



Annual Report 2017



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Local

Farmers markets. Local designers. Bike co-ops. Local cafes, butchers, clothes stores.

As the world becomes ever more globalised and impersonal, people are rediscovering the benefits of “grass roots” and reconnecting with their communities.

We know all about grass roots at First Credit Union. At the risk of boasting, we’ve been doing “local” since way before it was hip.

For over 60 years, we’ve been helping local people save and borrow, offering an ethical community-owned alternative to big banks.

Our members lend to the credit union to help other local people (the interest rates are very competitive).

Members borrow from us because we’re a great alternative to big banks and finance companies.

Our mutual ownership means members “own” their bank, and any surpluses stay local. We may be small, but our grants and sponsorships spread far and wide through our community. To the very grass roots.

First Credit Union. Local people, helping people. Since forever.

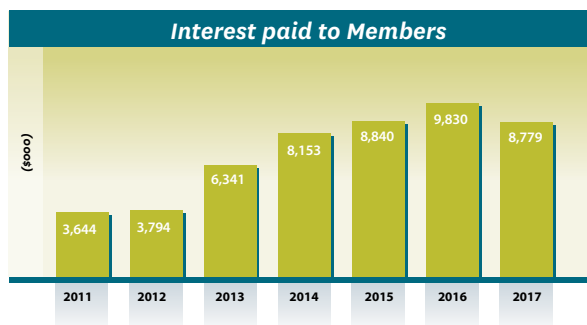
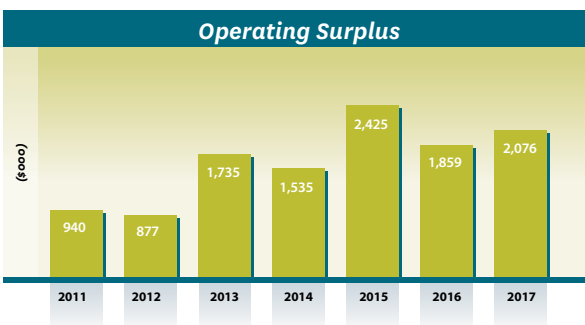
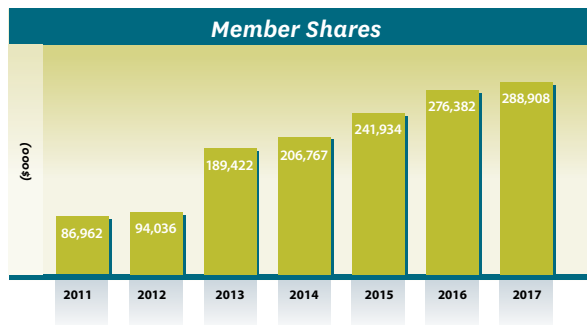
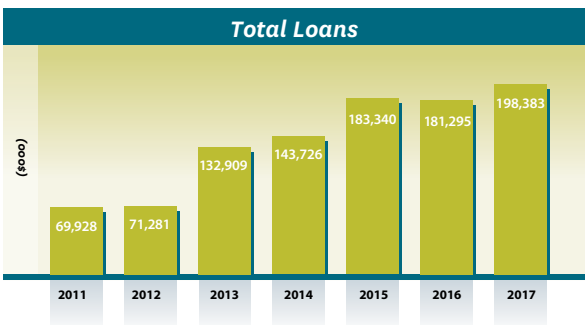
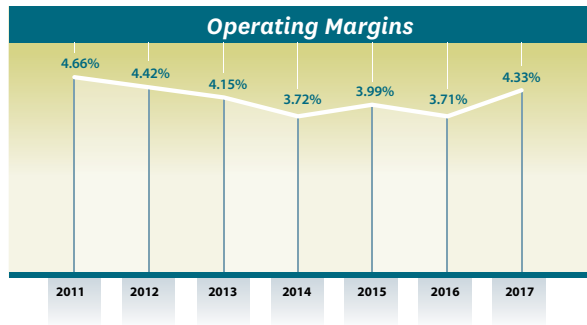
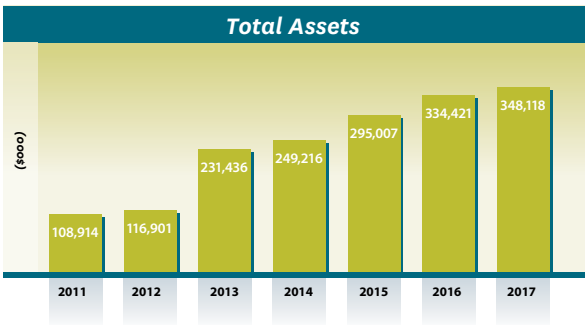
The year at a glance

Operating surplus	\$2.08 million
Total assets	\$348.12 million
Number of loans disbursed	11,727
Total loans disbursed	\$102.14 million
Total Loans	\$198.38 million
Interest paid to members	\$8.78 million
Sponsorships and grants	\$120,000
Member shares	\$288.91 million
Staff	132
First Credit Union branches	9
Number of schools banking	105
Mobile App users	10,557
Loanminder policies	9,590
Facebook followers	10,902

10,902

Facebook followers

Key Performance Indicators



1
big year



Set for the future.

AS CHAIRMAN I WOULD BE PLEASED WITH THESE RESULTS IN ANY TRADING YEAR. THE FACT THEY WERE ACHIEVED IN A YEAR OF MAJOR OVERHAUL IS A CREDIT TO THE TALENTS AND EFFORTS OF THE WHOLE FIRST CREDIT UNION TEAM.

GOVERNANCE AND OVERSIGHT

One project dominated the year for the First Credit Union Board: overseeing and supporting the development of a new core banking system into the credit union's operations. Although the board have been apprised and involved at all times, the heavy lifting of this project was assigned to the IT Subcommittee, Chaired by Director Judith Taane.

With benefits including savings on processing costs, a better banking experience for our members, and the security of operating on a modern digital platform, the Board were more than happy to proceed with the project.

We know the changeover was huge for our members – especially the “blunt” change of 25,000 debit cards from white to blue, literally overnight. We thank members for their patience and understanding while all the glitches were ironed out.

We are also proud to support the Finzsoft Ltd “Sovereign” system which is New Zealand built and based. It is a system that is being used by other mutual banking organisations, such as Police and Families Credit Union, Nelson Building Society and Westforce Credit Union, here in New Zealand, as well as other finance organisations both here in New Zealand and in Australia.

In April we held a Special General Meeting of members to change our Credit Union Rules to allow us to incorporate a company which will be able to provide loan protection insurance to members – an additional benefit exclusive to our membership.

Excitingly, in the year ahead, we are also planning to launch our own

Funeral Plan insurance product.

We are in the final stages of the application process for a licence for this company with the RBNZ and hope to have their approval in the near future.

PREPARED FOR THE FUTURE

In a fast changing world it is impossible for any organisation to be truly “futureproof”. However I'm confident First Credit Union's new core banking system positions us to continue offering members industry-leading banking services and products for the next decade and beyond.

TEAM EFFORTS. TEAM RESULTS.

I must acknowledge the work of CEO Terry Edwards and his team for their excellent work on this project.

They have faced many challenges getting things up and running from scratch, while at the same time managing a successful and growing credit union.

BOARD RETIREMENT

This year we farewell Paul O'Connor from our Board of Directors. As Chairman I wish to pay tribute to Paul's lifelong commitment and contributions to First Credit Union and the wider credit union movement.

A member since 1964, Paul was elected to the Credit Union Bay of Plenty Board in 1987, holding the position of Chairman from 1990 until 2007. Paul joined First Credit Union Board when The Bay of Plenty Credit Union merged with FCU.

I would like to take this opportunity to thank Paul for his commitment over the years. **Enjoy your retirement!**

GOVERNANCE AND DIRECTOR LEARNING AND DEVELOPMENT

Your board has continued to meet regularly and has committed to learn more about and develop our community and member focussed credit union.

Strategic planning was held in February where your board and management not only discussed the year ahead, but also the years ahead.

We continue to interact with the World Council of Credit Unions (WOCCU). This important relationship allows us to compare and benchmark ourselves against what other credit unions are doing and achieving around the world. I am pleased to say that your credit union fares well in any comparison. It also allows us to keep a check on, and keep alive, our core philosophy. We know what we are, what principles we were built on, and how they guide us going forward. It is "people helping people".

Our outreach into the Pacific continues, and Director Kathy Robb will again present at the Oceania Cooperative Credit Union League (OCCUL) Conference this year.

We are also fortunate that our Risk and Compliance Manager, Asenaca Kaloumaira will be able to attend again and renew her connections with the Pacific. Part of the worldwide movement of credit unions philosophy is "credit unions helping credit unions". First Credit Union is committed to this principle.

Health and Safety has been a "hot" topic since the introduction of the Health and Safety at Work Act 2015.

The Act became effective 4 April 2016, and the Board has been working hard at a governance level to understand their obligations under the new Act to ensure that First Credit Union is managing its risks in a pragmatic manner.

The Board is strongly committed to not only the Health & Safety of our staff but also members who visit our branches.

The Board sought external guidance and training on the new Act earlier this year, and is working with Management to ensure that the Credit Union has the resources and processes in place to mitigate risks.

FRIENDLY SOCIETIES AND CREDIT UNIONS ACT

Last year we reported that a proposed change to our Act was withdrawn.

Unfortunately in April a Members Bill to amend the Friendly Societies and Credit Unions Act was drawn from the Parliamentary ballot.

We do not believe that some other credit unions recognise the long term dangers of the Bill. It purports to, in our view, solve problems that do not exist.

Your board will oppose the new Bill (as it vigorously opposed the original Bill) on the grounds it aims to water down the mutuality of credit unions. We believe this is contrary to our fundamental purpose of providing community-centred banking.

The Bill is currently in Select Committee. I will keep members informed of any developments.

Director	Board member eligible to attend	Board member attended
Simon Scott	12	12
Judith Taane	12	12
Peter Iles	12	12
John Harvey	12	11
Paul O'Connor	12	12
Kathy Robb	12	12
Malcolm Blair	12	11
Natasha Grainger	12	12



“
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US GOING FORWARD.
IT IS “PEOPLE HELPING
PEOPLE”. ”

TREASURER'S REPORT



IT IS A PLEASURE TO REPORT A GOOD FINANCIAL YEAR ENDING 30 JUNE 2017. ONCE AGAIN, FIRST CREDIT UNION HAS PERFORMED WELL.

PERFORMANCE SUMMARY

It has been another successful year for First Credit Union. At year end First Credit Union reported a \$2.08 million in operating surplus, this is an increase of 11.6% over 2016. Total assets were \$348.12 million, an increase of 4.1% and member's share rose by 4.5% to \$288.91 million.

The financial industry is changing rapidly and continues to be highly competitive, First Credit Union is competing directly with the larger banks and other lenders in the market.

Our total reserve sat at 16.02%, well above our regulatory requirement of 8% and policy requirement of 10%. The excess

amount is held to meet member and investor expectations of the soundness of First Credit Union.

We will continue our policy of building healthy reserves. These reserves increase our long-term viability as a Credit Union and are essential in maintaining our credit worthiness. As a result I am confident that we will continue to position ourselves as a strong, competitive credit union in the New Zealand market.

I would like to take this opportunity to thank the Directors, Trustees, Management and staff for their hard work and dedication over the last 12 months – **it's been a busy year!**

TRUSTEE'S REPORT



At the balance date First Credit Union's cash assets stood at \$132.72 million or 38.1% (2016 \$138.69 million or 41.5%) this is a slight decrease from the previous year.

Lending is First Credit Union's major business activity. Its continued growth is important for the growth of First Credit Union. We are proud to be able to provide our members with good credit with no application fees and really competitive interest rates.

It's important to your Trustees that First Credit Union is a responsible lender and that greater importance is placed on the members' character and capacity to repay

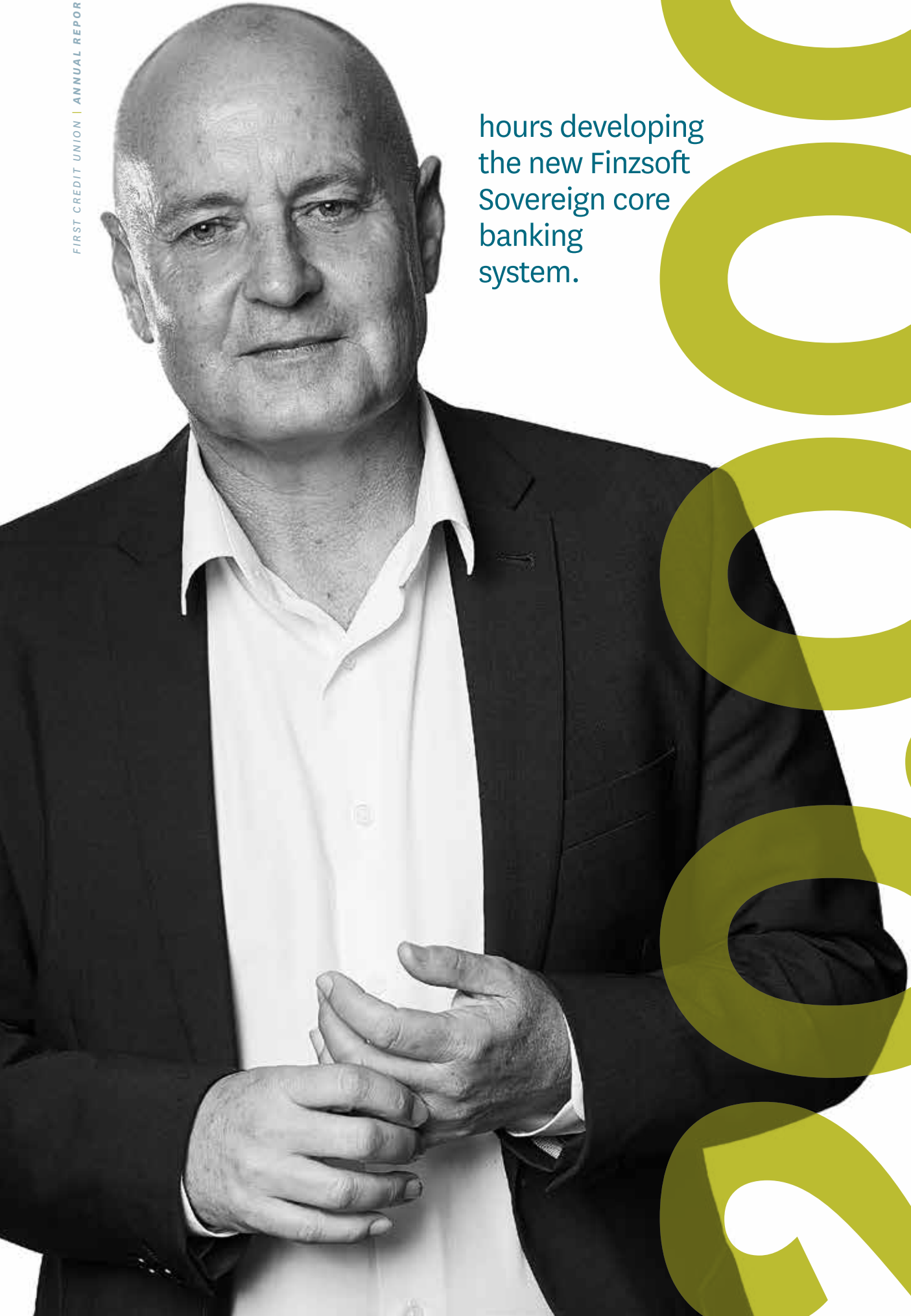
the loan rather than solely relying on the collateral they can offer.

During the year First Credit Union advanced \$102.14 million increase of 22.15%. For the period ended 30 June 2017, First Credit Union disbursed \$63.75 million in personal loans and \$38.39 million in mortgages. The average personal loan rose to \$4,521 and at year end our loan book was 52.85% mortgages and 47.15% personal loans.

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

The average personal loan rose to

\$4,521



hours developing
the new Finzsoft
Sovereign core
banking
system.



New foundations.

IT WAS A YEAR OF SOLID GROWTH. A YEAR OF MEETING MEMBERS' NEEDS. BUT MOST OF ALL, A YEAR OF BEHIND-THE-SCENES WORK AS THE FIRST CREDIT UNION TEAM BUILT THE FOUNDATIONS FOR A PROSPEROUS, SUSTAINABLE AND MOBILE FUTURE.

TRADING HIGHLIGHTS

Business grew in a solid and sustainable way. The Credit Union took advantage of the strong housing market, substantially growing its mortgage book. Personal lending grew modestly. Membership is healthy and growing.

- increased mortgage lending by \$13.18 million
- achieved a \$2.08 million surplus,
- increased capital to \$55.76 million,
- increased community sponsorships and grants by 26% to \$120,000

During the year First Credit Union underwent a Reserve Bank AML audit, with satisfactory results.

We also achieved a credit rating upgrade from BB- to BB, and changed credit rating agencies, from Standard and Poor's to Fitch.

BRANCH INVESTMENT

First Credit Union is committed to providing members with a branch network to help meet their financial needs.

Our new Tauranga branch, located on a prime site on Cameron Road will open later this year. Originally planned for April, the launch was rescheduled to enable the team to focus on our core banking and platform changes.

The branch has been designed with our members in mind, and aims to enhance member experience.

Once the Tauranga branch has been launched we will turn our attention to the rest of our branches, as part of our ongoing commitment to our members and local communities.

LOOKING TO THE FUTURE

First Credit Union exists to serve its members and provide community based banking: grass roots borrowing and lending, based on the people helping people philosophy.

First Credit Union appeals to a niche of society looking for 'decent' credit, or wanting to invest ethically into their community.

We operate in a competitive market where retail banking is getting easier and more convenient, so it's vital for our systems to match or exceed the products and convenience of trading banks, finance companies, and pop-up peer-to-peer lenders.

To prosper, it's not sufficient simply to be community focused. We must be competitive too. Good interest rates are important, but we also need to be convenient, modern and responsive to our members' needs.

The credit union's FACTS core banking system has served us well since 1986, however, had reached its "use by" date, and wasn't the solution for our future.

We needed a system that would adapt to the ongoing revolution in retail banking, from cash and eftpos to internet, mobile and Near Field Contact - and beyond.

Simultaneously we're shifting our transactional banking and card services from Co-op Money to Westpac Banking Corporation, and incorporating an insurance company under FCU's umbrella to cover loan protection.

“
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UNDER CONSTRUCTION

It's been a massive undertaking for an organisation of our size, involving professional project management and up to 15 equivalent full time staff.

Work of this scale would put stress on any organisation, and it's a testament to my team that we've got there with minimal dramas. After almost two years of hard work, we're ready to see the results.

BUSINESS AHEAD

Our new partnerships with Finzsoft and Westpac offer many benefits to the Credit Union. Immediate gains include process efficiencies, greater marketing opportunities and improved transactional banking for members.

The past year has seen First Credit Union lay the building blocks for an exciting banking future. What we've done is, quite frankly, huge for a financial organisation of our size. Monumental for a credit union.

Everything's in place to achieve sustainable growth in the years ahead.

DIGITAL SERVICES

Part of the Board's vision for First Credit Union is to have more of a presence in the online space and they are committed, and more importantly, willing to invest in the development of our digital services offering to members.

Ongoing investment in a digital service model will allow us to remain focussed on our members, no matter where in New Zealand they reside and is crucial in supporting our branch network and developing a multi-channel delivery of our products and services.

We're excited about what the future holds for your Credit Union!

TEAM EFFORT

The new core banking system went "live" on September 9th and despite the extra expectations on team members and heavy workloads, staff turnover has been low, and morale high.

I'm gratified and delighted with the commitment of credit union staff from top to bottom, and the enthusiastic support of the Board throughout the changes.

We truly have a great team of people at First Credit Union and I would like to thank them all for what we have achieved this year- it hasn't been easy.

I would like to pass on my thanks also to our Board of Directors for their vision for the Credit Union and its future.

“
EVERYTHING'S
IN PLACE TO
ENJOY FRUITFUL
YEARS AHEAD.

”



BOARD OF DIRECTORS

SIMON SCOTT
Chair

JUDITH TAANE
Deputy Chair



PAUL O'CONNOR

JOHN HARVEY



MALCOLM BLAIR

KATHY ROBB



PETER ILES

NATASHA GRAINGER





years of giving back

FIRST CREDIT UNION BEGAN LIFE BACK IN 1955, AND WE'VE BEEN AT THE HEART OF THE COMMUNITIES WE SERVE EVER SINCE.

We're 100% community owned, providing decent credit to local people. Community support is in our DNA. In the past year this translated into grants and sponsorships totalling \$120,000 to individuals, groups, societies, clubs and schools. That's an 26% increase on the previous year.

From Te Aroha & District Hospital to the Taneatua Fire Brigade, Pukete School to Parkinson's Waikato, dozens of sports teams to dance groups, we helped an incredibly diverse range of activities, events and causes.

Our staff donated their time to 16 different events.

First Credit Union's school banking programme has thousands of Waikato and Bay of Plenty kids enrolled and learning how to save. We also support schools by advertising in their newsletters – a great "grass roots" way to add cash to fundraising coffers. In 2017 First Credit Union's School Sustainability Fund had a lower take up than previous

years. Schools typically apply for environmentally focused projects such as food gardens, gully restorations, beehives and chicken roosts. Talking with principals, we think the fund's criteria may be too narrow to cover some of the exciting projects schools are taking on.

In the coming year we'll be accepting applications with a wider social focus, such as school camps and breakfast cafes. The credit union continued its long term support for the Balloons over Waikato festival, sponsoring the School Hop event again this year. The sight of hot air balloons landing majestically on school playing fields, surrounded by hundreds of screaming exuberant kids is truly a sight to behold!

We also continue to get behind the annual Hamilton Christmas Parade and Carols by Candlelight, providing a cash grant and volunteer teams at the events.

Mufti Days are a way for credit union staff to raise money for special charities while we work at our day jobs. Staff dress in themed clothing, collecting donations throughout the day. This year we held six mufti days in our branches, for Heart Foundation, Child Cancer, Edgumbe Flood Relief, SAFE, Hospice and SPCA.

2016/17 grant recipients

Some grant recipients over the past year

- Food Bank Taupo
- Melville Primary 7's & Netball Tournament
- Mt Maunganui Inter Port Sports Tournament
- Fairfield Swimming Club
- St Josephs Matata School Calendar
- Te Kauwhata DISC community house
- Heart Kids Day Out Variety Show
- Kawerau Stags League Team
- Autism NZ - King Country, Waikato
- Hamilton Women's Refuge
- Parkinson's Waikato
- Volunteer Excellence Awards
- Whakatane High School Year 9&10 Volleyball Team
- Fostering Kids
- Eastern Bay Chamber of Commerce
- Te Teko JAB under 10s team
- Ngongotaha Lions
- Waimana Womens Rugby Team
- Taneatua Fire Brigade Fundraiser
- Mamaku Primary School
- Waikato O27s Women's Touch Team



“COMMUNITY SUPPORT IS IN OUR DNA. IN THE PAST YEAR THIS TRANSLATED INTO GRANTS AND SPONSORSHIPS TOTALLING \$120,000 TO INDIVIDUALS, GROUPS, SOCIETIES, CLUBS AND SCHOOLS.”

Community spotlight

HOW DOES A COMMUNITY-BASED CREDIT UNION REACT IN THE AFTERMATH OF A NATURAL DISASTER? BY PITCHING IN, OF COURSE!

With 100km to cover by foot in just 36 hours (50km in 18 hours), the Oxfam Trailwalker is one heck of a team challenge. The international series has raised more than \$160 million for Oxfam's life-saving work.

This year's NZ Trailwalker Challenge took place around Whakatane on the 24th and 25th of March, just a week before the devastating floods in nearby Edgecumbe.

Terri Wilkins and her team from First Credit Union Whakatane volunteered to run a Trailwalker checkpoint, in the way that First Credit Union gets involved in many community events.

"We didn't realise that we would receive some money for running a checkpoint, and that was not our objective. A little while later, just after the floods, I got a request for an invoice and I said that's not why we do it."

Terri asked if they could donate to the charitable trust supporting Edgecumbe flood victims instead.

"Edgecumbe is only about 10 minutes away from us and I've got a staff member

who lives out there - she lost everything. Another staff member's mother had to be evacuated. A lot of members who have been majorly affected by the rain and the floods."

She said the FCU team wanted to support an issue that was close to home.

"When you've got friends and staff members who are affected, you want to help as much as you can. We still have to work, and couldn't get out there to help do the clean-up so the next best thing that we could do was help raise money."

And it wasn't just the koha they donated... Terri organised a mufti day in all First Credit Union branches to raise more funds. Her staff also voted to waive their traditional Easter treat and donate instead to the relief fund.

"It's incredibly important, just to be able to support people who need a shoulder to cry on, or just somebody to talk to about it all. Sometimes you can't physically help but there are lots of other ways that you can."

“
WHEN YOU'VE GOT FRIENDS AND
STAFF MEMBERS WHO ARE AFFECTED,
YOU WANT TO HELP AS MUCH
AS YOU CAN.”



1000

kms

to help raise \$160 million



30.6.17

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For the year ended 30 June 2017

BOARD OF DIRECTORS

Chairman	Simon Scott
Secretary/Treasurer	Peter Iles
Directors	Peter Iles
	John Harvey
	Judith Taane
	Paul O'Connor
	Natasha Grainger
	Kathy Robb
	Malcolm Blair
Trustees	John Harvey
	Simon Scott
	Judith Taane

EXECUTIVE MANAGEMENT

Chief Executive Officer	Terry Edwards
Chief Financial Officer	Stephen Hawkins
Marketing & Communications Manager	Melissa Hay

KEY MANAGEMENT PERSONNEL

Chief Executive Officer	Terry Edwards
Marketing & Communications Manager	Melissa Hay
Chief Financial Officer	Stephen Hawkins
Chief Operating Officer	Dezna Le Cordier
Lending Manager	Richard O'Regan
Insurance Manager	Eseta Toganivalu
Call Centre Manager	Ana Braunias
Risk & Compliance Manager	Asenaca Kaloumaira

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 2017

	Note	30 Jun 17	30 Jun 16
OPERATING REVENUE		\$000	\$000
Interest Revenue	2	22,005	22,062
Interest Expenditure	2	8,779	9,864
Net Interest Margin		13,226	12,198
Other Income	2	6,527	6,701
		19,753	18,899
EXPENDITURE			
Loan Impairment Expenses	2	1,289	861
Employee Benefits	2	6,372	6,591
Occupancy		709	762
Depreciation	2 / 9(b)	695	589
Amortisation Expenses	9(a)	105	104
Other Administration Expenses	2	8,507	8,133
Total Operating Expenditure		17,677	17,040
Operating Surplus for the Period Attributable to Members		2,076	1,859
OTHER COMPREHENSIVE REVENUE AND EXPENSE			
Revaluation of Property	9(b)	-	1,869
Total Other Comprehensive Revenue and Expense		-	1,869
Total Comprehensive Revenue and Expense for the Period Attributable to Members		2,076	3,728

FIRST CREDIT UNION

Statement of Changes in Net Assets/Equity

For the year ended 30 June 2017

	Note	Accumulated Revenue and Expense	Property Revaluation Reserve	Total
		\$000	\$000	\$000
Balance at 1 July 2016		50,476	3,207	53,683
Surplus for the period attributable to members		2,076	-	2,076
Total Comprehensive Revenue and Expense for the Period		2,076	-	2,076
Balance at 30 June 2017	4	52,552	3,207	55,759
Balance at 1 July 2015		48,617	1,338	49,955
Surplus for the period attributable to members		1,859		1,859
Other Comprehensive Revenue and Expense				
Revaluation of Property	9 (b)		1,869	1,869
Total Comprehensive Revenue and Expense for the Period		1,859	1,869	3,728
Balance at 30 June 2016	4	50,476	3,207	53,683

FIRST CREDIT UNION

Statement of Financial Position

As at 30 June 2017

	Note	30 Jun 17	30 Jun 16
		\$000	\$000
MEMBERS' FUNDS			
Retained Earnings	4	52,552	50,476
Property Revaluation Reserve	4	3,207	3,207
Total Members' Funds		55,759	53,683
ASSETS			
Cash and Cash Equivalents	5(a)	3,799	3,836
Deposits at New Zealand Association of Credit Unions and Trading Banks	5(b)	128,925	134,857
Trade and Other Receivables	6	1,236	1,003
Capital Notes	10	5,410	5,410
Prepayments		439	195
Loans to Members	7-8	195,993	178,836
Intangible Assets	9(a)	3,518	1,108
Property, Plant and Equipment	9(b)	8,798	9,176
Total Assets		348,118	334,421
LIABILITIES			
Trade and Other Payables	11	2,684	3,646
Employee Entitlements		767	710
Members' Deposits	12	288,908	276,382
Total Liabilities		292,359	280,738
Net Assets		55,759	53,683

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

DIRECTOR
Simon Scott



Date 30 August 2017

DIRECTOR
Judith Taane



Date 30 August 2017

FIRST CREDIT UNION

Statement of Cash Flows

For the year ended 30 June 2017

	Note	30 Jun 17	30 Jun 16
CASH FLOWS FROM OPERATING ACTIVITIES		\$000	\$000
Interest Received		21,648	21,922
Fees, Commissions and Other Income		6,214	6,452
Bad Loans Recovered		437	466
Interest Paid		(9,000)	(9,693)
Payments to Suppliers and Employers		(16,235)	(14,831)
Net Cash Provided by Operating Activities	23	3,064	4,316
CASH FLOWS FROM INVESTING ACTIVITIES			
Net Movement in Members' Loans		(18,446)	916
Purchase of Base Capital Notes		-	-
Payments for Property, Plant, Equipment and Intangibles		(2,832)	(1,318)
(Increase) Decrease in Deposits at NZACU and Trading Banks		5,932	(39,327)
Net Cash Used in Investing Activities		(15,346)	(39,729)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net Increase (Decrease) in Member Deposits		12,245	34,774
Net Cash provided by Financing Activities		12,245	34,774
Total Net Increase (Decrease) in Cash and Cash Equivalents Held		(37)	(639)
Cash and Cash Equivalents at the Beginning of the Period		3,836	4,475
Cash and Cash Equivalents at the End of the Period	5(a)	3,799	3,836

FIRST CREDIT UNION

Notes to the Financial Statements

For the year ended 30 June 2017

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.

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 2017. 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.

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 2017

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, and fair value of property, plant and equipment described in note 9(b).

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 2017

1. STATEMENT OF ACCOUNTING POLICIES (continued)

(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.

(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 2017

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) 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 2017

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 2017

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.

FIRST CREDIT UNION

Notes to the Financial Statements

For the year ended 30 June 2017

1. STATEMENT OF ACCOUNTING POLICIES (continued)

(n) 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.

(o) Standards, Interpretations and Amendments to Published Standards not yet effective for the period ended 30 June 2017

At the date of authorisation of the financial statements of the Credit Union for the year ended 30 June 2017, the following PBE Standards were in issue but not yet effective:

STANDARD	EFFECTIVE DATE	
PBE IPSAS 1	<i>Presentation of Financial Statements – 2016 Omnibus Amendments to PBE Standards</i>	1 January 2017
2016 Omnibus Amendments	<i>2016 Omnibus Amendments to PBE Standards</i>	1 Jan 2017 and 1 Jan 2018
PBE IPSAS 21 and PBE IPSAS 26	<i>Impairment of Revalued Assets (Amendments to PBE IPSASs 21 and 26)</i>	1 January 2019
PBE IPSAS 39	<i>Employee Benefits</i>	1 January 2019
PBE IFRS 9	<i>Financial Instruments</i>	1 January 2021

There are other issued standards not mentioned that will not impact the Credit Union.

All applicable PBE Standards will be adopted at their effective date (except for those PBE Standards that are not applicable to the entity).

FIRST CREDIT UNION

Notes to the Financial Statements

For the year ended 30 June 2017

PBE IPSAS 1 Amendments – 2016 Omnibus Amendments and other 2016 Omnibus Amendments

Certain of these amendments to standards will be adopted by the Credit Union for the first time for its financial reporting period ended 30 June 2018 and the remainder for financial reporting period ended 30 June 2019.

This amending Standard contains amendments to PBE Standards arising from Chapters 1 to 4 of the Public Benefit Entities' Conceptual Framework, Improvements to IPSASs 2015 and IASB® narrow scope-amendments to IFRS® Standards. It also contains editorial corrections.

The amendments have a range of effective dates, with the earliest being for annual periods beginning on or after 1 January 2017.

It is anticipated there will be no impact to the Credit Union from the implementation of this standard.

PBE IPSAS 21 and PBE IPSAS 26 Amendments Impairment of Revalued Assets

These standards will be adopted by the Credit Union for the first time for its financial reporting period ended 30 June 2020.

This standard amends PBE IPSAS 21 *Impairment of Non-Cash-Generating Assets* and PBE IPSAS 26 *Impairment of Cash-Generating Assets* to bring assets measured at revalued amounts within the scope of the standards. Consequential amendments are also made to PBE IPSAS 17 *Property, Plant and Equipment* and PBE IPSAS 31 *Intangible Assets*.

Previously there was some uncertainty about the requirements relating to the recognition of an impairment loss when an item of revalued property, plant and equipment was damaged or no longer available for use. The issue was whether the entire class of assets needed to be revalued when an impairment loss on damaged/unusable property, plant and equipment was recognised.

This standard removes the uncertainty by including revalued property, plant and equipment and revalued intangible assets in the scope of the (relevant) impairment standards.

It is anticipated there will be no impact to the Credit Union from the implementation of this standard.

PBE IPSAS 39 Employee benefits

This standard will be adopted by the Credit Union for the first time for its financial reporting period ended 30 June 2020.

PBE IPSAS 39 supersedes PBE IPSAS 25 *Employee Benefits*.

PBE IPSAS 39:

1. Amends the definition of short-term employee benefits to only include those benefits that are expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related service.
2. removes the option to defer the recognition of certain actuarial gains and losses arising from defined benefit plans (the "corridor approach");
3. eliminates some of the presentation options for actuarial gains and losses arising from defined benefit plans (which enhances comparability);
4. introduces the net interest approach, which is to be used when determining the defined benefit cost for defined benefit plans; and
5. structures the disclosures for defined benefit plans according to explicit disclosure objectives for defined benefit plans.

It is anticipated there will be no impact to the Credit Union from the implementation of this standard.

PBE IFRS 9 Financial Instruments

This standard will be adopted by the Credit Union for the first time for its financial reporting period ended 30 June 2022. This standard replaces PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*. Adoption of this standard will align PBE.

FIRST CREDIT UNION

Notes to the Financial Statements

For the year ended 30 June 2017

2. REVENUE AND EXPENDITURE	30 Jun 17	30 Jun 16
REVENUE	\$000	\$000
Interest Revenue		
<u>Interest on Loans and Receivables</u>		
Interest on Loans to Members	18,326	18,144
Interest on Bank Deposits	3,679	3,918
Total Interest Revenue	22,005	22,062
Other Income		
Transactional Fee Income-Overdraft, ATM, EFTPOS etc	4,470	4,399
Cost Recoveries	461	273
Bad Debts Recovered	437	466
Commissions Received	874	1,161
Dividends on Capital Notes	121	311
Rent Received	-	21
Other Income	164	70
Total Other Income	6,527	6,701
Total Operating Income	28,532	28,763

FIRST CREDIT UNION

Notes to the Financial Statements

For the year ended 30 June 2017

2. REVENUE AND EXPENDITURE (continued)	Note	30 Jun 17	30 Jun 16
		\$000	\$000
EXPENDITURE			
Interest Expenditure-Liabilities at Amortised Cost			
Interest on Members Call Shares		3,082	3,374
Interest on Members Term Shares		5,697	6,490
Total Interest Expenditure		8,779	9,864
Other Expenditure			
External Audit of Financial Statements			
- KPMG Fees		-	19
- KPMG Other Services		6	2
- BDO Audit		47	50
- BDO Other Services		4	-
Internal Audit Costs		-	10
Directors' Fees	22	220	211
Directors' Expenses and Training		121	67
Printing and Stationery		253	248
Data Processing and Support		2,203	2,020
Banking Services Fees		785	794
Accesscard Costs		2,186	2,220
NZACU Member Contributions		99	98
Trust Deed		85	74
Members Protection		49	50
Marketing		804	775
Other Expenses		1,645	1,495
Total Other Expenditure		8,507	8,133

FIRST CREDIT UNION

Notes to the Financial Statements

For the year ended 30 June 2017

2. REVENUE AND EXPENDITURE (continued)	Note	30 Jun 17	30 Jun 16
		\$000	\$000
Employee Benefits			
Wages and Salaries		5,735	6,057
Staff Welfare, Benefits, Training etc		477	382
Defined Contribution Expense		160	152
Total Employee Benefits		6,372	6,591
Loan Impairment Expenses			
Bad Debts Written Off to Impairment Allowance	8(a)	1,358	1,129
Movement in Allowance for Impaired Loans	8(a)	(69)	(268)
Total Loan Impairment Expenses		1,289	861
Depreciation Expenditure			
Buildings Depreciation	9(b)	195	136
Computer Equipment Depreciation	9(b)	262	222
Motor Vehicles Depreciation	9(b)	71	73
Office Furniture and Equipment Depreciation	9(b)	167	158
Total Depreciation Expenditure		695	589

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 17	30 Jun 16
Ordinary and Special Purpose Shares	0.00 - 3.00%	0.00 - 4.00%
Loan Provider Shares	3.00%	4.00%
Christmas Club and Jimmy Jumper Shares	3.00%	4.00%
Money Maker Shares	2.00 - 3.00%	2.00 - 3.40%
Online Saver Shares	3.00%	3.40%

TERM SHARES	30 Jun 17	30 Jun 16
Term Deposits (3 Months)	3.00 - 3.32%	3.00 - 5.00%
Term Deposits (6 Months)	3.60 - 4.70%	3.60 - 4.75%
Term Deposits (9 Months)	3.45 - 4.00%	3.80 - 5.00%
Term Deposits (1 Year)	3.00 - 4.25%	3.50 - 5.75%
Term Deposits (2 to 3 Years)	3.75 - 5.75%	3.75 - 5.75%

FIRST CREDIT UNION

Notes to the Financial Statements

For the year ended 30 June 2017

4. RESERVES	Accumulated Revenue and Expense	Property Revaluation Reserve	Total
Reserves at 30 Jun 2017	\$000	\$000	\$000
Balance at 30 Jun 2017	52,552	3,207	55,759
The Reserve % to Total Assets	15.10%	0.92%	16.02%
Reserves at 30 Jun 2016			
Balance at 30 Jun 2016	50,476	3,207	53,683
The Reserve % to Total Assets	15.09%	0.96%	16.05%

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 2017

5. CASH AND CASH EQUIVALENTS AND TERM DEPOSITS	Interest Rates	30 Jun 17	30 Jun 16
(a) Cash and Cash Equivalents		\$000	\$000
Cash on Hand	0.00%	1,792	2,128
Bank Balances - On Call	0.50%	2,007	1,708
Total Cash and Cash Equivalents		3,799	3,836
(b) Deposits at New Zealand Association of Credit Unions and Trading Banks			
New Zealand Association of Credit Unions	Call 1.50%	9,010	11,150
Westpac Bank	3.19 to 3.25%	19,226	18,487
ANZ	2.83 to 3.20%	55,342	75,426
BNZ	2.94 to 3.19%	45,347	29,794
Total Term Deposits		128,925	134,857
Total Deposits and Cash		132,724	138,693

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 17	30 Jun 16
	\$000	\$000
Accrued Interest	1,023	666
Sundry Debtors	213	337
Total Trade and Other Receivables	1,236	1,003

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 2017

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 17	30 Jun 16
	\$000	\$000
Neither Past Due Nor Impaired	173,614	157,095
Past Due But Not Impaired		
1 to 30 days	15,767	16,326
31 to 90 days	1,549	1,933
over 90 days	1,612	786
Total Impaired Loans	5,841	5,155
Gross Loans	198,383	181,295
Less:		
Allowance for Impaired Individually	180	438
Allowance for Restructured	1,102	1,095
Allowance for Impaired Collectively	1,108	926
Net Loans to Members	195,993	178,836

The total of past due and impaired loans greater than 90 days in arrears is \$3,706 (2016: \$2,539).

(b) Credit Quality - Security Dissection	30 Jun 17	30 Jun 16
	\$000	\$000
Secured by 1st Mortgage Over Real Estate	104,488	91,624
Secured by 2nd Mortgage Over Real Estate	365	53
Caveat Secured Loans		21
Partially Secured by Motor Vehicles and Other Collateral	62,849	60,056
Secured by Members Shares	20,210	19,822
Unsecured Loans	10,471	9,719
Gross Loans to Members	198,383	181,295

FIRST CREDIT UNION

Notes to the Financial Statements

For the year ended 30 June 2017

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 reporting date there are \$20.2 million loan provider shares held as security against loans (2016: \$19.8 million).

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

	30 Jun 17	30 Jun 16
Security held as mortgage against real estate is on the basis of:	\$000	\$000
Loan to valuation ratio of less than 80%	70,303	61,589
Loan to valuation ratio of more than 80% (all insured under the Welcome Home Loan structure)	2,078	3,156
Loan to valuation ratio of more than 80%	32,472	26,932
Total Mortgages	104,853	91,677
(c) Current v's Non Current		
Current	36,665	38,255
Non Current	161,718	143,040
Total Loans to Members	198,383	181,295
(d) Credit quality - Concentration of loans		
(i) Loans to individual or related groups of members which exceed 10% of member funds in aggregate	NIL	NIL
(ii) Loans to members concentrated to individuals employed in any particular industry	NIL	NIL
(iii) Loans to members concentrated solely in New Zealand and principally within the common bond of the Credit Union	100%	100%

FIRST CREDIT UNION

Notes to the Financial Statements

For the year ended 30 June 2017

8. IMPAIRMENT OF LOANS AND ADVANCES

(a) Impairment Expense

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

	30 Jun 17	30 Jun 16
	\$000	\$000
Provision for impairment - Increase/(Decrease) in the year	(69)	(268)
Bad Loans Written Off	1,358	1,129
Loan Impairment Expenditure	1,289	861

(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 2017

8. IMPAIRMENT OF LOANS AND ADVANCES (continued)

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

	30 Jun 17	30 Jun 16
Individually Impaired Assets Provision	\$000	\$000
Opening Balance	438	407
Provisions made during the year	-	488
Provisions reversed during the year	(258)	(457)
Transfer to bad debts written off	-	-
Closing Balance Including Principal and Interest	180	438
Restructured Assets Provision		
Opening Balance	1,095	911
Movement in provision for the year	900	964
Transfer to bad debts written off	(893)	(780)
Closing Balance Including Principal and Interest	1,102	1,095
Collective Assets Provision		
Opening Balance	926	1,409
Movement in provision for the year	182	(483)
Closing Balance	1,108	926
(d) Interest on impaired Loans		
Interest Revenue on Impaired Loans	239	319
Interest Revenue on Restructured Loans	65	84
Totals Interest and Other Revenue Recognised and Foregone	304	403
(e) Fair Value of Assets Acquired		
Assets Acquired through the Enforcement of Security	-	3
Total Fair Value of Assets Acquired	-	3

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

(f) Restructured Loans

Loans that were past due or impaired that have been restructured by the Credit Union are \$2,243 at 30 June 2017 (2016: \$1,881).

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Notes to the Financial Statements

For the year ended 30 June 2017

9. (a) Intangible Assets

	2017	2016
Cost or Valuation	\$000	\$000
Cost or Valuation brought forward 1 July	490	490
Additions	8	-
Closing Cost at 30 June	498	490
Opening Accumulated Amortisation 1 July	288	184
Amortised During the Year	105	104
Closing Accumulated Amortisation at 30 June	393	288
Net Book Value at 30 June	105	202
Intangible Assets under Construction		
Cost brought forward 1 July	906	-
Purchases during the year	2,507	906
Closing Cost at 30 June	3,413	906
Balance at 30 June	3,518	1,108

The Credit Union contracted for a new core banking computer system. \$3413k has been spent to date. Once the system is operational it will be amortised over its useful life.

FIRST CREDIT UNION

Notes to the Financial Statements

For the year ended 30 June 2017

9. (b) Property, Plant and Equipment

Movement in Carrying Amounts

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

	Land	Buildings	Computer Equipment	Furniture & Fittings and Office Equipment	Motor Vehicles	Total
Cost or Valuation	\$000	\$000	\$000	\$000	\$000	\$000
Cost or Valuation brought forward at 1 July 2016	3,121	5,151	1,839	2,283	309	12,703
Additions	-	58	208	115	7	388
Disposals or Written off	-	-	(218)	(372)	(51)	(641)
Closing Cost 30 June 2017	3,121	5,209	1,829	2,026	265	12,450
Accumulated Depreciation						
Opening Accumulated Depreciation 1 July 2016	-	683	1,356	1,359	129	3,527
Depreciation for the period	-	195	262	167	71	695
Disposals or Written off	-	-	(177)	(372)	(21)	(570)
Closing Accumulated Depreciation 30 June 2017	-	878	1,441	1,154	179	3,652
Net Book Value at 30 June 2017	3,121	4,331	388	872	86	8,798

FIRST CREDIT UNION

Notes to the Financial Statements

For the year ended 30 June 2017

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

	Land	Buildings	Computer Equipment	Furniture & Fittings and Office Equipment	Motor Vehicles	Total
Cost or Valuation	\$000	\$000	\$000	\$000	\$000	\$000
Cost or Valuation brought forward at 1 July 2015	3,167	3,195	1,663	2,209	290	10,524
Additions	-	41	183	143	200	567
Revaluations	(46)	1,915	-	-	-	1,869
Disposals	-	-	(7)	(69)	(181)	(257)
Closing Cost 30 June 2016	3,121	5,151	1,839	2,283	309	12,703
Accumulated Depreciation						
Opening Accumulated Depreciation 1 July 2015	-	547	1,140	1,243	110	3,040
Depreciation for the period	-	136	222	158	73	589
Depreciation on Disposals	-	-	(6)	(42)	(54)	(102)
Closing Accumulated Depreciation 30 June 2016	-	683	1,356	1,359	129	3,527
Net Book Value at 30 June 2016	3,121	4,468	483	924	180	9,176

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)

The Directors consider the carrying amount is a fair approximation of fair value at reporting date.

FIRST CREDIT UNION

Notes to the Financial Statements

For the year ended 30 June 2017

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*.

First Credit Union has given notice to NZACU that it will no longer be using the services of that Association. The Directors of the Credit Union are aware of a proposal to restructure the NZACU. To the extent that the restructure results in the repayment of the Capital Notes to the Credit Union, the Directors of First would be supportive of this.

At the time of this report there was no certainty as to whether the restructure would proceed and in what format.

Additionally, there is a case on appeal on the ability of the NZACU to provide services to non members of that Association. Furthermore, there is a Bill in Parliament to make a number of changes to the Friendly Society and Credit Unions Act, including giving the ability for the NZACU to make services available to third parties.

All of the above issues point to uncertainties in regards to the repayment of Capital Notes.

The Directors are of the view that the full amount of the Capital Notes will be repaid in the next 12 months and will ensure that action is taken to achieve this.

Capital Notes are available for sale.

	30 Jun 17	30 Jun 16
	\$000	\$000
Capital Notes	5,410	5,410
Total Available-For-Sale Investments at Cost	5,410	5,410

11. TRADE AND OTHER PAYABLES	30 Jun 17	30 Jun 16
	\$000	\$000
Trade Payables	1,388	1,618
Sundry Creditors and Accrued Expenses	390	621
Accesscard Settlement	906	1,407
Total Trade and Other Payables	2,684	3,646

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 2017

12. MEMBER'S DEPOSITS	30 Jun 17	30 Jun 16
Call Shares	\$000	\$000
Ordinary, and Special Purpose Shares	40,481	41,973
Loan Provider Shares	29,040	29,607
Christmas Club and Children's Account Shares	6,296	5,723
Money Maker Shares	17,407	16,427
Online Savings Shares	38,911	31,376
Total Call Shares	132,135	125,106
Term Shares		
Term shares maturing:		
- within 1 month	11,671	11,452
- over 1 month and up to 3 months	29,242	31,127
- over 3 months and up to 6 months	42,697	43,285
- over 6 months and up to 12 months	58,090	56,320
Total Term Shares	141,700	142,184
Total Current Members' Deposits	273,835	267,290
Non Current Members' Deposits		
- over 1 year and up to 2 years	14,589	6,104
- over 2 years and up to 3 years	484	2,988
Total Non Current Members' Deposits	15,073	9,092
Total Members' Deposits	288,908	276,382

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 2017

13. COMMITMENTS

(a) Future Capital Commitments

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

	30 Jun 17	30 Jun 16
	\$000	\$000
Not longer than 1 year	1,830	920
Longer than 1 and not longer than 5 years	-	-
Longer than 5 years	-	-
Total Future Capital Commitments	1,830	920

(b) Operating Lease Commitments

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

Not longer than 1 year	214	302
Longer than 1 and not longer than 5 years	182	405
Longer than 5 years	-	7
Total Operating Lease Commitments	396	714

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	3,855	1,726
Undrawn Overdraft and Line of Credit	391	387
Total Outstanding Loan Commitments	4,246	2,113

14. CONTINGENT LIABILITIES

Other than a pending legal action relating to the early termination of contractual banking services, estimated settlement \$150,000, there are no material contingent liabilities not provided for in the financial statements (2016: Nil).

FIRST CREDIT UNION

Notes to the Financial Statements

For the year ended 30 June 2017

15. STANDBY BORROWING FACILITIES	30 Jun 17	30 Jun 16
	\$000	\$000
Overdraft Facility	50	50
Total Standby Borrowing Facilities	50	50

Currently the unused overdraft facility is \$50,000 (2016: \$50,000). The interest rate is 9.40% (2016: 9.40%) and the penalty rate is 14.10% (2016: 14.10%). 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 2017

16. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

	30 Jun 17 Interest Rate Risk			30 Jun 16 Interest Rate Risk		
	Carrying Amount	-1% Profit & Equity	+1% Profit & Equity	Carrying Amount	-1% Profit & Equity	+1% Profit & Equity
	\$000	\$000	\$000	\$000	\$000	\$000
Financial Assets						
NZACU and Bank Deposits	130,932	(810)	810	136,565	(941)	941
Loan Receivables	198,383	(1,551)	1,551	181,295	(1,614)	1,614
		(2,361)	2,361		(2,555)	2,555
Financial Liabilities						
Member Deposits	288,908	(763)	763	276,382	(779)	779
		(763)	763		(779)	779
Total Increase /(Decrease)		(1,598)	1,598		(1,776)	1,776

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 2017

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 and 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.

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

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Notes to the Financial Statements

For the year ended 30 June 2017

16. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The Credit Union's capital is determined as follows:

	30 Jun 17	30 Jun 16
Tier 1	\$000	\$000
Retained Earnings	52,552	50,476
Total Tier 1 Reserves	52,552	50,476
Tier 1 Capital Ratio	15.10%	15.09%
Tier 2		
Property Revaluation Reserve	3,207	3,207
Total Reserves	3,207	3,207
Total Tier 2 Capital Ratio	0.92%	0.96%
Total Tier 1 and Tier 2 Reserves	55,759	53,683
Total Tier 1 and Tier 2 Capital Ratio	16.02%	16.05%

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

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 2017		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
Monetary Assets Receivable											
Cash and Bank		3,799	-	-	-	-	-	-	-	-	3,799
Trade and Other Receivables		-	1,236	-	-	-	-	-	-	-	1,236
Investments - Base Capital Notes		-	-	-	-	-	-	-	-	5,410	5,410
Deposits at NZACU and Banks		9,010	16,931	30,794	46,986	25,205	-	-	-	-	128,926
Future Interest Receivable		-	1,529	2,994	4,223	7,512	11,581	17,760	45,125	-	90,724
Loans to Members		-	3,333	6,608	9,750	18,760	33,143	44,527	82,262	-	198,383
Total Monetary Assets Receivable		12,809	23,029	40,396	60,959	51,477	44,724	62,287	127,387	5,410	428,478
Monetary Liabilities Payable											
Payables		-	2,684	-	-	-	-	-	-	-	2,684
Future Interest Payable		-	480	924	1,182	1,505	477	12	-	-	4,580
Members' Call Shares		132,135	-	-	-	-	-	-	-	-	132,135
Members' Term Shares		-	13,046	29,242	42,696	56,715	14,589	485	-	-	156,773
Total Monetary Liabilities Payable		132,135	16,210	30,166	43,878	58,220	15,066	497	-	-	296,172

FIRST CREDIT UNION

Notes to the Financial Statements

For the year ended 30 June 2017

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

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
Monetary Assets Receivable										
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
Total Monetary Assets Receivable	43,669	26,887	40,829	42,731	39,261	42,478	55,939	110,858	5,410	408,062
Monetary Liabilities Payable										
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
Members' Term Shares	-	12,970	31,127	43,285	54,801	6,104	2,989	-	-	151,276
Total Monetary Liabilities Payable	125,106	17,074	32,233	44,601	56,267	6,524	3,062	-	-	284,867

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:														Set 6 monthly in arrears	Non-interest sensitive		Total	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			Jun-17	Jun-16		Jun-17	Jun-16		
	Jun-17	Jun-16	Jun-17	Jun-16	Jun-17	Jun-16	Jun-17	Jun-16	Jun-17	Jun-16	Jun-17	Jun-16	Jun-17	Jun-16		Jun-17	Jun-16		Jun-17	Jun-16		
Monetary Assets	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000			
Cash & Bank	3,799	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,836	0.50%		
Deposits at NZACU & Banks	9,010	47,725	46,986	29,048	25,205	13,764	-	-	-	-	-	-	-	-	-	-	-	-	128,926	3.48%		
Trade & Other Receivables	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,236	1,003	1,236	n/a	
Loans to Members - Fixed	-	6,620	2,260	4,150	14,961	3,109	30,249	15,575	-	-	-	-	-	-	-	-	-	-	53,744	25,094	6.12%	
Loans to Members - Floating	144,639	156,201	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	144,639	156,201	10.49%	
Base Capital Notes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,410	5,410	-	-	5,410	5,410	2.23%	
Total Monetary Assets	157,448	199,870	54,345	54,472	48,900	33,198	40,166	16,873	30,249	15,575	-	-	-	-	5,410	5,410	1,236	1,003	337,754	326,401		
Monetary Liabilities																						
Deposits	132,135	125,106	42,288	44,097	42,696	43,285	56,715	54,801	14,589	6,104	485	2,989	-	-	-	-	-	-	288,908	276,382	3.89%	
Other payables	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,684	3,646	2,684	3,646	n/a
Total Monetary Liabilities	132,135	125,106	42,288	44,097	42,696	43,285	56,715	54,801	14,589	6,104	485	2,989	-	-	-	-	2,684	3,646	291,592	280,028		

* 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 2.23% paid for the year ended 30 June 2017, (Jun 2016 : 6.57% per annum).

FIRST CREDIT UNION

Notes to the Financial Statements

For the year ended 30 June 2017

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:

COUNTERPARTIES	Number of counterparties 30 Jun 17	Number of counterparties 30 Jun 16
Over 100%	0	1 ANZ
Between 90% and 100% of equity	1 ANZ	0
Between 80% and 90% of equity	1 BNZ	0
Between 70% and 80% of equity	0	0
Between 60% and 70% of equity	0	0
Between 50% and 60% of equity	0	1 BNZ
Between 40% and 50% of equity	0	0
Between 30% and 40% of equity	1 Westpac	1 Westpac
Between 20% and 30% of equity	0	1 NZACU
Between 10% and 20% of equity	1 NZACU	0

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

(d) Loans to Members

Loans can only be made to Credit Union members. Loan interest rates range from 4.00% to 27.45% p.a. (2016 3.8% 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.

Credit Unions are required to lend within their rules and policies.

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 40 years but are usually scheduled to be repaid within 20 to 25 years
- arrears in loan payments may be reset after 6 consecutive weekly payments, 3 fortnightly payments or 2 monthly payments.

FIRST CREDIT UNION

Notes to the Financial Statements

For the year ended 30 June 2017

19. OTHER CREDIT RISKS (continued)

LOANS TO MEMBERS	30 Jun 17	30 Jun 16
The proportion of loans with repayments in arrears in excess of three months is:	1.87%	1.40%
Other than loans, there are no other financial assets in arrears.		
Loans are for varying terms but the standard loan contract includes an 'on demand' clause.		
The monthly repayments on the loans for the past year represent an average loan term of:	24.9 mths	20.92 mths
The proportion of loans owed in aggregate by the debtors who owe the six largest amounts is:	2.79%	2.63%
The Credit Union offers an overdraft facility		
The amounts drawn down are as follows:	\$796,079	\$693,365

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 \$51,118,593 fixed mortgage loans receivable is \$50,075,612 assuming an average floating mortgage interest rate of 5.85% at 30 June 2017. 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 2017

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.

FAIR VALUE OF FINANCIAL INSTRUMENTS	30 Jun 17	30 Jun 17	30 Jun 16	30 Jun 16
	Carrying Value	Fair Value	Carrying Value	Fair Value
	\$000	\$000	\$000	\$000
LOANS AND RECEIVABLES				
Cash & Cash Equivalents	3,799	3,799	3,836	3,836
Bank Term Deposits	119,915	119,915	123,707	123,707
NZACU Deposit	9,010	9,010	11,150	11,150
Accounts Receivable	1,236	1,236	1,003	1,003
Loans to Members	195,993	194,949	181,295	181,089
Capital Notes	5,410	5,410	5,410	5,410
	335,363	334,319	326,401	326,195
FINANCIAL LIABILITIES AT AMORTISED COST				
On Call Shares	132,135	132,135	125,106	125,106
Fixed Term Shares	156,773	156,773	151,276	151,276
Accounts Payable	2,684	2,684	4,356	4,356
	291,592	291,592	280,738	280,738

22. RELATED PARTY TRANSACTIONS

Remuneration of Directors, Trustees 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/trustees 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, Trustees and Key Management Personnel.

FIRST CREDIT UNION

Notes to the Financial Statements

For the year ended 30 June 2017

22. RELATED PARTY TRANSACTIONS (continued)

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 17	30 Jun 17	30 Jun 16	30 Jun 16
	Directors	Other KMP	Directors	Other KMP
	\$000	\$000	\$000	\$000
(a) Short-Term Employee Benefits	270	799	211	701
(b) Post-Employment Benefits - contributions to defined contribution scheme	-	-	-	-
Total Related Party Disclosures	270	799	211	701

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.

RELATED PARTY HOLDINGS	30 Jun 17	30 Jun 16
Director Holdings		
Owing to Directors (Shares)	1,563	1,818
Owing by Directors (Loans)	769	817
KMP Holdings		
Owing to KMP (Shares)	210	274
Owing by KMP (Loans)	766	20
Connected Parties Holdings		
Owing to Connected Parties (Shares)	1,996	1,435
Owing by Connected Parties (Loans)	3,441	2,483
Total Related Parties Holdings		
Owing to Related Parties (Shares)	3,770	3,527
Owing by Related Parties (Loans)	4,976	3,320

The Credit Union deals with Directors, Trustees and key management personnel on the same conditions applied to all members. During the year under review loan advances to Directors, Trustees and Key Management Personnel totalled \$1.15 million (2016 \$13,000).

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 (2016: \$NIL).

During the year \$18,740 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 2017

23. RECONCILIATION OF CASH FLOW FROM OPERATING ACTIVITIES WITH OPERATING PROFIT

	30 Jun 17	30 Jun 16
	\$000	\$000
Profit for the Period Attributable to Members	2,076	1,859
Non Cash Items		
Depreciation, Amortisation and Loss on Sale	800	692
Bad Debts Written off	1,358	1,102
Bad Debt Provision	(69)	(268)
	2,089	1,526
Changes in Assets and Liabilities		
Movement in Accounts Receivable	(233)	77
Movement In Prepayments	(244)	(86)
Movement in Accounts Payable	(460)	702
Movement in Employee Benefits	57	67
Movement in Accrued Interest Member Deposits	(221)	171
	(1,101)	931
Net Operating Cash Flows	3,064	4,316

24. EVENTS OCCURRING AFTER REPORTING DATE

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

25. 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 2017

26. CREDIT RATING

What is First Credit Union's credit rating?

A credit rating is an independent opinion of the capability and willingness of an entity to repay its debts (in other words, its creditworthiness). It is not a guarantee that the financial product being offered is a safe investment. A credit rating should be considered alongside all other relevant information when making an investment decision.

The Credit Union has been rated by Fitch Ratings. Fitch Ratings gives ratings from AAA through to C. The Credit Union has a long-term issuer credit rating of **BB with a stable outlook** and a short-term issuer credit rating of BB, issued on 9 June 2017.

RATING	AAA	AA	A	BBB	BB	B	CCC	CC	C
Strength	Extremely strong	Very strong	Strong	Adequate	Less vulnerable	More vulnerable	Currently vulnerable	Currently vulnerable	Default imminent or inevitable
Historic likelihood of default over 5 years	1 in 600	1 in 300	1 in 150	1 in 30	1 in 10	1 in 5		1 in 2	

Ratings from 'AA' to 'B' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories. A Fitch Ratings rating may also include an 'Outlook' assessment. An Outlook assessment considers the potential direction of a long-term credit rating over the intermediate term (one to two years) but does not mean the rating will change. The principal Outlook definitions include: 'Positive' – the rating may be raised; 'Negative' – the rating may be lowered; and 'Stable' – the rating is not likely to change.



BDO WAIKATO

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FIRST CREDIT UNION

Opinion

We have audited the financial statements of First Credit Union ("the Credit Union"), which comprise the statement of financial position as at 30 June 2017, and the statement of comprehensive revenue and expense, statement of changes in net assets/equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Credit Union as at 30 June 2017, and its financial performance and its cash flows for the year then ended in accordance with Public Benefit Standards ("PBE Standards") issued by the New Zealand Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ("ISAs (NZ)"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Credit Union in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our firm has undertaken an audit of the AML system of the Credit Union. We have no other relationship with, or interests in, the Credit Union.

Emphasis of Matter- Base Capital Notes Repayment

Without modifying our opinion we draw attention to Note 10 in the financial statements which explains the risks and uncertainties which may impact on the repayment of the Base Capital Notes.

Other Information

The directors are responsible for the other information. The other information obtained at the date of this auditor's report is information contained in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



BDO WAIKATO

Directors' Responsibilities for the Financial Statements

The directors are responsible on behalf of the Credit Union for the preparation and fair presentation of the financial statements in accordance with PBE Standards, 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.

In preparing the financial statements, the directors are responsible on behalf of the Credit Union for assessing the Credit Union's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Credit Union or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (NZ), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting by the directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Credit Union's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Credit Union to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



BDO WAIKATO

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Who we Report to

This report is made solely to the Credit Union's members, as a body. Our audit work has been undertaken so that we might state those matters which 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 opinions we have formed.

BDO Waikato

BDO Waikato
Hamilton
New Zealand

30 August 2017

