

**ANNUAL REPORT**

**2016**

**first  
credit  
union**



## World Council of Credit Unions

September 6, 2016

First Credit Union  
111 Collingwood St.  
Hamilton, 3240  
New Zealand

Dear Friends,

Congratulations for the success that you have had helping local people with their finances for 60 years. First credit union is one of the best examples of people helping people. We have shared the story of your work with credit unions from around the world. World Council is very proud to have First Credit Union as a Supporter of the World Council.

First Credit Union lives the values of cooperative collaboration and financial empowerment that we all espouse and work for. You make a real difference in the lives of your members. Members, who otherwise would be underserved, today have greater access to savings, credit and payments throughout the community. This has empowered members to higher levels of savings, education, housing and productive activities. Credit unions everywhere around the world continue to be challenged by increasing levels of regulation, payments technology changes, membership growth and non-traditional market entrants. First Credit Union will continue to provide leadership in facing those challenges.

We remain grateful for the warmth and hospitality with which you have received us, our friends and your partners through the years. We are grateful for your cooperation and engagement with the World Council.

We look forward the results of your meeting and many years of continued international cooperation ahead.

Sincerely,

Brian Branch  
President and CEO  
World Council of Credit Unions

World Council of Credit Unions, Inc.

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## CONTENTS

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Introduction	4
The year at a glance	4
Key Performance Indicators	5
Chairman's Report	6
Trustees' Report	8
Treasurer's Report	9
CEO's Report	10
Board of Directors	12
Community & Sponsorship	14
<b>Financial Statements</b>	<b>15</b>



## INTRODUCTION

### Who needs credit unions, in a world awash with credit?

People looking for decent credit, that's who. Because decent credit's as hard to find as it's ever been.

Some folk can't get credit from the bank, and don't want - or can't afford - to pay interest to mobile shops and easy credit companies. Credit unions offer a lower interest, more ethical, community-based alternative.

On the other side of the ledger, many investors want their money to actually help people in their community. And they get a kick out of knowing that by placing their business with a credit union they're helping good things happen in our community, through sponsorships and grants, and support in schools.

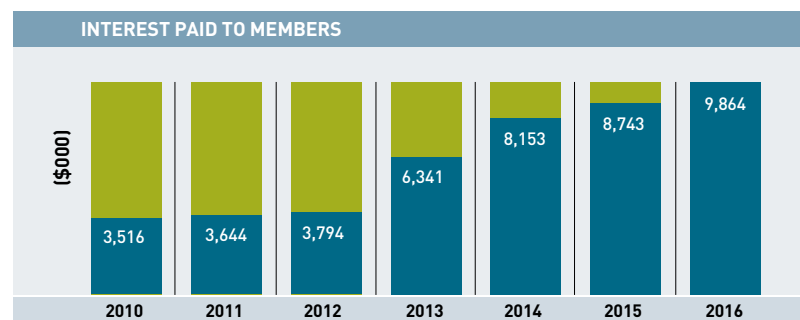
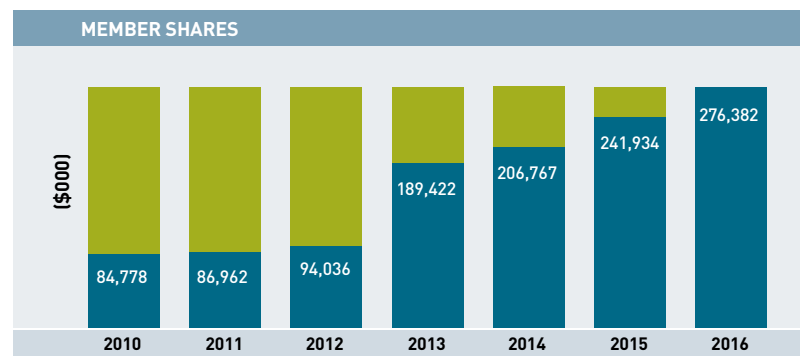
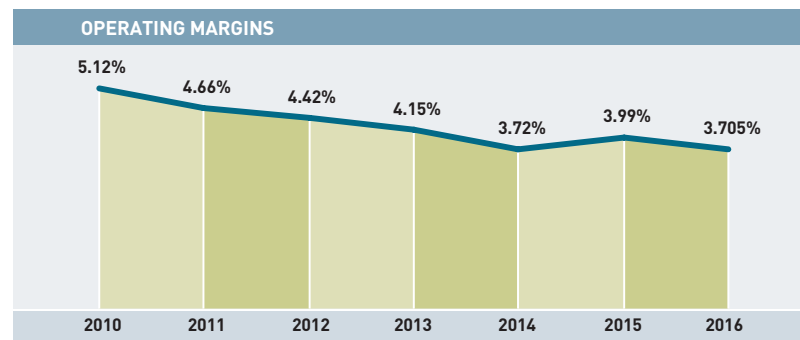
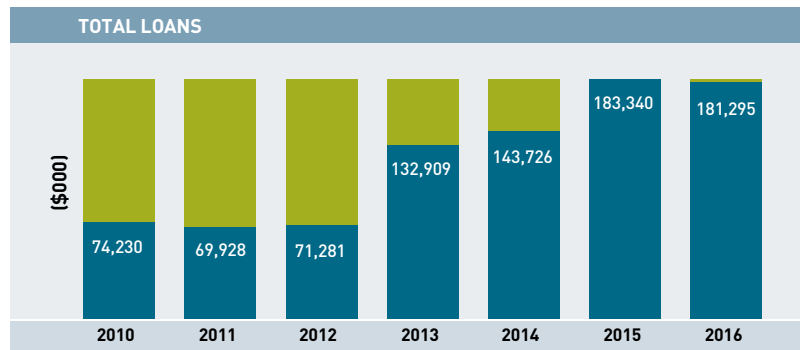
Banks may close branches. Finance companies come and go. But we're here - and we're staying, thanks to our unique community-based mutual structure.

## THE YEAR AT A GLANCE

### QUICK FACTS

Total Membership	63,711
AccessDebit Mastercard™ cards issued	26,659
Operating surplus	\$1.86 million
Total assets	\$334.42 million
Number of Loans	11,166
Total Loans disbursed	\$83.62 million
Total Loans	\$181.30 million
Interest paid to members	\$9.86 million
Sponsorships & grants	\$95,000
Member shares	\$276.38 million
Staff	112
First Credit Union branches	11
Number of schools banking	95
Mobile App users	7,725
Online loan applications	11,185
Loanminder policies	9,736
Social media followers	7,823

## KEY PERFORMANCE INDICATORS



## CHAIRMAN'S REPORT

2016 WAS A YEAR OF CHANGE AND CONSOLIDATION FOR FIRST CREDIT UNION.



WE ARE VERY PLEASED TO HAVE APPOINTED TERRY EDWARDS TO MOVE THE CREDIT UNION INTO THE FUTURE.

**Simon Scott** *Chairman*

REPORT



### FINANCIAL AND OPERATING PERFORMANCE

The year produced solid financial results. Thank you to the Board, Executive Management, staff and members for working together to make it happen.

#### *As at 30 June 2016 First Credit Union:*

- Had an operating surplus of \$1.86 million
- \$334.42 million in assets
- Member shares of \$276.38 million
- A loan book totaling \$181.30 million
- We paid \$9.86 million worth of interest on member shares.

### LEADERSHIP

On 1 October 2015 we got a new CEO, with Terry Edwards succeeding Peter Iles.

Peter has been a great leader over the past 26 years. I won't attempt to cover the breadth of his achievements here, except to acknowledge his central role in developing our values and culture, and building First Credit Union into a modern financial entity.

He lived and breathed the credit union philosophy, and all it stands for, "people helping people" all of that time. He served through a major period where his role was more often part counsellor, budget advisor and social worker. A role he carried out with the utmost professionalism and dignity.

It would be remiss of us to not acknowledge his rock and stay throughout all this time, Shirl Iles, his wife. Shirl too encompasses what the credit union ideal is all about, and she retired at the same time as Peter after spending many years working for First in our school banking programme.

On behalf of all the First Credit Union board, staff and members; I thank them sincerely.

Selecting a new CEO is one of the most important roles of a board. We are very pleased to have appointed Terry Edwards to move the credit union into the future. Terry was the outstanding candidate for the role given his depth of knowledge of First Credit Union, strategic vision, and financial services experience. He leads a strong management team at First Credit Union that we can all feel proud of.

The Board looks forward to First Credit Union beginning the first new chapter of many to come with Terry at the helm.



## ORGANISATIONAL CHANGES

In September 2015, four new sub committees were implemented, with each board member sitting on at least one committee, along with senior managers. The committees meet bi-monthly and include: Audit & Risk, Insurance, I.T and Governance.

## DIRECTOR LEARNING AND DEVELOPMENT

It's part of the Board's role to stay informed of wider developments and issues in the credit union world. This includes attending conferences, forums, strategic planning workshops and educational visits.

We are fortunate in that we belong to the worldwide family of credit unions – 57,000 credit unions in the world serving a total of 217,000,000 million members – just like you. The World Council of Credit Unions (WOCCU) provide us with advice, information and training and the First board has been an active participant for many years. You will also note a letter from the WOCCU President contained in this report celebrating our involvement.

The board has also asked in recent years to have staff (at any level of the organisation) included at conferences and forums so that they too may see that we at First are part of something bigger than our own sum. Terry has enthusiastically embraced this Board initiative.

To that end we have commenced at an embryonic stage a bi-lateral agreement with San Francisco Federal Credit Union to not only share ideas at board and management level, but also work toward a staff exchange programme.

We have also recently determined to assist where we can our Pacific credit union neighbours. Accordingly Director Kathy Robb and Risk and Compliance Manager Naca Curulala will attend the Oceania Cooperative Credit Union League (OCCUL) annual Technical Congress to be held in October. In addition to presenting papers to the Congress, their task is to get a feeling of how we may assist going forward. With our large Pasifika community here in New Zealand, we see real benefits of having such a relationship.

## CORPORATE GOVERNANCE

The First Credit Union board meets regularly and is responsible for the overall governance of the credit union.

At the last Annual General Meeting Natasha Grainger was voted onto the board as a new director.

In May 2016 a Special General Meeting was held where members voted unanimously to make various changes to the Credit Union Rules. The Rule changes were proposed to enable the Credit Union to transition from the Securities Act regime to the new regime under the Financial Markets Conduct Act.

Director	Board Meetings Eligible to Attend	Board Meetings Attended
Simon Scott	11	11
Judith Taane	11	10
Peter Iles	11	11
Kathy Robb	11	11
Paul O'Connor	11	11
John Harvey	11	11
Malcolm Blair	11	11
Natasha Grainger	11	11

## FRIENDLY SOCIETIES AND CREDIT UNIONS ACT

During the year changes were proposed to change our Act. The First Credit Union Board opposed the changes as they were not in the interests of you, the members. Mutuality is our cornerstone, and we will fight to protect that, and will not agree to that being changed or watered down.

We are pleased to report that the Government withdrew these changes based on our and other credit unions opposition. We will continue to be vigilant to any changes that do not benefit you.

Simon Scott

Chairman



## TRUSTEES' REPORT

**First Credit Union is a mutual**, owned by the members and established for the benefit of members.

Trustees, as directors, are also elected by the members. All assets belonging to the Credit Union are vested in the trustees for the use and benefit of members. The trustees are responsible for ensuring that the Credit Union fulfils all statutory duties required of them. They also supervise all loans made to the members and if warranted, they can review any loan application to determine whether the security offered by the member is sufficient and the terms of the loan complies with the lending policy. The trustees are responsible for investing any surplus funds with any trading bank within NZ and in accordance with Section 117 of the Friendly Societies and Credit Unions Act.

At balance date First Credit Union's cash assets stood at \$138.69 million or 41.5% (2015 \$100 million or 33.90%). These fundamentals are very strong and have improved over the financial year.

As discussed above, one of the main duties of the Trustees is to supervise lending. During the year First Credit Union advanced \$83.62 million.

For the period ended 30 June 2016, First Credit Union disbursed \$50.81 million in personal loans and \$32.81 million in mortgages. The average personal loan disbursement was \$3,796. At year end our loan book was 50.94% mortgages and 49.06% personal loans.

I wish to thank my fellow Directors, our managers and staff for all their hard work and dedication over the last year.

**Judith Taane**

*J. Taane*  
Trustee/Deputy Chair

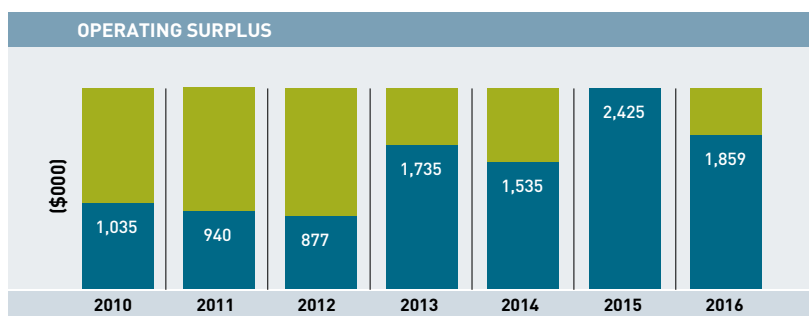
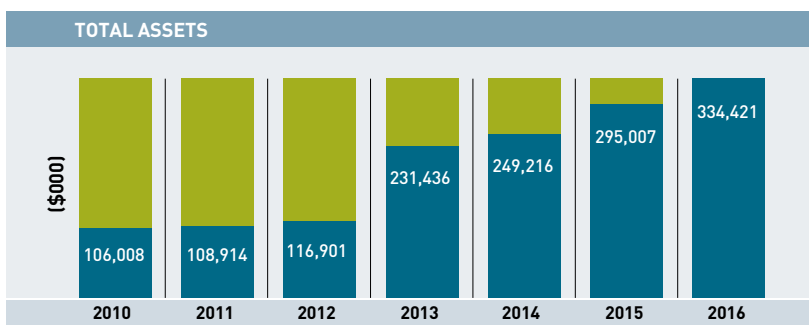
# REPORT





THESE ARE EXCELLENT RESULTS AND THEY CONFIRM OUR POSITION AS ONE OF NEW ZEALAND'S BEST PERFORMING CREDIT UNIONS.

Peter Iles *Treasurer*



REPORT



Peter Iles *Treasurer*

## TREASURER'S REPORT

I am pleased to report a good financial year ending 30 June 2016. Once again, First Credit Union has traded well.

### PERFORMANCE SUMMARY

At year end, total assets were \$334.42 million, an increase of 13% over 2015. Our operating surplus for the year was \$1.86 million, a slight decrease from last year. However, overall profit increased due to property revaluations, producing a great result. Members' shares rose 14% to \$276.38 million. Interest paid to members rose 13%.

The financial industry was subject to rapid change, with retail mortgage lending becoming increasingly competitive. Official cash rate decreases saw retail banks fight hard for loans, negatively impacting on our loan book. Total loans fell \$2.05 million, with personal loans growing by \$3.03 million and mortgages decreasing by \$5.08 million.

Over the year we achieved a 27% decrease in loan impairment expenses, a great result from the team. Our total reserves sat at 16.05% well above our 8% prudential requirement.

These are excellent results and they confirm our position as one of New Zealand's best performing credit unions.

We will continue to market the Credit Union philosophy of "People helping people" which I believe is as important today as it was when the Credit Union movement was established.

I would like to take the opportunity to thank the Directors, Trustees, Management and staff for all their hard work this year. We have a dedicated team who continue to work enthusiastically for the benefit of members and to ensure the credit union's success.

Peter Iles

Treasurer

## CEO'S REPORT

**Delighted.** There's no better way to describe my feelings as I present my first CEO's Report. I am extremely grateful to the Board for my appointment, and look forward to leading First Credit Union in our mission to meet the ever evolving needs of our members.

Let's look at this year's highlights, and the year ahead.

### 2016 SNAPSHOT

First Credit Union got the financial basics right in 2016. That includes maintaining our personal loan growth, increasing capital by \$3.73 million and adding over 2,000 members - a gain of 5%. With 63,711 members, a \$181.3 million loan book and \$53.68 million capital, we are strong and profitable.

We focused on boosting use of our AccessDebit Mastercard™, with great results. By balance date we'd achieved a 42.59% take up by members - 14% above the credit union national average.

Long serving General Manager Peter Iles retired. For the past quarter century Peter's 'been' the credit union, and the organisation today is a testament to his leadership. I owe Peter a personal debt of thanks. He's been

Terry Edwards CEO



my mentor, boss - and will now be my sage counsel. I'm delighted he's chosen to remain involved with First Credit Union in his "semi" retirement, and wish him and Shiril well.

2016 was also a year of wider organisational change, with a new CEO and CFO, a new executive team, and some solid behind-the-scenes strategic work. The new team performed well with the pressures arising from an extremely competitive retail finance market.

For a credit union, community support is more than just marketing: it's at the core of why we exist. This year we increased our sponsorships, grants and support for school sustainability projects to \$95,000, an increase of \$20,000 on 2015.

### A YEAR TO LOOK FORWARD TO

The Waikato/Bay of Plenty region property market is thriving, and First Credit Union is well positioned to benefit from sustained growth. We expect membership to grow as homebuyers seek new channels of mortgage finance in a lending market constrained by new regulations.

We are seeking to establish a new supplier relationship with Westpac

Bank, and we're looking forward to continuing improvements in our service and products as this beds in.

We're opening a new branch in Cameron Road, Tauranga. Scheduled to open in the 2nd quarter of 2017, its modern design and innovative features will set new standards of convenience and comfort for our members.

We'll be proceeding with changes to our back-end to improve customer service and convenience. These include the launch of a new core banking system with improved digital and mobile capability for our members.

It's part of the ongoing challenge to be relevant to the new generation of members by offering a mix of products and services designed to appeal to them.

Finally, a sincere thank you to the Board, Executive Management, staff - and members - for their work in keeping First Credit Union strong, successful, and relevant to our community.

Terry Edwards CEO

# REPORT



FOR A CREDIT UNION, COMMUNITY SUPPORT  
IS MORE THAN JUST MARKETING: IT'S AT THE  
CORE OF WHY WE EXIST.

Terry Edwards *CEO*

## BOARD OF DIRECTORS



SIMON SCOTT



JUDITH TAANE

### ■ SIMON SCOTT - CHAIR

Simon is a partner with Bogers Scott Shortland Lawyers, where he specialises in employment law. He has a BA and LLB and is a Member of the New Zealand Law Society (NZLS). He is also Chairman of the Hamilton Charitable Christmas Trust.

A Hamilton native, Simon has been a member of First Credit Union since age five. He strongly believes in the credit union philosophy of *'people helping people'*, through access to credit and well-priced banking products.

He is married to Leanna with three children, Samuel, Tessa and Hugo.

### ■ JUDITH TAANE - DEPUTY CHAIR

Judith is the Print Director at the Waikato Times, where she sits on the senior management team.

She's been a member of First Credit Union for 35 years. Joining the Board in 2007, she is currently Deputy Chair, IT Committee Chair and a Trustee.

Judith sat on Sacred Heart Girls' College Board of Trustees for nine years setting up policy programmes and restructuring Board processes. She has held many netball positions at a provincial and national level, including Magic Franchise chair, Vice-President of Netball Waikato, and Netball Waikato's delegate to Netball New Zealand



PAUL O'CONNOR



JOHN HARVEY

### ■ PAUL O'CONNOR

Paul has a legal and accounting background, and 47 years' experience in trust and non-profit organisations.

He has served as a credit union Board member for 25 years, with an involvement in the credit union movement that goes back three generations and over half a century.

As a director his focus is on ensuring members have a safe and secure credit union in which to transact business.

### ■ JOHN HARVEY

John is a well known figure in the automotive industry, owning and managing a vehicle collision repair business for 30 years. He also has interests in property development.

He is currently a director and Trustee of First Credit Union.

John has served on credit union boards for 10 years, helping with the merger of Credit Union North and First Credit Union in 2012.

He is also a Board member of The Employers and Manufacturers Association (EMA).

A lifelong Hamilton resident, he is married to Ann with 2 adult children.



MALCOLM BLAIR



KATHY ROBB

### ■ MALCOLM BLAIR

Malcolm's experience comes from a career of helping people, as an organiser for the Public Service Association (PSA). He has served as national organiser for the Science Sector and secretary of the National Science Committee.

Malcolm's experience in credit union governance includes being a past director of NZACU, Credit Union Insurance and United Credit Union.

Malcolm is now retired from the PSA.

### ■ KATHY ROBB

A Chartered Accountant with a BMS Degree from Waikato University, Kathy works for the Tauranga accountancy firm, Staples Rodway. She is a member of CAANZ.

Kathy has been a First Credit Union member since 1992, and a director since 2008.

She also chairs the Audit Committee.

# DIRECTORS

## ■ PETER ILES

Peter served as First Credit Union's General Manager for 26 years from 1990 to 2015.

Stepping aside in October 2015, he brings unparalleled credit union knowledge and experience to the Board.

Peter also sits on the Finance Committee of the Cathedral of the Blessed Virgin Mary in Hamilton and is an associate of CAANZ.

## ■ NATASHA GRAINGER

Natasha Grainger works for the Department of Conservation as a freshwater ecologist. She has extensive governance experience, sitting on inter-agency governance committees overseeing national research programmes and pest management biosecurity responses such as didymo.

In her spare time Natasha volunteers for the Red Cross as a member of the disaster Welfare Support Team and is also a committee member of the Hamilton Old Boys Junior Rugby Club where her three children all play rugby. Natasha is a relatively new member to First Credit Union who have helped Natasha and her partner Evan renovate their Hamilton home.



ON NIGHTS AND WEEKENDS, OUR STAFF VOLUNTEER THEIR TIME TO HELP ON SAUSAGE SIZZLES, JUDGE COMPETITIONS, PROVIDE BACKSTAGE "MUSCLE", HAND OUT AWARDS. YOU NAME IT, THEY DO IT.

# COMMUNITY

## COMMUNITY & SPONSORSHIP



**Communities are at the very heart of what credit unions do. We spread our support into every corner of the cities, towns and communities where we have a presence.**

Support involves a lot more than just giving a donation. On nights and weekends, our staff volunteer their time to help on sausage sizzles, judge competitions, provide backstage "muscle", hand out awards. You name it, they do it.

The past year has seen us support 155 individuals, groups, societies, clubs and schools. It added up to \$95,000 of sponsorships and grants, a 20% increase on 2015. We've calculated our staff gave around 500 hours of their time too.

And the highlights? Everything of course!

We supported 95 schools with our school banking programme. Thousands of kids learned the virtues of saving via our Jimmy Jumper and Buzz savings accounts.

We got behind the schools, helping out and donating to galas, newsletters, sports events, quiz nights, and handing out "super saver" awards to 30 of our top young savers.

First Credit Union's School Sustainability Fund helped 11 schools, to the tune of \$7,200. Schools used their grants for cool real-life projects such as vege gardens, beehives, chicken roosts and native plantings.

We supported the Balloons over Waikato festival for the School Hop event. This year balloons and crews landed on 17 school playing fields around Hamilton, to the delight of thousands of screaming children!

We supported three young sportspeople who are "going for gold" in their chosen field: Jamie Banhidi (sprint kayak), Natasha Fitzsimmons (Black Sticks hockey) and Maynard Peel (BMX). Maynard delighted everyone by winning the Junior Elite World Title.

We are proud to be on board with the Hamilton Christmas Charitable Trust for the 4th year, sponsoring the Hamilton Christmas Parade and the Carols by Candlelight. Our staff also volunteer their time to help out with both of these events.

We sponsored the Volunteering Waikato Awards, supplying a cash prize for runners up Kaivolution and their amazing food rescue service. We also got behind Bellyful, a Hamilton-based charity making nourishing meals for new mothers.



### OTHER GRANT RECIPIENTS INCLUDED:

- Whakatane Roller Derby
- Twisted Touch Team
- Waikato Under 20 Touch Team
- Riverlea Theatre Fundraising Ball
- Rotorua Boys' High School
- Kaipaki Cricket Club
- Otumoetai Soccer Club
- Kawerau Under 11 Rugby League Team
- Te Aroha Races
- Greerton Yarn Bombing
- Te Teko Netball Team
- Rotary Club of Rotorua
- Tauranga Musical Theatre
- Bay of Plenty Barbell Club
- National Square Dance Convention
- Hamilton Fringe Festival

# FINANCIAL STATEMENTS





# CONTENTS

Financial Statements for the year ended 30 June 2016

Directory.....	Page 18
Statement of Comprehensive Revenue and Expense.....	Page 19
Statement of Changes in Net Assets/Equity.....	Page 20
Statement of Financial Position .....	Page 21
Statement of Cashflows .....	Page 22
Notes to the Financial Statements .....	Page 23 - 57
Independent Auditors Report .....	Page 58

# DIRECTORY

For the year ended 30 June 2016

BOARD OF DIRECTORS	
<b>Chairman</b>	Simon Scott
<b>Secretary/Treasurer</b>	Peter Iles
<b>Directors</b>	Peter Iles
	John Harvey
	Judith Taane
	Paul O'Connor
	Natasha Grainger (elected 30 Sep 15)
	Kathy Robb
	Malcolm Blair
<b>Trustees</b>	John Harvey
	Simon Scott
	Judith Taane
KEY MANAGEMENT PERSONNEL	
<b>Chief Executive Officer</b>	Terry Edwards
<b>Retired General Manager</b>	Peter Iles
<b>Marketing &amp; Communications Manager</b>	Melissa Hay
<b>Chief Financial Officer</b>	Stephen Hawkins
<b>Chief Operating Officer</b>	Dezna Le Cordier
<b>Lending Manager</b>	Richard O'Regan
<b>Insurance Manager</b>	Rachel McGovern
<b>Call Centre Manager</b>	Ana Field
<b>Risk &amp; Compliance Manager</b>	Asenaca Curulala

**Auditors** BDO Waikato 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 Revenue and Expense

For the year ended 30 June 2016

	Note	30 Jun 16	30 Jun 15
<b>OPERATING REVENUE</b>		<b>\$000</b>	<b>\$000</b>
Interest Revenue	2	22,062	20,497
Interest Expenditure	2	9,864	8,743
<b>Net Interest Margin</b>		<b>12,198</b>	<b>11,754</b>
Other Income	2	6,701	6,597
		<b>18,899</b>	<b>18,351</b>
<b>EXPENDITURE</b>			
Loan Impairment Expenses	2 / 8	861	1,180
Employee Benefits	2	6,591	6,117
Occupancy		762	720
Depreciation	2	589	421
Amortisation Expenses	9 (a)	104	96
Other Administration Expenses	2	8,133	7,392
<b>Total Operating Expenditure</b>		<b>17,040</b>	<b>15,926</b>
Operating Surplus for the Period Attributable to Members		1,859	2,425
<b>OTHER COMPREHENSIVE REVENUE AND EXPENSE</b>			
Revaluation of Property	9 (b)	1,869	-
Total Other Comprehensive Revenue and Expense		1,869	-
<b>Total Comprehensive Revenue and Expense for the Period Attributable to Members</b>		<b>3,728</b>	<b>2,425</b>

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 Net Assets/Equity

For the year ended 30 June 2016

	Note	Accumulated Revenue and Expense	Property Revaluation Reserve	Total
		\$000	\$000	\$000
<b>Balance at 1 July 2015</b>		48,617	1,338	49,955
Surplus for the period attributable to members		1,859	-	1,859
<b>Total Comprehensive Revenue and Expense for the Period</b>		1,859	-	1,859
<b>Other Comprehensive Revenue and Expense</b>				
Revaluation of Property	9	-	1,869	1,869
<b>Balance at 30 June 2016</b>	4	50,476	3,207	53,683
<b>Balance at 1 July 2014</b>		38,656	1,338	39,994
Surplus for the period attributable to members		2,425	-	2,425
<b>Total Comprehensive Revenue &amp; Expense for the Period</b>		2,425	-	2,425
Transfer of engagements from Credit Union Lakeland and United Credit Union	24	7,536	-	7,536
<b>Balance at 30 June 2015</b>	4	48,617	1,338	49,955

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 2016

	Note	30 Jun 16	30 Jun 15
		\$000	\$000
<b>MEMBERS' FUNDS</b>			
Retained Earnings	4	50,476	48,617
Property Revaluation Reserve	4	3,207	1,338
<b>Total Members' Funds</b>		<b>53,683</b>	<b>49,955</b>
<b>ASSETS</b>			
Cash and Cash Equivalents	5 (a)	3,836	4,475
Deposits at New Zealand Association of Credit Unions and Trading Banks	5 (b)	134,857	95,530
Trade and Other Receivables	6	1,198	1,189
Loans to Members	7-8	178,836	180,613
Intangible Assets	9 (a)	202	306
Intangible Asset Under Construction	9 (a)	906	-
Property, Plant and Equipment	9 (b)	9,176	7,484
Capital Notes	10	5,410	5,410
<b>Total Assets</b>		<b>334,421</b>	<b>295,007</b>
<b>LIABILITIES</b>			
Trade and Other Payables	11	4,356	3,118
Members' Deposits	12	276,382	241,934
<b>Total Liabilities</b>		<b>280,738</b>	<b>245,052</b>
<b>Net Assets</b>		<b>53,683</b>	<b>49,955</b>

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

DIRECTOR  
Peter Illes



Date 31.08.2016

DIRECTOR  
Kathy Robb



Date 31.08.2016

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 2016

	Note	30 Jun 16	30 Jun 15
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>\$000</b>	<b>\$000</b>
Interest Received		22,372	21,147
Fees, Commissions and Other Income		6,001	5,520
Bad Loans Recovered		466	519
Interest Paid		(9,830)	(8,840)
Payments to Suppliers and Employers		(14,809)	(14,900)
<b>Net Cash Provided by Operating Activities</b>	<b>23</b>	<b>4,200</b>	<b>3,446</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net Movement in Members' Loans		943	(16,908)
Purchase of Base Capital Notes		-	(86)
Payments for Property, Plant, Equipment and Intangibles		(756)	(3,029)
Movement in Deposits at NZACU and Trading Banks		(39,327)	9,017
<b>Net Cash Used in Investing Activities</b>		<b>(39,140)</b>	<b>(11,006)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net Increase (Decrease) in Member Deposits		34,301	8,263
<b>Net Cash provided by Financing Activities</b>		<b>34,301</b>	<b>8,263</b>
Total Net Increase in Cash and Cash Equivalents Held Cash and Cash Equivalents from Credit Union Lakeland and United Credit Union		(639)	703
Cash and Cash Equivalents at the Beginning of the Period		-	1,100
Cash and Cash Equivalents at the Beginning of the Period		4,475	2,672
<b>Cash and Cash Equivalents at the End of the Period</b>	<b>5(a)</b>	<b>3,836</b>	<b>4,475</b>

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 2016

### 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, Covenant Trustee Services Limited (formerly Foundation Corporate Trust), was appointed to act as Trustee from 28 June 2013. Covenant Trustee Services Limited 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 2016. 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 (NZ GAAP). They comply with the Public Benefit Entity Accounting Standards (PBE Standards), as appropriate for Tier 1 not for profit/public benefit entities. These are the Credit Union's first Financial Statements under PBE Standards and PBE-FRS 46. First-time Adoption of PBE Standards by Entities previously applying NZ IFRS's has been complied with. For detail of the impact of adoption of the PBE Standards, please refer to Note (q).

The financial statements have been prepared in accordance with the historical cost convention except for certain assets which are stated at fair value. 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 2016

### 1. STATEMENT OF ACCOUNTING POLICIES (continued)

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 surplus or deficit 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 surplus.

#### *(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 surplus or deficit. 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.



## FIRST CREDIT UNION

### Notes to the Financial Statements

For the year ended 30 June 2016

#### **(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 surplus and deficit 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 surplus or deficit unless it reverses a previous credit to the asset revaluation reserve. Any subsequent increase or revaluation of the asset that off-sets a previous decrease in value is recognised in surplus or deficit and will be recognised first in surplus or deficit 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 surplus or deficit.

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.

##### **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.

##### **(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").

# FIRST CREDIT UNION

## Notes to the Financial Statements

For the year ended 30 June 2016

### 1. STATEMENT OF ACCOUNTING POLICIES (continued)

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 surplus or deficit. 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 wages and salaries, including non-monetary benefits, annual leave, sick leave and long service leave which are not expected to be settled within twelve months are measured at the amounts applicable were the employee concerned to leave within 12 months of the reporting date. They 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 as well.

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 surplus and deficit, transaction costs that are directly attributable to its acquisition or issue. Subsequent to initial recognition, financial instruments are measured as described below.

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.

# FIRST CREDIT UNION

## Notes to the Financial Statements

For the year ended 30 June 2016

### 1. STATEMENT OF ACCOUNTING POLICIES (continued)

#### 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 surplus or deficit 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 revenue and expense. 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 PBE IPSAS 29 (Financial Instruments – Recognition and Measurement).

#### 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.

#### 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.

# FIRST CREDIT UNION

## Notes to the Financial Statements

For the year ended 30 June 2016

### 1. STATEMENT OF ACCOUNTING POLICIES (continued)

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 surplus or deficit. 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 surplus or deficit.

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.

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 surplus or deficit.

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.

#### (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.

# FIRST CREDIT UNION

## Notes to the Financial Statements

For the year ended 30 June 2016

### 1. STATEMENT OF ACCOUNTING POLICIES (continued)

#### **(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) Standards, Interpretations and Amendments to Published Standards not yet effective for the period ended 30 June 2016**

*PBE IPSAS 1 Disclosure Initiative and Other Consequent Changes*

This standard will effect disclosures in the financial statements but will not impact financial measurement.

#### **(q) First Time Adoption of PBE Standards**

*PBE FRS 46 First-time adoption of PBE Standards by entities previously applying NZIFRS.*

The annual financial statements are the Credit Union’s first set of financial statements presented in accordance with PBE Standards.

The accounting policies adopted in the Financial Statements for the year ended 30 June 2016 are consistent with those of the financial year ended 30 June 2015.

Transition to PBE standards has not had an impact on recognition and measurement of items recognised in the Statement of Comprehensive Revenue and Expense and the Statement of Financial Position.

## FIRST CREDIT UNION

### Notes to the Financial Statements

For the year ended 30 June 2016

2. REVENUE AND EXPENDITURE	30 Jun 16	30 Jun 15
<b>REVENUE</b>	<b>\$000</b>	<b>\$000</b>
<b>Interest Revenue</b>		
<u>Interest on Loans and Receivables</u>		
Interest on Loans to Members	18,144	16,854
Interest on Bank Deposits	3,918	3,643
<b>Total Interest Revenue</b>	<b>22,062</b>	<b>20,497</b>
<b>Other Income</b>		
Transactional Fee Income-Overdraft, ATM, EFTPOS etc	4,399	4,174
Cost Recoveries	273	84
Bad Debts Recovered	466	519
Commissions Received	1,161	1,310
Dividends on Capital Notes	311	348
Rent Received	21	94
Other Income	70	68
<b>Total Other Income</b>	<b>6,701</b>	<b>6,597</b>
<b>Total Operating Income</b>	<b>28,763</b>	<b>27,094</b>

## FIRST CREDIT UNION

### Notes to the Financial Statements

For the year ended 30 June 2016

2. REVENUE AND EXPENDITURE (continued)	Note	30 Jun 16	30 Jun 15
		<b>\$000</b>	<b>\$000</b>
<b>EXPENDITURE</b>			
<b>Interest Expenditure-Liabilities at Amortised Cost</b>			
Interest on Members Call Shares		3,374	2,779
Interest on Members Term Shares		6,490	5,964
<b>Total Interest Expenditure</b>		<b>9,864</b>	<b>8,743</b>
<b>Other Expenditure</b>			
External Audit of Financial Statements			
- KPMG Fees		19	66
- KPMG Other Services		2	23
- BDO Audit		50	-
Internal Audit Costs		10	13
Directors Fees	22	211	141
Directors' Expenses and Training		67	88
Printing and Stationery		248	246
Data Processing and Support		2,020	1,813
Banking Services Fees		794	741
Accesscard Costs		2,220	1,932
NZACU Member Contributions		98	97
Trust Deed		74	66
Members Protection		50	48
Marketing		775	767
Other Expenses		1,495	1,351
<b>Total Other Expenditure</b>		<b>8,133</b>	<b>7,392</b>

## FIRST CREDIT UNION

### Notes to the Financial Statements

For the year ended 30 June 2016

2. REVENUE AND EXPENDITURE (continued)	Note	30 Jun 16	30 Jun 15
		<b>\$000</b>	<b>\$000</b>
<b>Employee Benefits</b>			
Wages and Salaries		6,057	5,563
Staff Welfare, Benefits, Training etc		382	429
Defined Contribution Expense		152	125
<b>Total Employee Benefits</b>		<b>6,591</b>	<b>6,117</b>
<b>Loan Impairment Expenses</b>			
Bad Debts Written Off to Impairment Allowance	8(a)	1,129	1,066
Movement in Allowance for Impaired Loans	8(a)	(268)	114
<b>Total Loan Impairment Expenses</b>		<b>861</b>	<b>1,180</b>
<b>Depreciation Expenditure</b>			
Buildings Depreciation	9(b)	136	121
Computer Equipment Depreciation	9(b)	222	149
Motor Vehicles Depreciation	9(b)	73	46
Office Furniture and Equipment Depreciation	9(b)	158	105
<b>Total Depreciation Expenditure</b>		<b>589</b>	<b>421</b>



## FIRST CREDIT UNION

### Notes to the Financial Statements

For the year ended 30 June 2016

#### 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:

Call Shares	30 Jun 16	30 Jun 15
Ordinary and Special Purpose Shares	0.00-4.00%	2.00 - 4.00%
Loan Provider Shares	4.00%	4.00%
Christmas Club and Jimmy Jumper Shares	4.00%	4.00%
Money Maker Shares	2.00 - 3.40%	2.00 - 3.75%
Online Saver Shares	3.40%	4.00%

Term Shares	30 Jun 16	30 Jun 15
Term Deposits (3 Months)	3.00 - 5.00%	3.75 - 5.25%
Term Deposits (6 Months)	3.60 - 4.75%	4.25 - 5.50%
Term Deposits (9 Months)	3.80 - 5.00%	3.00 - 5.00%
Term Deposits (1 Year)	3.50 - 5.75%	2.00 - 5.75%
Term Deposits (2 to 3 Years)	3.75 - 5.75%	4.75 - 5.75%

4. RESERVES	Accumulated Revenue and Expense	Property Revaluation Reserve	Total
<b>Reserves at 30 Jun 2016</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Balance at 30 Jun 2016</b>	50,476	3,207	53,683
The Reserve % to Total Assets	15.09%	0.96%	16.05%
<b>Reserves at 30 Jun 2015</b>			
<b>Balance at 30 Jun 2015</b>	48,617	1,338	49,955
The Reserve % to Total Assets	16.48%	0.45%	16.93%

#### Accumulated Revenue and Expense

Reserve arising from retained surplus 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, Tauranga and 524 Cameron Road, Tauranga. All properties are revalued every three years, and have been revalued as at 30 June 2016. Refer to Note 9(b).

#### Total Reserves

The Trust Deed requires that the total reserves, including accumulated revenue and expense, 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 2016

5. CASH AND CASH EQUIVALENTS AND TERM DEPOSITS	Interest Rates	30 Jun 16	30 Jun 15
<b>(a) Cash and Cash Equivalents</b>		<b>\$000</b>	<b>\$000</b>
Cash on Hand	0.00%	2,128	2,309
Bank Balances - On Call	0.50%	1,708	2,166
<b>Total Cash and Cash Equivalents</b>		<b>3,836</b>	<b>4,475</b>
<b>(b) Deposits at New Zealand Association of Credit Unions and Trading Banks</b>			
New Zealand Association of Credit Unions	2.3 to 4.23%	11,150	48,262
Westpac Bank	2.72 to 3.25%	18,487	7,957
ANZ	2.8 to 3.77%	75,426	20,345
BNZ	2.8 to 3.35%	29,794	18,966
<b>Total Term Deposits</b>		<b>134,857</b>	<b>95,530</b>
<b>Total Deposits and Cash</b>		<b>138,693</b>	<b>100,005</b>

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 16	30 Jun 15
	<b>\$000</b>	<b>\$000</b>
Accrued Interest	666	526
Sundry Debtors	337	554
Prepayments	195	109
<b>Total Trade and Other Receivables</b>	<b>1,198</b>	<b>1,189</b>

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

## FIRST CREDIT UNION

### Notes to the Financial Statements

For the year ended 30 June 2016

#### 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 16	30 Jun 15
	\$000	\$000
Neither Past Due Nor Impaired	157,095	156,490
Past Due But Not Impaired		
1 to 30 days	16,326	17,655
31 to 90 days	1,933	3,130
over 90 days	786	1,628
Total Impaired Loans	5,155	4,437
Gross Loans	181,295	183,340
Less:		
Allowance for Impaired Individually	438	407
Allowance for Restructured	1,095	911
Allowance for Impaired Collectively	926	1,409
<b>Net Loans to Members</b>	<b>178,836</b>	<b>180,613</b>

The total of past due and impaired loans greater than 90 days in arrears is \$2,539 (2015: \$6,166).

(b) Credit Quality - Security Dissection	30 Jun 16	30 Jun 15
	\$000	\$000
Secured by 1st Mortgage Over Real Estate	91,624	96,708
Secured by 2nd Mortgage Over Real Estate	53	52
Caveat Secured Loans	21	39
Partially Secured by Motor Vehicles and Other Collateral	60,056	63,888
Secured by Members Shares	19,822	19,094
Unsecured Loans	9,719	3,559
<b>Gross Loans to Members</b>	<b>181,295</b>	<b>183,340</b>

## FIRST CREDIT UNION

### Notes to the Financial Statements

For the year ended 30 June 2016

#### 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 \$19.8 million loan provider shares held as security against loans (2015: \$19.1 million).

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

	30 Jun 16	30 Jun 15
<i>Security held as mortgage against real estate is on the basis of:</i>	<b>\$000</b>	<b>\$000</b>
Loan to valuation ratio of less than 80%	61,568	61,021
Loan to valuation ratio of more than 80% ( all insured under the Welcome Home Loan structure)	3,156	4,443
Loan to valuation ratio of more than 80%	26,953	31,296
<b>Total Mortgages</b>	<b>91,677</b>	<b>96,760</b>
<b>(c) Current v's Non Current</b>		
Current	38,255	37,246
Non Current	143,040	146,094
<b>Total Loans to Members</b>	<b>181,295</b>	<b>183,340</b>
<b>(d) Credit quality - Concentration of loans</b>		
(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 2016

### 8. IMPAIRMENT OF LOANS AND ADVANCES

#### (a) Impairment Expense

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

	30 Jun 16	30 Jun 15
	\$000	\$000
Provision for impairment - Increase/(Decrease) in the year	(268)	114
Bad Loans Written Off	1,129	1,066
<b>Loan Impairment Expenditure</b>	<b>861</b>	<b>1,180</b>

#### (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 2016

#### 8. IMPAIRMENT OF LOANS AND ADVANCES (continued)

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

	30 Jun 16	30 Jun 15
<b>Individually Impaired Assets Provision</b>	<b>\$000</b>	<b>\$000</b>
Opening Balance	407	1,106
Transfer from Credit Union Lakeland	-	201
Provisions made during the year	488	68
Provisions reversed during the year	(457)	(684)
Transfer to bad debts written off	-	(284)
<b>Closing Balance Including Principal and Interest</b>	<b>438</b>	<b>407</b>
<b>Restructured Assets Provision</b>		
Opening Balance	911	432
Transfer from Credit Union Lakeland	-	-
Movement in provision for the year	964	1,146
Transfer to bad debts written off	(780)	(667)
<b>Closing Balance Including Principal and Interest</b>	<b>1,095</b>	<b>911</b>
<b>Collective Assets Provision</b>		
Opening Balance	1,409	769
Transfer from Credit Union Lakeland and United Credit Union	-	106
Movement in provision for the year	(483)	534
<b>Closing Balance</b>	<b>926</b>	<b>1,409</b>
<b>(d) Interest on impaired Loans</b>		
Interest Revenue on Impaired Loans	319	261
Interest Revenue on Restructured Loans	84	147
<b>Totals Interest and Other Revenue Recognised and Foregone</b>	<b>403</b>	<b>408</b>
<b>(e) Fair Value of Assets Acquired</b>		
Assets Acquired Through The Enforcement of Security	3	6
<b>Total Fair Value of Assets Acquired</b>	<b>3</b>	<b>6</b>

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 \$1,881 at 30 June 2016 (2015: \$1,578).

## FIRST CREDIT UNION

### Notes to the Financial Statements

For the year ended 30 June 2016

#### 9. (a) Intangible Assets

	30 Jun 16	30 Jun 15
<b>Cost</b>	<b>\$000</b>	<b>\$000</b>
<b>Cost brought forward 1 July 2015</b>	490	443
Additions Transfer from United Credit Union	-	47
<b>Closing Cost at 30 June 2016</b>	<b>490</b>	<b>490</b>
<b>Opening Accumulated Amortisation 1 July 2015</b>	<b>184</b>	88
Amortised During the Year	104	96
<b>Closing Accumulated Amortisation at 30 June 2016</b>	<b>288</b>	<b>184</b>
<b>Net Book Value at 30 June 2016</b>	<b>202</b>	<b>306</b>
<b>Intangible Software Under Construction</b>	<b>906</b>	-

The Credit Union has contracted for a new computer system. \$906k has been spent to date. Once the system is operational it will be amortised over its useful life.

#### 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
<b>Cost or Valuation</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Cost or Valuation brought forward at 1 July 2015</b>	3,167	3,195	1,663	2,209	290	10,524
Additions	-	41	183	143	200	567
Revaluations	(46)	1,915	-	-	-	1,869
Disposals or Written off	-	-	(7)	(69)	(181)	(257)
<b>Closing Cost 30 Jun 2016</b>	<b>3,121</b>	<b>5,151</b>	<b>1,839</b>	<b>2,283</b>	<b>309</b>	<b>12,703</b>
<b>Accumulated Depreciation</b>						
<b>Opening Accumulated Depreciation 1 July 2015</b>	-	547	1,140	1,243	110	3,040
Depreciation for the period	-	136	222	158	73	589
Disposals or Written off	-	-	(6)	(42)	(54)	(102)
<b>Closing Accumulated Depreciation 30 Jun 2016</b>	<b>-</b>	<b>683</b>	<b>1,356</b>	<b>1,359</b>	<b>129</b>	<b>3,527</b>
<b>Net Book Value at 30 Jun 2016</b>	<b>3,121</b>	<b>4,468</b>	<b>483</b>	<b>924</b>	<b>180</b>	<b>9,176</b>

## FIRST CREDIT UNION

### Notes to the Financial Statements

For the year ended 30 June 2016

#### 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
<b>Cost or Valuation brought forward at 1 July 2014</b>	<b>1,660</b>	<b>2,748</b>	<b>1,214</b>	<b>1,330</b>	<b>171</b>	<b>7,123</b>
Transfer of Engagements from Credit Union Lakeland and United Credit Union			106	147	119	372
Additions	1,507	447	343	732	-	3,029
Revaluations	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
<b>Closing Cost 30 June 2015</b>	<b>3,167</b>	<b>3,195</b>	<b>1,663</b>	<b>2,209</b>	<b>290</b>	<b>10,524</b>
<b>Accumulated Depreciation</b>						
<b>Opening Accumulated Depreciation 1 July 2014</b>	<b>-</b>	<b>426</b>	<b>991</b>	<b>1,138</b>	<b>64</b>	<b>2,619</b>
Depreciation for the period	-	121	149	105	46	421
Depreciation on Disposals	-	-	-	-	-	-
<b>Closing Accumulated Depreciation 30 June 2015</b>	<b>-</b>	<b>547</b>	<b>1,140</b>	<b>1,243</b>	<b>110</b>	<b>3,040</b>
<b>Net Book Value at 30 June 2015</b>	<b>3,167</b>	<b>2,648</b>	<b>523</b>	<b>966</b>	<b>180</b>	<b>7,484</b>

#### 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 2016 were carried out by the Registered Valuers Telfer Young Ltd for Hamilton, Te Aroha, Mount Maunganui, Tauranga and Whakatane properties. The valuer is independent of the Credit Union and its officers. In estimating the fair value of the land and buildings, the capitalised rental basis method was used, which incorporated the following significant assumptions:

- Consideration of the cash flow that could be, or is, generated from the property
- To establish the market value for the premises comparison has been made with recent rental settlements for comparable accommodation in the wider location.
- The rental evidence has been analysed on a Total Occupancy Cost Basis (TOC Bare) basis (inclusive of all operating expenses but deducts allowances for fitout such as airconditioning, floor coverings and partitions).

The registered values of the properties at 30 June 2016 are as follows :

	\$000
Hamilton	\$3,100 (Freehold)
Te Aroha	\$ 310 (Freehold)
Mount Maunganui	\$1,635 (Freehold)
Tauranga	\$1,900 (Freehold)
Whakatane	\$ 645 (Lease Land)



## FIRST CREDIT UNION

### Notes to the Financial Statements

For the year ended 30 June 2016

#### 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.

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 PBE IPSAS 29; 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 16	30 Jun 15
	\$000	\$000
<b>Capital Notes</b>	5,410	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
<b>Total Available-For-Sale Investments at Cost</b>	<b>5,410</b>	<b>5,410</b>
<b>11. Trade and Other Payables</b>	<b>\$000</b>	<b>\$000</b>
Trade Payables	1,618	949
Sundry Creditors and Accrued Expenses	621	616
Accesscard Settlement	1,407	910
Employee Entitlements	710	643
<b>Total Trade and Other Payables</b>	<b>4,356</b>	<b>3,118</b>

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 2016

12. MEMBER'S DEPOSITS	30 Jun 16	30 Jun 15
<b>Call Shares</b>	<b>\$000</b>	<b>\$000</b>
Ordinary, and Special Purpose Shares	41,973	39,251
Loan Provider Shares	29,607	27,616
Christmas Club and Children's Account Shares	5,723	4,803
Money Maker Shares	16,427	14,457
Online Savings Shares	31,376	18,597
<b>Total Call Shares</b>	<b>125,106</b>	<b>104,724</b>
<b>Term Shares</b>		
Term shares maturing:		
- within 1 month	11,452	10,060
- over 1 month and up to 3 months	31,127	27,483
- over 3 months and up to 6 months	43,285	35,400
- over 6 months and up to 12 months	56,320	51,950
<b>Total Term Shares</b>	<b>142,184</b>	<b>124,893</b>
<b>Total Current Members' Deposits</b>	<b>267,290</b>	<b>229,617</b>
<b>Non Current Members' Deposits</b>		
- over 1 year and up to 2 years	6,103	10,065
- over 2 years and up to 3 years	2,989	2,252
<b>Total Non Current Members' Deposits</b>	<b>9,092</b>	<b>12,317</b>
<b>Total Members' Deposits</b>	<b>276,382</b>	<b>241,934</b>

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 Covenant Trustee Services Limited 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 Covenant Trustee Services Limited a security interest in all its present and after-acquired personal property as additional security for the members' shares. Covenant Trustee Services Limited 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 2016

### 13. COMMITMENTS

#### (a) Future Capital Commitments

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

	30 Jun 16	30 Jun 15
	\$000	\$000
Not longer than 1 year	920	750
Longer than 1 and not longer than 5 years	-	-
Longer than 5 years	-	-
<b>Total Future Capital Commitments</b>	<b>920</b>	<b>750</b>

#### (b) Operating Lease Commitments

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

Not longer than 1 year	302	357
Longer than 1 and not longer than 5 years	405	57
Longer than 5 years	7	28
<b>Total Operating Lease Commitments</b>	<b>714</b>	<b>442</b>

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	1,726	2,926
Undrawn Overdraft and Line of Credit	387	444
<b>Total Outstanding Loan Commitments</b>	<b>2,113</b>	<b>3,370</b>

### 14. CONTINGENT LIABILITIES

There are no material contingent liabilities not provided for in the financial statements (2015: Nil).

## FIRST CREDIT UNION

### Notes to the Financial Statements

For the year ended 30 June 2016

15. STANDBY BORROWING FACILITIES	30 Jun 16	30 Jun 15
	\$000	\$000
Overdraft Facility	50	50
<b>Total Standby Borrowing Facilities</b>	<b>50</b>	<b>50</b>

Currently the unused overdraft facility is \$50,000 (2015: \$50,000). The interest rate is 9.40% (2015: 5.40%) and the penalty rate is 14.10% (2015: 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 2016

### 16. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

	30 Jun 16 Interest Rate Risk			30 Jun 15 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
<b>Financial Assets</b>						
NZACU and Bank Deposits	136,565	(941)	941	97,696	(762)	762
Loan Receivables	181,295	(1,614)	1,614	183,340	(1,720)	1,720
		(2,555)	2,555		(2,482)	2,482
<b>Financial Liabilities</b>						
Member Deposits	276,382	(779)	779	241,934	(672)	672
		(779)	779		(672)	672
<b>Total Increase /(Decrease)</b>		<b>(1,776)</b>	<b>1,776</b>		<b>(1,810)</b>	<b>1,810</b>

The effect on the net surplus 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 surplus 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 2016

#### 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.

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 2016

#### 16. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The Credit Union's capital is determined as follows:

	30 Jun 16	30 Jun 15
<b>Tier 1</b>	<b>\$000</b>	<b>\$000</b>
Retained Earnings	50,476	48,617
<b>Total Tier 1 Reserves</b>	<b>50,476</b>	<b>48,617</b>
<b>Tier 1 Capital Ratio</b>	<b>15.09%</b>	<b>16.48%</b>
<b>Tier 2</b>		
Property Revaluation Reserve	3,207	1,338
<b>Total Reserves</b>	<b>3,207</b>	<b>1,338</b>
<b>Total Tier 2 Capital Ratio</b>	<b>0.96%</b>	<b>0.45%</b>
<b>Total Tier 1 and Tier 2 Reserves</b>	<b>53,683</b>	<b>49,955</b>
<b>Total Tier 1 and Tier 2 Capital Ratio</b>	<b>16.05%</b>	<b>16.93%</b>

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 2016

### 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 June 2016	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
<b>Monetary Assets Receivable</b>										
Cash and Bank	3,836	-	-	-	-	-	-	-	-	3,836
Trade and Other Receivables	-	1,003	-	-	-	-	-	-	-	1,003
Investments - Base Capital Notes	-	-	-	-	-	-	-	-	5,410	5,410
Deposits at NZACU and Banks	39,833	21,006	31,206	29,048	13,764	-	-	-	-	134,857
Future Interest Receivable	-	1,467	2,862	4,015	7,081	10,731	16,225	39,280	-	81,661
Loans to Members	-	3,411	6,761	9,668	18,416	31,747	39,714	71,578	-	181,295
<b>Total Monetary Assets Receivable</b>	<b>43,669</b>	<b>26,887</b>	<b>40,829</b>	<b>42,731</b>	<b>39,261</b>	<b>42,478</b>	<b>55,939</b>	<b>110,858</b>	<b>5,410</b>	<b>408,062</b>
<b>Monetary Liabilities Payable</b>										
Payables	-	3,646	-	-	-	-	-	-	-	3,646
Future Interest Payable	-	458	1,106	1,316	1,466	420	73	-	-	4,839
Members Call Shares	125,106	-	-	-	-	-	-	-	-	125,106
Member Term Shares	-	12,970	31,127	43,285	54,801	6,104	2,989	-	-	151,276
<b>Total Monetary Liabilities Payable</b>	<b>125,106</b>	<b>17,074</b>	<b>32,233</b>	<b>44,601</b>	<b>56,267</b>	<b>6,524</b>	<b>3,062</b>	<b>-</b>	<b>-</b>	<b>284,867</b>



# FIRST CREDIT UNION

## Notes to the Financial Statements

For the year ended 30 June 2016

### 17. MATURITY PROFILE OF FINANCIAL ASSETS AND LIABILITIES (continued)

30 June 2015	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
<b>Monetary Assets Receivable</b>										
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
<b>Total Monetary Assets Receivable</b>	<b>12,025</b>	<b>14,151</b>	<b>66,216</b>	<b>33,212</b>	<b>28,585</b>	<b>42,697</b>	<b>56,823</b>	<b>125,951</b>	<b>5,410</b>	<b>385,070</b>
<b>Monetary Liabilities Payable</b>										
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
Members' Term Shares	-	10,060	27,483	35,400	51,950	10,065	2,252	-	-	137,210
<b>Total Monetary Liabilities Payable</b>	<b>104,724</b>	<b>12,966</b>	<b>28,490</b>	<b>36,583</b>	<b>53,680</b>	<b>10,784</b>	<b>2,340</b>	<b>-</b>	<b>-</b>	<b>249,567</b>

## FIRST CREDIT UNION Notes to the Financial Statements for the year ended 30 June 2016

### 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 / Fixed Interest Rate Maturing in:														Weighted average effective interest rate							
	Floating Interest Rate		0 to 3 months		3 to 6 months		6 to 12 months		1 to 2 years		2 to 5 years		Over 5 years		Set 6 monthly in arrears		Non-interest sensitive		Total			
	Jun-16	Jun-15	Jun-16	Jun-15	Jun-16	Jun-15	Jun-16	Jun-15	Jun-16	Jun-15	Jun-16	Jun-15	Jun-16	Jun-15	Jun-16	Jun-15	Jun-16	Jun-15	Jun-16	Jun-15		
<b>Monetary Assets</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>		
Cash & Bank	3,836	4,475	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,475	4,475	0.50%	
Deposits at NZACU & Banks	39,833	7,550	52,212	65,220	29,048	19,610	13,764	3,150	-	-	-	-	-	-	-	-	-	-	134,857	95,530	3.05%	
Trade & Other Receivables	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,003	1,080	1,003	1,080	n/a
Loans to Members - Fixed	-	-	2,260	1,056	4,150	3,172	3,109	6,046	15,575	5,157	-	-	-	-	-	-	-	-	25,094	15,431	5.05%	
Loans to Members - Floating	156,201	167,909	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	156,201	167,909	10.69%	
Base Capital Notes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,410	5,410	-	-	5,410	5,410	5.74%	
<b>Total Monetary Assets</b>	<b>199,870</b>	<b>179,934</b>	<b>54,472</b>	<b>66,276</b>	<b>33,198</b>	<b>22,782</b>	<b>16,873</b>	<b>9,196</b>	<b>15,575</b>	<b>5,157</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,410</b>	<b>5,410</b>	<b>1,003</b>	<b>1,080</b>	<b>1,080</b>	<b>326,401</b>	<b>289,835</b>		
<b>Monetary Liabilities</b>																						
Deposits	125,106	104,724	44,097	38,890	43,285	35,400	54,801	50,602	6,104	10,065	2,989	2,253	-	-	-	-	-	-	276,382	241,934	3.61%	
Other payables	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,646	2,475	3,646	2,475	-	n/a
<b>Total Monetary Liabilities</b>	<b>125,106</b>	<b>104,724</b>	<b>44,097</b>	<b>38,890</b>	<b>43,285</b>	<b>35,400</b>	<b>54,801</b>	<b>50,602</b>	<b>6,104</b>	<b>10,065</b>	<b>2,989</b>	<b>2,253</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,646</b>	<b>2,475</b>	<b>280,028</b>	<b>244,409</b>			

\* 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 6.57% paid for the year ended 30 June 2016, (Jun 2015 : 6.43% per annum).

## FIRST CREDIT UNION

### Notes to the Financial Statements

For the year ended 30 June 2016

#### 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 16	Number of counterparties 30 Jun 15
Over 100% of equity	1 ANZ	0
Between 90% and 100% of equity	0	1 NZACU
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	1 BNZ	0
Between 40% and 50% of equity	0	1 ANZ
Between 30% and 40% of equity	1 Westpac	1 BNZ
Between 20% and 30% of equity	1 NZACU	0
Between 10% and 20% of equity	0	1 Westpac

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 3.8% to 27.45% p.a. (2015 5.00% to 27.45% 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 Registrar of Friendly Societies and Credit Unions has approved an extension of the secured loan term from 10 to 30 years. Changes to the Friendly Societies and Credit Unions 1982 on 30 August 2012 resulted in section 110 being repealed. Credit Unions are now required to lend within their rules and policies.

## FIRST CREDIT UNION

### Notes to the Financial Statements

For the year ended 30 June 2016

#### 19. OTHER CREDIT RISKS (continued)

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

Loans to Members	30 Jun 16	30 Jun 15
<b>The proportion of loans with repayments in arrears in excess of three months is:</b>	<b>1.40%</b>	<b>1.74%</b>
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.		
<b>The monthly repayments on the loans for the past year represent an average loan term of:</b>	<b>20.92 mths</b>	<b>41.4 mths</b>
<b>The proportion of loans owed in aggregate by the debtors who owe the six largest amounts is:</b>	<b>2.63%</b>	<b>2.70%</b>
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		
<b>The amounts drawn down are as follows:</b>	<b>\$693,365</b>	<b>\$759,222</b>

#### 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 members reside all over the North Island although predominantly in 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 \$28,460,467 fixed mortgage loans receivable is \$28,254,683 assuming an average floating mortgage interest rate of 5.6% at 30 June 2016. 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.

# FIRST CREDIT UNION

## Notes to the Financial Statements

For the year ended 30 June 2016

### 21. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

#### Members share accounts

The carrying amount of member share accounts repriced within 12 months is a reasonable estimate of the net fair value. For term shares repriced past 12 months the Credit Unions current interest rates are compared to the contracted interest rates. The current rates are comparable to the market rates for term deposits of a similar term.

	30 Jun 16 Carrying Value	30 Jun 16 Fair Value	30 Jun 15 Carrying Value	30 Jun 15 Fair Value
	\$000	\$000	\$000	\$000
<b>LOANS AND RECEIVABLES</b>				
Cash & Cash Equivalents	3,836	3,836	4,475	4,475
Bank Term Deposits	123,707	123,707	47,268	47,268
NZACU Deposit	11,150	11,150	48,262	48,262
Accounts Receivable	1,198	1,198	1,189	1,189
Loans to Members	181,295	181,089	183,340	183,496
<b>FINANCIAL LIABILITIES AT AMORTISED COST</b>				
On Call Shares	125,106	125,106	104,724	104,724
Fixed Term Shares	151,276	151,276	137,210	137,210
Accounts Payable	4,356	4,356	3,118	3,118

## FIRST CREDIT UNION

### Notes to the Financial Statements

For the year ended 30 June 2016

#### 22. 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 eight directors and eight 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 Key Management Personnel.

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

Related Party Disclosures	30 Jun 16	30 Jun 16	30 Jun 15	30 Jun 15
	Directors	Other KMP	Directors	Other KMP
	\$000	\$000	\$000	\$000
(a) Short-Term Employee Benefits	211	701	141	614
(b) Post-Employment Benefits - contributions to defined contribution scheme	-	-	-	-
<b>Total Related Party Disclosures</b>	211	701	141	614

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.

	30 Jun 16	30 Jun 15
Directors and other KMP holdings at reporting date are:	\$000	\$000
Owing to Directors and other KMP (shares)	2,092	280
Owing by Directors and other KMP (loans)	837	821
Connected parties at reporting date		
Owing to Connected Parties	1,435	1,449
Owing by Connected Parties	2,483	2,157

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 \$13,000 (2015: \$518,000) and repayments other than normal scheduled repayments totalled \$NIL (2015: NIL). There were no new term deposits received (2015: \$NIL)

There are no shares from Directors and KMP exceeding 36 months and all Directors and KMP loans are repayable upon demand. During the year Directors and KMP's chose to invest with the Credit Union as term deposit rates were very attractive compared to other banks.

No loans to related parties have been impaired in the period. (2015: \$NIL)

During the year \$11,635 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 2016

#### 23. RECONCILIATION OF CASH FLOW FROM OPERATING ACTIVITIES WITH OPERATING SURPLUS

	30 Jun 16	30 Jun 15
	\$000	\$000
<b>Surplus for the Period Attributable to Members</b>	<b>1,859</b>	<b>2,425</b>
<b>Non Cash Items</b>		
Depreciation, Amortisation and Loss on Sale	692	516
Bad Debts Written off	1,102	1,066
Movement in Impairment Allowance	(268)	114
	1,526	1,696
<b>Changes in Assets and Liabilities</b>		
Movement in Accounts Receivable	(9)	156
Movement in Accounts Payable	824	(831)
	815	(675)
<b>Net Operating Cash Flows</b>	<b>4,200</b>	<b>3,446</b>

## FIRST CREDIT UNION

### Notes to the Financial Statements

For the year ended 30 June 2016

#### 24. TRANSFER OF ENGAGEMENTS - PRIOR YEAR

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.

	Credit Union Lakeland 31 Oct 14	United Credit Union 31 Jan 15	Total
	\$000	\$000	\$000
<b>ASSETS</b>			
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
<b>Total Assets</b>	<b>14,720</b>	<b>21,215</b>	<b>35,935</b>
<b>LIABILITIES</b>			
Trade and Other Payables	619	305	924
Members' Deposits	11,813	15,662	27,475
<b>Total Liabilities</b>	<b>12,432</b>	<b>15,967</b>	<b>28,399</b>
<b>Acquisition Date Fair Value of Aquirees Assets and Liabilities</b>	<b>2,288</b>	<b>5,248</b>	<b>7,536</b>
<b>Consideration: Acquisition Date Fair Value of Acquirees Equity</b>	<b>2,288</b>	<b>5,248</b>	<b>7,536</b>

#### 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 2016

#### 27. CREDIT RATING

##### First Credit Union's Issuer Credit Rating as at 13 April 2016

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

*Long term rating: BB- / Outlook: Positive / 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-"	Considered lowest investment grade by market participants.
"BB+"	Considered highest speculative grade by market participants.
"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 changes have been made to the Credit Union's rating. More details are available on [www.yourinvestments.standardandpoors.co.nz](http://www.yourinvestments.standardandpoors.co.nz)

**INDEPENDENT AUDITOR'S REPORT  
To the Members of First Credit Union**



BDO WAIKATO

**Report on the Financial Statements**

We have audited the financial statements of First Credit Union ("the credit union"), which comprise the statement of financial position as at 30 June 2016, the statement of comprehensive revenue and expense, statement of changes in net assets/equity and statement of 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 credit union's members, as a body, in accordance with section 124(b) of the Friendly Societies and Credit Unions Act 1982. Our audit has been undertaken so that we might state to the members those matters we are required to state to them in an 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 and the credit union's members as a body, for our audit work, for this report, or for the opinion we have formed.

**The Responsibility of the Directors for the Financial Statements**

The Directors' are responsible on behalf of the credit union for the preparation and fair presentation of financial statements in accordance with Public Benefit Entity Standards issued in New Zealand by the New Zealand Accounting Standards Board 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 entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, 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.

Other than in our capacity as auditor we have no relationship with, or interests in, First Credit Union.

**Opinion**

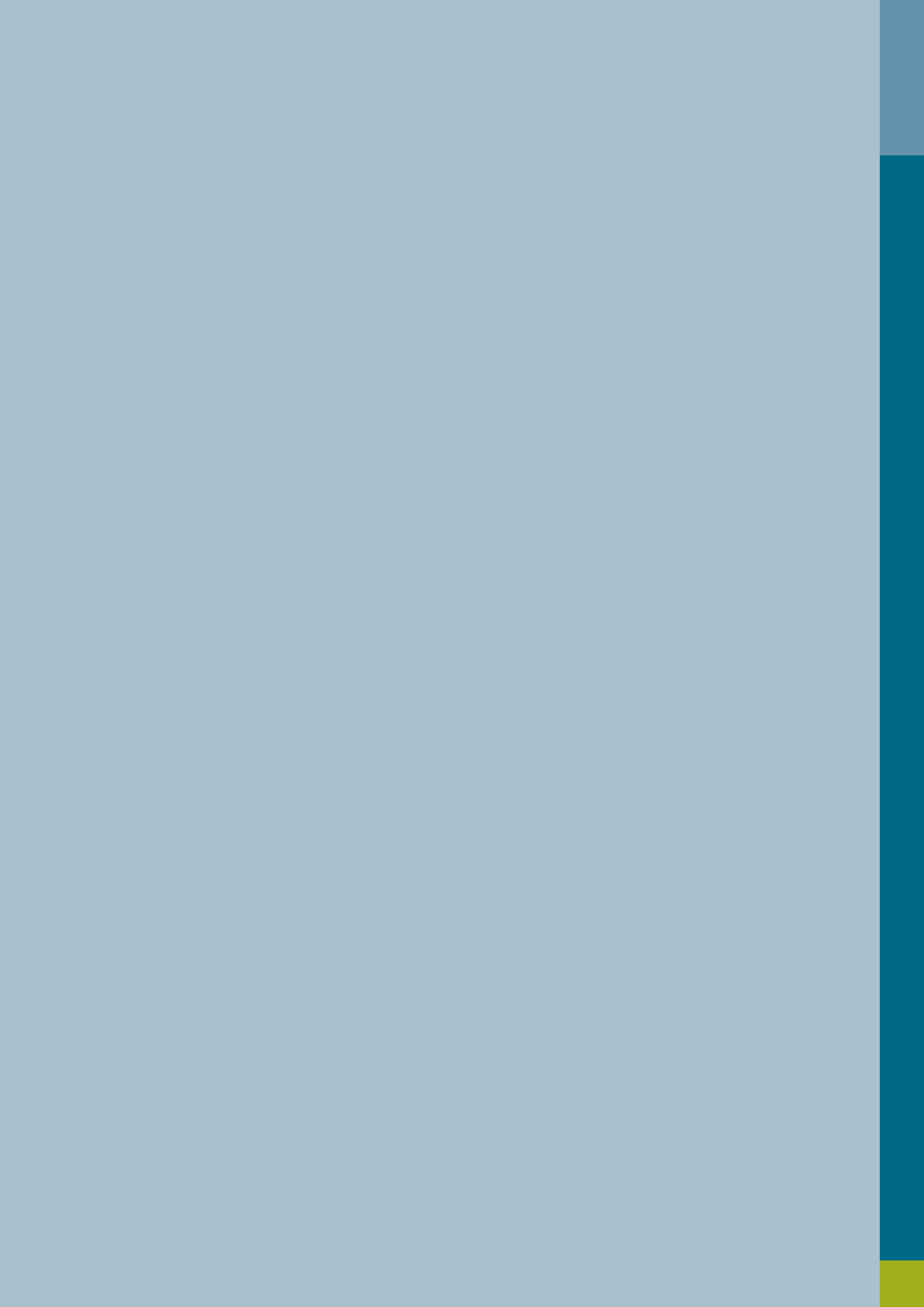
In our opinion, the financial statements present fairly, in all material respects, the financial position of First Credit Union as at 30 June 2016, and its financial performance and its cash flows for the year then ended in accordance with Public Benefit Entity Standards.

**Other Matter**

The financial statements of First Credit Union for the year ended 30 June 2015 were audited by another auditor who expressed an unmodified opinion on those statements on 15 September 2015.

*BDO Waikato*

**BDO Waikato  
31<sup>st</sup> August 2016  
Hamilton  
New Zealand**



**first  
credit  
union**