personal Property Securities Act 1999 in respect of the same. The grant of this security interest was recorded in a Deed of Modification to Trust Deed dated 15 October 2002, which has been registered with the Registrar of Companies.

FIRST CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

13 Commitments

(a) Future Capital Commitments

The Credit Union has entered into contracts for the purchase of property, plant and equipment which has not been recognised as a liability and is payable as follows:

	30 Jun 15	30 Jun 14
	\$000	\$000
Not longer than 1 year	750	550
Longer than 1 and not longer than 5 years	-	-
Longer than 5 years	-	-
Total Future Capital Commitments	750	550

(b) Operating Lease Commitments

Non cancellable operating leases contracted for but not capitalised in the financial statements, payable:

Not longer than 1 year	357	217
Longer than 1 and not longer than 5 years	57	180
Longer than 5 years	28	35
Total Operating Lease Commitments	442	432

The property leases are non-cancellable leases for varying terms, with rent payable monthly in advance. An option exists to renew the lease for some of the branches and usually new leases would be renegotiated at the end of the existing leases.

(c) Outstanding Loan Commitments

Loans and credit facilities approved but not funded or drawn at the end of the reporting period.

Loans Approved but not Funded	2,926	2,974
Undrawn Overdraft and Line of Credit	444	322
Total Outstanding Loan Commitments	3,370	3,296

14 Contingent Liabilities

There are no material contingent liabilities not provided for in the financial statements (2014: Nil).

FIRST CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

15 Standby Borrowing Facilities

	30 Jun 15	30 Jun 14
	\$000	\$000
Overdraft Facility	50	50
Total Standby Borrowing Facilities	50	50

Currently the unused overdraft facility is \$50,000 (2014: \$50,000). The interest rate is 5.40% (2014: 5.40%) and the penalty rate is 8.10% (2014: 8.10%). There are no material terms of use.

16 Financial Risk Management Objectives and Policies

The Board had endorsed a policy of compliance and risk management to suit the risk profile of the Credit Union.

Key risk management policies encompassed in the overall risk management framework include:

- Market Risks management
- Credit risk management
- Liquidity risk management
- Capital adequacy management

The Credit Union has undertaken the following strategies to minimise the risks arising from financial instruments:

Market Risk

The Credit Union is not exposed to currency risk, and does not have any significant exposure to price risk. The Credit Union does not trade in the financial instruments it holds on its books.

The Credit Union is exposed to interest rate risk arising from changes in market interest rates.

The policy of the Credit Union to manage the risk is to maintain a balanced "on book" strategy by ensuring the net interest rate gaps between members loans and members shares are not excessive. The measured gap in each 3 month range to be maintained between 3.0% to 7.0% of the difference between loans and members deposits. The gap is measured monthly to identify any large exposures to the interest rate movements and to rectify the excess through targeted fixed rate interest products available through investment assets, and term deposits liabilities to rectify the imbalance to within acceptable levels. The policy of the Credit Union is not to undertake derivatives to match the interest rate risks. The Credit Unions exposure to interest rate risk is set out in Note 18 which details the contractual interest change profile.

The following tables summarise the sensitivity of the fair value of the Credit Unions assets and financial liabilities to 1% movement in interest rate risk on the Credit Unions financial position and results. The Board and Management consider that given the relatively stable nature of the New Zealand financial environment a 1% movement in interest rate risk is within prudent guidelines.

FIRST CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

16 Financial Risk Management Objectives and Policies (continued)

	30 June 15 Interest Rate Risk			30 June 14 Interest Rate Risk		
	Carrying Amount	-1% Profit & Equity	+1% Profit & Equity	Carrying Amount	-1% Profit & Equity	+1% Profit & Equity
	\$000	\$000	\$000	\$000	\$000	\$000
Financial Assets						
NZACU and Bank Deposits	97,696	(762)	762	94,877	(814)	814
Loan Receivables	183,340	(1,720)	1,720	143,726	(1,426)	1,426
		(2,482)	2,482		(2,240)	2,240
Financial Liabilities						
Member Deposits	241,934	(672)	672	206,767	(721)	721
		(672)	672		(721)	721
Total Increase /(Decrease)		(1,810)	1,810		(1,519)	1,519

The effect on the net profit as above and the effect on equity would be the same.

The Credit Union performs sensitivity analysis to measure market risk exposures. The method used in determining the sensitivity was to evaluate the profit based on the timing of the interest re-pricing between the members' loans and the members' deposits for the next 12 months. In doing the calculation the assumptions applied were that:

- The interest rate change would be applied equally over to the loan products and term deposits
- The rate change would be as at the beginning of the 12 month period and no other rate changes would be effective during the period
- The term deposits would all re-price to the new interest rate at the term maturity, or be replaced by deposit with similar terms and rates applicable
- All loans would be repaid in accordance with the contractual repayment terms
- The value and mix of call savings to term deposits will be unchanged
- The value and mix of personal loans to mortgage loans will be unchanged

There has been no change to the Credit Union's exposure to market risk or the way the Credit Union manages and measures market risk in the reporting period.

Credit Risk - Loans

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the Credit Union incurring a financial loss. This usually occurs when debtors fail to settle their obligations owing to the entity. There is no industry concentration of credit risk with respect to loans and receivables as the Credit Union has a large number of customers dispersed in varying areas of employment. The credit policy is that loans and investments are only made to members that are credit worthy.

The Credit Union has established policies or procedures over the:

- Credit assessment and approval of loans and facilities covering acceptable risk assessment and security requirements
- Limits of exposure over the value to individual borrowers, non-mortgage secured loans, and concentrations to geographic and industry groups considered at high risk of default
- Reassessing and review of the credit exposures on loans and facilities
- Establishing appropriate provisions to recognise the impairments of loans
- Debt recovery procedures
- Review of compliance with the above policies

FIRST CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

16 Financial Risk Management Objectives and Policies (continued)

Regular reviews of compliance are conducted as part of the internal audit scope.

The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken.

The Credit Union has a concentration in the retail lending for members who reside primarily in the Waikato and Bay of Plenty regions of the North Island. During the year United Credit Union transferred engagements to First Credit Union leading to additional members located in the Wellington area.

Daily reports monitor the loan repayments to detect delays in repayments and recovery is undertaken after 7 days if not rectified. For personal loans where repayments become doubtful the credit union has internal processes in place to conduct recovery action once the loan is over 30 days in arrears. Debt recovery policies allow the Credit Union to reset the maturity date of a loan where regular and consistent repayments have been resumed by the loan holder. These loans are considered to be past due loans. The exposures to losses arise predominantly in the personal loans and facilities. The significant accounting judgements related to the determination of the allowance for impairment of loans are set out in note 8(b).

Credit Risk - Liquid Investment

The board policy is to maintain its investments in the New Zealand Association of Credit Unions (NZACU) and registered trading banks. The NZACU is an association set up to support the member Credit Unions. NZACU has a rating of BB with a negative outlook issued by Standard and Poors but it invests principally in bank deposits and money market securities with investment grade credit rating or better.

All trading banks used have Standard and Poors credit ratings of AA from Standard and Poors and AA- from Moody's.

Liquidity Risk

Liquidity risk is the risk that the Credit Union may encounter difficulties raising funds to meet commitments associated with financial instruments, e.g. borrowing repayments. It is the policy of the Board of Directors that the Credit Union maintains adequate cash reserves and committed credit facilities so as to meet the member withdrawal demands when requested.

The Credit Union manages liquidity risk by:

- Continuously monitoring forecast and actual daily cash flows
- Reviewing the maturity profiles of financial assets and liabilities
- Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities

The Credit Union's policy is to maintain at least 15% of total assets as liquid assets capable of being converted to cash within 7 days. The ratio is checked daily. Should the liquidity ratio fall below this level, the management and board are to address the matter and ensure that the liquid funds are obtained from new deposits or borrowing facilities available. The Credit Union has maintained the policy level throughout the financial period under review.

The maturity profile of the financial assets & liabilities, based on the contractual repayment terms are set out specifically in note 17.

Capital Management

The Credit Union is regulated under the Friendly Societies and Credit Union Act 1982. The Credit Union has complied with all its Capital requirements during the period.

As per the capital reserve requirements in force by the Deposit Takers (Credit Ratings, Capital Ratios, and Related Party exposures) Regulations 2010, the Credit Union has maintained the 8% reserve ratio.

The Credit Union reserves at the end of the reporting period are stated in Note 4.

FIRST CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

16 Financial Risk Management Objectives and Policies (continued)

The Credit Union's capital is determined as follows:

	30 Jun 15	30 Jun 14
Tier 1	\$000	\$000
Retained Earnings	48,617	38,656
Total Tier 1 Reserves	48,617	38,656
Tier 1 Capital Ratio	16.48%	15.51%
Tier 2		
Property Revaluation Reserve	1,338	1,338
Total Reserves	1,338	1,338
Total Tier 2 Capital Ratio	0.45%	0.54%
Total Tier 1 and Tier 2 Reserves	49,955	39,994
Total Tier 1 and Tier 2 Capital Ratio	16.93%	16.05%

To manage the Credit Union's capital, which can be affected by excessive growth and by changes in total assets, the Credit Union reviews the capital adequacy ratio monthly and monitors major movements in the asset levels. Policies have been implemented to require reporting to the Board and the trustee if the capital ratio falls below 10%. Further, an annual capital budget projection of the capital level is maintained annually to address how strategic decisions or trends may impact on the capital level.

FIRST CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

17 Maturity Profile of Financial Assets and Liabilities

Financial assets and liabilities have differing maturity profiles depending on the contractual term, and in the case of loans, the repayment amount and frequency. The associated table shows the period in which different financial assets and liabilities held will mature and be eligible for renegotiation or withdrawal. In the case of loans, the table shows the period over which the principal outstanding will be repaid based on the remaining period to the repayment date assuming contractual repayments are maintained. For term loans the above dissection is based upon contractual conditions of each loan being strictly complied with and is subject to change in the event that current repayment conditions are varied. Future Interest Receivable and Future Interest Payable represent the expected future interest cashflows arising from the contractual obligations of the underlying financial assets and liabilities respectively.

30-Jun-15	On Call		Within 1 Month		1-3 Months		3 - 6 Months		6 - 12 Months		Years 1-2		Years 2-5		> 5 years		No Maturity		Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	
Monetary Assets Receivable																			
Cash and Bank	4,475	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,475
Trade and Other Receivables	-	1,080	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,080
Investments - Base Capital Notes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,410	5,410
Deposits at NZACU and Banks	7,550	8,335	56,885	19,610	3,150	-	-	-	-	-	-	-	-	-	-	-	-	-	95,530
Future Interest Receivable	-	1,497	2,928	4,123	7,311	11,232	18,079	50,065	-	-	-	-	-	-	-	-	-	-	95,235
Loans to Members	-	3,239	6,403	9,479	18,124	31,465	38,744	75,886	-	-	-	-	-	-	-	-	-	-	183,340
Total Monetary Assets Receivable	12,025	14,151	66,216	33,212	28,585	42,697	56,823	125,951	5,410	-	-	-	-	-	-	-	-	-	385,070
Monetary Liabilities Payable																			
Payables	-	2,475	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,475
Future Interest Payable	-	431	1,007	1,183	1,730	719	88	-	-	-	-	-	-	-	-	-	-	-	5,158
Members Call Shares	104,724	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	104,724
Member Term Shares	-	10,060	27,483	35,400	51,950	10,065	2,252	-	-	-	-	-	-	-	-	-	-	-	137,210
Total Monetary Liabilities Payable	104,724	12,966	28,490	36,583	53,680	10,784	2,340	-	-	-	-	-	-	-	-	-	-	-	249,567

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

17 Maturity Profile of Financial Assets and Liabilities (continued)

30-Jun-14	On Call	Within 1		3 - 6 Months	6 - 12	> 5 years	No Maturity	Total
		Month	1-3 Months					
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Monetary Assets Receivable								
Cash and Bank	2,672	-	-	-	-	-	-	2,672
Trade and Other Receivables	-	1,051	-	-	-	-	-	1,051
Investments - Base Capital Notes	-	-	-	-	-	-	4,666	4,666
Deposits at NZACU and Banks	3,100	27,670	53,301	10,351	-	-	-	94,422
Future Interest Receivable	-	1,204	2,351	3,303	5,836	14,117	-	72,354
Loans to Members	-	2,576	5,110	7,485	14,229	30,115	59,664	143,726
Total Monetary Assets Receivable	5,772	32,501	60,762	21,139	20,065	44,232	4,666	318,891
Monetary Liabilities Payable								
Payables	-	2,011	-	-	-	-	-	2,011
Future Interest Payable	-	394	974	1,084	1,323	2	-	3,889
Members' Call Shares	81,847	-	-	-	-	-	-	81,847
Members' Term Shares	-	10,248	27,595	37,193	47,608	2,258	-	124,920
Total Monetary Liabilities Payable	81,847	12,653	28,569	38,277	48,931	2,370	-	212,667

FIRST CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

18 Interest Risk

The Credit Union's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rate on classes of financial assets and financial liabilities, is as follows:

	Repricing period at 30 Jun														Total	Weighted average effective interest rate		
	Floating Interest Rate		Fixed Interest Rate Maturing in:										Set 6 monthly in arrears				Non-interest sensitive	
	Jun-15	Jun-14	0 to 3 months	3 to 6 months	6 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Jun-15	Jun-14	Jun-15	Jun-14	Jun-15	Jun-14			Jun-15	Jun-14
Monetary Assets																		
Cash & Bank	4,475	2,672	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,672	0.50%
Deposits at NZACU & Banks	7,550	3,100	65,220	80,971	10,351	19,640	3,150	-	-	-	-	-	-	-	-	-	94,422	3.89%
Trade & Other Receivables	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,051	n/a
Loans to Members - Fixed	-	-	1,056	356	1,437	3,172	6,046	1,142	5,157	8,067	-	-	-	-	-	-	11,002	6.38%
Loans to Members - Floating	167,909	132,724	-	-	-	-	-	-	-	-	-	-	-	-	-	-	132,724	10.32%
Base Capital Notes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,666	4.66%
Total Monetary Assets	179,934	138,496	66,276	81,327	22,702	11,788	9,196	1,142	5,157	8,067	-	-	-	5,410	4,666	1,051	289,835	
Monetary Liabilities																		
Deposits	104,724	81,847	36,890	37,843	37,193	35,400	50,602	47,608	10,065	2,258	2,253	18	-	-	-	-	241,934	4.03%
Other payables	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,475	-
Total Monetary Liabilities	104,724	81,847	36,890	37,843	37,193	35,400	50,602	47,608	10,065	2,258	2,253	18	-	-	-	2,475	244,409	

* The weighted average effective interest rate has been calculated on the interest sensitive financial instruments in each category.

(a) Capital notes do not have any pre determined rate of interest. Interest is payable on a six monthly basis subject to the profitability of the NZACU Business Services Division Trust. The last interest payment was at 4.66% paid for the year ended 30 June 2014, (Jun 2013 : 5.69% per annum).

FIRST CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

19 Other Credit Risks

(a) Maximum Credit Risk Exposure

The Credit Union's maximum credit risk exposure, without taking into account the value of any collateral or other security, in the event other parties fail to perform their obligations under financial instruments in relation to each class of recognised financial asset, is the carrying amount of those assets as indicated in the Statement of Financial Position.

(b) Concentrations of Credit Risk

The Credit Union minimises concentrations of credit risk in relation to loans by undertaking transactions with a large number of customers. Credit risk is currently managed in accordance with the Prudential Standards to reduce the Credit Union's exposure to potential failure of counterparties to meet their obligations under the contract or arrangement. All loans are to members of the Credit Union who are concentrated mainly within the North Island of New Zealand.

(c) Large Counterparties

The Credit Union has exposure to counter-parties as follows:

Number of counterparties	Number of counterparties 30 Jun 2015	Number of counterparties 30 Jun 2014
Over 100%	0	1 NZACU
Between 90% and 100% of equity	1 NZACU	0
Between 80% and 90% of equity	0	0
Between 70% and 80% of equity	0	0
Between 60% and 70% of equity	0	0
Between 50% and 60% of equity	0	0
Between 40% and 50% of equity	1 ANZ	2 ANZ/BNZ
Between 30% and 40% of equity	1 BNZ	1 Westpac
Between 20% and 30% of equity	0	0
Between 10% and 20% of equity	1 Westpac	0

In relation to loans to members, where a member has shares as security or deemed security, the security has not been taken into account when calculating the percentage of exposure.

(d) Loans to Members

Loans can only be made to Credit Union members. Loan interest rates range from 5.00% to 27.45% p.a. (2014 5.00% to 25.95% p.a.). The Credit Union has a lending policy that requires various levels and types of security for loans and includes that a portion of loans may be secured over the borrowing members shares. The Friendly Societies and Credit Unions Act 1982 limits the risk of any one member and provides, along with the loan agreement that any and all shares might be used to offset an individual loan to the limit of their liability. Under section 110 of the Act, the maximum indebtedness and repayment terms of a member shall not, without the prior consent of the Registrar, exceed the following limits:

Unsecured Loan 5% of the value of the assets of the Credit Union and 5 Years

Secured Loan 10% of the value of the assets of the Credit Union and 10 Years

The key elements of the Credit Union lending policy are as follows:

- personal loans can be approved for a period up to 10 years with adequate security but are usually scheduled to be repaid within 5 years,
- mortgages can be approved for a period up to 30 years but are usually scheduled to be repaid within 20 to 25 years
- arrears in loan payments may be reset after 6 consecutive weekly payments, 3 fortnightly payments or 2 monthly payments

FIRST CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

19 OTHER CREDIT RISKS (continued)

Loans to Members

	30 Jun 15	30 Jun 14
The proportion of loans with repayments in arrears in excess of three months is:	1.74%	2.43%

Other than loans, there are no other financial assets in arrears.

Loans are for varying terms but the standard loan contract includes an "on demand" clause.

The monthly repayments on the loans for the past year represent an average loan term of:	41.4 mths	37.7 mths
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The proportion of loans owed in aggregate by the debtors who owe the six largest amounts is:	2.70%	3.30%
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There are no other monetary assets receivable (other than deposits the Credit Union has with banks) that exceed the individual value of these six largest loans.

The Credit Union offers an overdraft facility

The amounts drawn down are as follows:	\$759,222	\$545,417
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20 Concentration of Funding

The Credit Union's source of funding is members' deposits. Accordingly, the funding is concentrated in and limited to the area of the 'common bond' and consequently the Credit Union funding is predominantly from individuals residing within the Bay of Plenty and Waikato area. The funding from members is recorded as Members' Shares in the Statement of Financial Position.

21 Fair Value of Financial Assets and Liabilities

The fair value of the \$16,551,738 fixed mortgage loans receivable is \$16,708,215 assuming an average floating mortgage interest rate of 5.85% at 30 June 2015. See note 10 for discussion on fair value of Base Capital Notes. Directors consider that the fair value of all other financial assets and liabilities is equal to the book value. All of the financial instruments except the loans receivable and Base Capital Notes are at call or able to be recovered or settled in the short term. Fair value has been determined on the basis of net present value of expected future cash flows under the terms and conditions of each financial asset and financial liability.

23 Related Party Transactions

Remuneration of Directors and Key Management Personnel ('KMP')

Key management personnel are those people having authority and responsibility for planning, directing and controlling the activities of the Credit Union, directly or indirectly, including any director (whether executive or otherwise) of that entity. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Key management personnel (KMP) has been taken to comprise the directors and five senior management responsible for the day to day financial and operational management of the Credit Union.

Connected Parties are defined as the immediate relatives of Directors and Executive Management. Executive Management includes the General Manager and the Assistant General Manager.

FIRST CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

22 Remuneration of Directors and Key Management Personnel ('KMP')(continued)

The aggregate compensation of key management positions during the period comprising amounts paid or payable or provided for was as follows:

	30 Jun 15	30 Jun 15	30 Jun 14	30 Jun 14
	Directors	Other KMP	Directors	Other KMP
	\$000	\$000	\$000	\$000
(a) Short-Term Employee Benefits	141	614	-	630
(b) Post-Employment Benefits - contributions to defined contribution scheme	-	-	-	-
Total Related Party Disclosures	141	614	-	630

In the above table, remuneration shown as short term benefits means (where applicable) wages, salaries, paid annual leave and sick leave, bonuses, value for fringe benefits received, but excludes out of pocket reimbursements.

At the Annual General Meeting of members held in September 2014 members gave approval for Directors fees to be paid. In 2014 no Directors, including the Treasurer and Secretary, received fees for their services.

	30 Jun 15	30 Jun 14
	\$000	\$000
Directors and other KMP holdings at reporting date are:		
Owing to Directors and other KMP (shares)	280	240
Owing by Directors and other KMP (loans)	821	820

Connected parties at reporting date

Owing to Connected Parties	1,449	1,332
Owing by Connected Parties	2,157	1,906

The Credit Union deals with Directors and Trustees on the same terms and conditions applied to all members. During the period under review loan advances made to Directors, Trustees and Key Management Personnel totalled \$518,010 (2014: \$620,214) and repayments other than normal scheduled repayments totalled \$NIL (2014: \$70,499). There were no new term deposits received (2014: \$NIL)

There are no shares from Directors and KMP exceeding 36 months and all Directors and KMP loans are repayable upon demand.

No loans to related parties have been impaired in the period. (2014: \$NIL)

During the year \$6,348 was paid to Bogers Scott Shortland for services in relation to employment, legal and lease issues. The balance outstanding at period end was NIL.

FIRST CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

23 Reconciliation of Cash Flow from Operating Activities with Operating Profit

	30 Jun 15	30 Jun 14
	\$000	\$000
Profit for the Period Attributable to Members	2,425	1,535
Non Cash Items		
Depreciation, Amortisation and Loss on Sale	516	501
Bad Debts Written off	1,066	1,423
Bad Debt Provision	114	(141)
	<u>1,696</u>	<u>1,783</u>
Changes in Assets and Liabilities		
Movement in Accounts Receivable	156	(193)
Movement in Accounts Payable	(831)	(164)
	<u>(675)</u>	<u>(357)</u>
Net Operating Cash Flows	3,446	2,961

24 Transfer of Engagements

On 31 October 2014 the Credit Union amalgamated with Credit Union Lakeland. This was a business combination of two mutual entities approved by the way of Special Resolution passed on 3 September 2014 that, pursuant to Section 83(2) of the Friendly Society and Credit Unions Act 1982, all of Credit Union Lakeland's engagements were transferred to First Credit Union.

On 31 January 2015 the Credit Union amalgamated with United Credit Union. This was a business combination of two mutual entities approved by the way of Special Resolution passed on 4 December 2014 that, pursuant to Section 83(2) of the Friendly Society and Credit Unions Act 1982, all of United Credit Union's engagements were transferred to First Credit Union.

FIRST CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

	Credit Union Lakeland	United Credit Union	Total
Balance Sheets of Amalgamated Credit Unions	31 Oct 14	31 Jan 15	
	\$000	\$000	\$000
ASSETS			
Cash and Cash Equivalents	707	393	1,100
Deposits at Coop Money New Zealand	1,100	9,025	10,125
Trade and Other Receivables	27	139	166
Loans to Members	12,356	11,111	23,467
Property, Plant and Equipment	162	210	372
Intangible Assets		47	47
Capital Notes	368	290	658
Total Assets	14,720	21,215	35,935
LIABILITIES			
Trade and Other Payables	619	305	924
Members' Deposits	11,813	15,662	27,475
Total Liabilities	12,432	15,967	28,399
Acquisition Date Fair Value of Acquirees Assets and Liabilities	2,288	5,248	7,536
Consideration: Acquisition Date Fair Value of Acquirees Equity	2,288	5,248	7,536

25 Events Occurring After Reporting Date

There are no known events that have occurred subsequent to balance date which would materially affect these financial statements

26 Financial Advisors Act 2008

On 18 March 2011 the Credit Union was registered as a Qualifying Financial Entity (QFE).

As required by the Financial Service Providers (Registration and Dispute Resolution) Act 2008 the Credit Union is a member of an approved dispute resolution scheme – Financial Services Complaints Ltd (FSCL).

FIRST CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

27 Credit Rating

First Credit Union's Issuer Credit Rating as at 14 August 2015

International credit ratings agency Standard & Poor's has issued First Credit Union the following issuer credit rating:

Long term rating: BB- / Outlook: Stable / Short term rating: B

There has been no change to the credit union rating up to the date of this report.

The creditworthiness of First Credit Union is rated by a ratings agency approved by the Reserve Bank under section 157J of the Reserve Bank of New Zealand Act 1989. The credit rating is a local currency (New Zealand dollar), long-term, issuer rating. This type of rating expresses an opinion about the overall financial capacity of an issuer to meet its financial obligations (in contrast to an issue rating, which relates only to a specific financial obligation).

The following is a summary of Standard & Poor's major ratings scales:

Grade	Description of grade
"AAA"	Extremely strong capacity to meet financial commitments. Highest rating.
"AA"	Very strong capacity to meet financial commitments.
"A"	Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances.
"BBB"	Adequate capacity to meet financial commitments, but more subject to adverse economic conditions.
"BBB-"	<i>Considered lowest investment grade by market participants.</i>
"BB+"	<i>Considered highest speculative grade by market participants.</i>
"BB"	Less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial and economic conditions.
"B"	More vulnerable to adverse business, financial and economic conditions but currently has the capacity to meet financial commitments.
"CCC"	Currently vulnerable and dependent on favorable business, financial and economic conditions to meet financial commitments.
"CC"	Currently highly vulnerable.
"C"	A bankruptcy petition has been filed or similar action taken, but payments of financial commitments are continued.
"D"	Payment default on financial commitments.

Ratings from "AA" to "CCC" may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

Ratings are statements of opinion issued by Standard & Poor's, they are not statements of fact, an endorsement of First Credit Union, or a recommendation to buy, hold, or sell any securities or make any other investment decisions. Accordingly, any user of issuer credit ratings issued by Standard & Poor's Ratings Services should not rely on any such ratings or other opinion issued by Standard & Poor's Ratings Services in making any investment decision. Issuer credit ratings may be changed, withdrawn or suspended at any time.

In the two years preceding the date of this document no changes have been made to the Credit Union's rating.

More details are available on www.yourinvestments.standardandpoors.co.nz