

Annual Report





With the successful implementation of our core banking system late last year we are now in a better position to focus on what we do best – *putting our members first.*

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Introduction

CREDIT UNIONS WORLDWIDE OFFER MEMBERS FROM ALL WALKS OF LIFE MUCH-NEEDED FINANCIAL SERVICES.

As a not-for-profit financial cooperative, throughout the year your credit union continued to provide members with high interest savings accounts and we are proud to offer our members access to simple, safe and affordable credit.

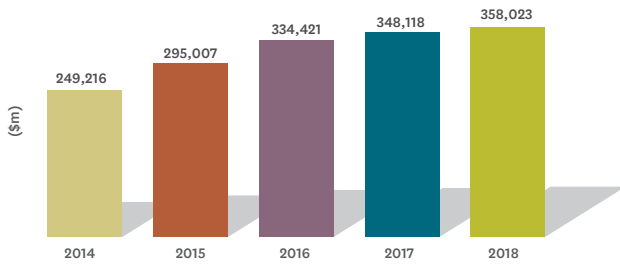
With the successful implementation of our core banking system late last year we are now in a better position to focus on what we do best – *putting our members first.*

The year at a glance

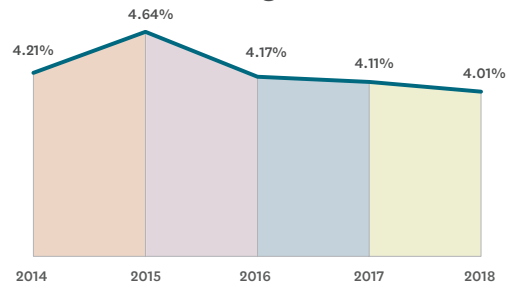
Operating surplus	\$748,000
Total assets	\$358.02 million
Net Interest Margin	4.01%
Number of loans disbursed	18,225
Total loans disbursed	\$62.34 million
Total Loans	\$199.89 million
Interest paid to members	\$9.26 million
Member shares	\$298.19 million
Staff	118

Key performance indicators

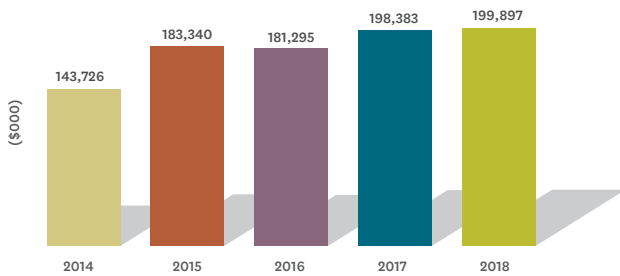
Total Assets



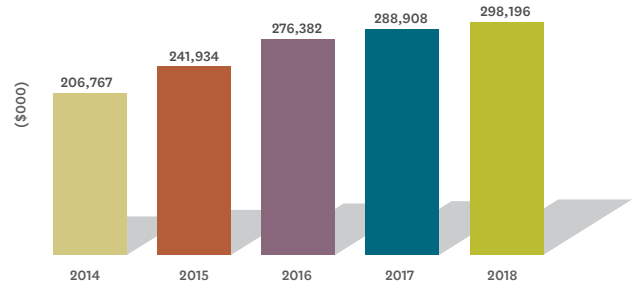
Net Interest Margin



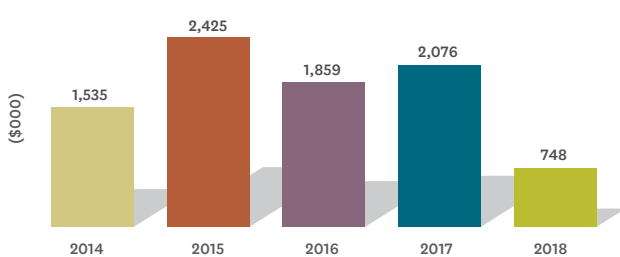
Total Loans



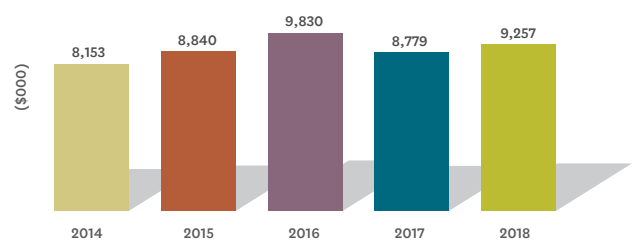
Member Shares



Operating Surplus



Interest paid to members





Chair's Report

Financial and Operating Performance

As Chair I am proud of the financial results, especially given the changes we made to the system last year. Thank you to the Board, Management and staff for their work this year to achieve these results.

As at 30 June 2018 First Credit Union:

- Had an operating surplus of \$748,000
- \$358.02 million in assets
- Member shares of \$298.19 million
- A loan book totalling \$199.89 million
- Paid \$9.26 million worth of interest on member shares

Leadership

In December 2017 the Board of Directors appointed Simon Scott as General Manager following Terry Edwards' resignation. Simon has been a member of the Credit Union for over 40 years and has been on the First Credit Union Board since 2005. The Board wishes to thank Terry for his hard work as CEO and wishes him all the best for the future.

Simon has hit the ground running and the Board looks forward to what the future holds for First Credit Union under Simon's leadership.

Health & Safety

Your Board continues to work on its obligations under the Health & Safety at Work Act 2015. We now have a Health & Safety Working Group, which is chaired by Natasha Grainger and this group is supported by a Health & Safety Working Committee made up of Management and staff across our branches.

Branch Visits

In April and May the Board of Directors visited each of our branches. It is important to your Directors that they get to meet our staff and these visits enabled the Board to:

- Introduce themselves
- Meet their Health & Safety obligations
- See how the Branch Managers and their teams are making a difference in their local communities

The Board thoroughly enjoyed these visits and I wish to thank the Branch Managers, their staff and members for making us feel so welcome.

Director Learning and Development

First Credit Union supports WOCCU (World Council of Credit Unions), and we're proud

to be part of a movement that makes a difference in the lives and communities of 235,000,000 members worldwide.

Attending the annual World Conference of Credit Unions offers your Board of Directors the opportunity to connect with Credit Unions worldwide. This year's conference was attended by close to 1,500 delegates from 58 countries and allowed your Board to engage with industry leading experts.

Special General Meeting

In February we held a Special General Meeting of members at our Hamilton branch. At the SGM Natasha Grainger was appointed Trustee to replace Simon Scott and members voted to amend our Trust Deed.

Friendly Societies and Credit Union Act

The Friendly Societies and Credit Union (FSCU) bill passed its third reading on 27 June 2018, and is now law.

The Board of First Credit Union opposed the amendments to the Friendly Societies and Credit Union Act, which we deemed costly and unnecessary. We remain focussed on providing our members with a low cost banking alternative. To be clear, we will not be pursuing SME business lending. It is not a business we know.

Governance

Director	Board Meetings Eligible to Attend	Board Meetings Attended
Judith Taane	12	11
Malcolm Blair	12	12
Simon Scott	12	12
Peter Iles	12	12
Natasha Grainger	12	10
John Harvey	12	11
Paul O'Connor	3	2
Kathy Robb	8	7

Lastly, I would like to thank my fellow directors, management and staff for all their work this past year.

Judith Taane Chair



*“
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my fellow directors,
management and
staff for all their
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Judith Taane - Chair

”

■ TREASURER'S REPORT



Treasurer's Report

AS A CREDIT UNION, WE OFFER SIMPLE, AFFORDABLE, RELIABLE AND SELF-SUSTAINABLE FINANCIAL SERVICES TO IMPROVE THE FINANCIAL WELL-BEING OF OUR MEMBERS.

The Credit Union has had another successful year, especially given some of the challenges faced by staff and members with the change in core banking system late last year.

As at 30 June 2018 First Credit Union reported a pleasing operating surplus of \$748,000. Our Total Assets were \$358.02 million, an increase of 2.85% and member shares rose by 3.21% to \$298.19 million.

Our total reserves sat at 15.78%, well above our regulatory requirement of 8% and policy requirement of 10%.

I would like to take this opportunity to thank the Directors, Trustees, Management and Staff for this year's excellent result.

Peter Iles

Treasurer

■ TRUSTEE'S REPORT



Trustee's Report

As at 30 June 2018 First Credit Union's cash assets stood at \$134.93 million or 37.6%. This is an increase from the previous year.

During the year First Credit Union advanced \$62.34 million. Of this, we disbursed \$40.68 million in personal loans and \$21.66 in mortgages. Our loan book sits at 54.35% mortgages and 45.65% personal loans.

I wish to thank my fellow Directors, Managers and staff for all their hard work over the year.

Judith Taane

Chair/Trustee





General Manager's Report

Highlights

I COULDN'T BE HAPPIER WITH THIS YEAR'S RESULTS. IT WAS ALWAYS EXPECTED THAT THE YEAR ENDED 30 JUNE 2018 WOULD BE ONE OF OUR HARDEST AS WE IMPLEMENTED A NEW CORE BANKING SYSTEM, AND I BELIEVE THE RESULTS WE HAVE ACHIEVED ARE A TESTAMENT TO OUR STAFF AND MEMBERS.

First Credit Union is New Zealand's most popular Credit Union! Our membership continues to grow towards 70,000.

As at 30 June 2018 we had:

- A \$748,000 surplus
- Grown our loan book by \$1.51 million
- Increased member shares \$9.29 million

We're here for the mutual benefit of our members.

As a member of First Credit Union you have access to no fee, low interest loans and high interest savings accounts.

First Insurance Limited

I am pleased to announce that we now offer Loan Protection insurance exclusively to our members.

The Reserve Bank of New Zealand granted First Insurance Limited its licence in May and we started offering the product to members on 01 June 2018.

First Insurance Limited is a fully owned subsidiary of First Credit Union and is led by Michael Cathro, who has years of experience in the insurance industry and in particular providing insurance services to Credit Union members.

I would like to take this opportunity to thank Michael and the team for all their hard work to achieve this milestone for our members.

We hope to be able to launch our own Funeral Plan insurance product by the end of this year- watch this space!

Staff

We have a large team of staff across the organisation who work hard to ensure that First Credit Union is successful. As members of First Credit Union themselves they are committed to the organisation and our core philosophy of "people helping people".

As at 01 July 2018 we moved to paying our staff the 'living wage' as a minimum. By doing this we are allowing staff to earn enough income for a satisfactory standard of living, which we believe will result in better member service as staff turnover is reduced.

First Credit Union is committed to providing its staff with opportunities for further learning and development, as this ultimately benefits our members. During the year several staff have attended conferences and training sessions to upskill and as General Manager I actively encourage this development.

In your community

Our staff are committed to the communities they serve. Throughout the year the teams have been doing their part to support those in need. Along with sponsorships to the value of \$120,000, we have also raised funds through various mufti days for organisations such as the Child Cancer Foundation, and have supported initiatives such as the St Vincent de Paul's Full Fill van in Rotorua by way of volunteering time.



Since 2010 we've been helping those who participate in our school banking programme achieve their environmental goals. Each year we set aside \$5,000 and over the years have helped a number of our schools improve their environment, whilst educating our future leaders about the importance of being sustainable.

Branches

We are committed to providing our members with easily accessible branches that they feel welcome in. We have started the process of reviewing each of our branches, and have plans for further refurbishments in the coming twelve months under the guidance of Director John Harvey.

In March we officially opened our new Tauranga branch to the public. It was pleasing to see many members from the original Waterfront Credit Union at the event. I would like to thank Steve Penn for rededicating the original Waterfront Credit Union plaque, which is displayed proudly in our new branch.



Member and staff safety is a priority, and we are currently in the process of earthquake assessing our Whakatane branch.

Investing in the communities we serve is important. We are committed to each of the communities our branches are part of and on 30 June 2018 we purchased the building that houses our Rotorua branch. With a growing population we are optimistic about the opportunities this region provides for the Credit Union and future growth.

Member Service

We are always looking for ways to improve the service we provide to our members-across all channels. During the year ended 30 June 2018, we made improvements to Internet Banking and statements.

The introduction of 'Keepsafe' questions on internet banking when we changed our core banking system in September last year created some issues for our members. As a result of feedback received from members we removed these questions from our login process in May 2018.

We appreciate our members want information about their accounts in a

timely manner, and as such, on 01 July we have moved to providing the majority of account statements online through Internet Banking. Members can now access their account statements at the start of the month, in a secure environment- no more waiting for the mail to arrive!

The protection of our member's data is something we take very seriously. Throughout the year we have implemented various processes and controls to ensure data safety and integrity. This includes and is not limited to Disaster Recovery Solutions and the implementation of industry leading security software. These components are critical in the success of delivering services to our members.

The future is bright!

It's a year since we have implemented our new core banking system, and we are excited about what the future holds for your Credit Union.

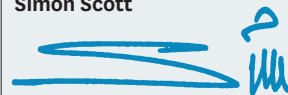
The banking industry is changing at a rapid pace and the Board and Management are committed to providing our members with products and services that are not only relevant, but also beneficial to our members.

By 30 June 2019 we aim to:

- Have grown our membership and loan book in a healthy, sustainable manner
- Have launched a redeveloped website, that will be easier to navigate, with online application forms (loan and membership) that are easier to complete
- Have reviewed and redeveloped our Mobile Banking App and Internet Banking site, introducing more functionality
- Introduce intraday payments
- Have completed a complete branch rebrand

Lastly, I would like to thank the Board, Management, Staff and Members for their support. I am confident that with this ongoing support we will continue to grow a successful Credit Union that puts its members first for years to come.

Simon Scott



General Manager



First Credit Union staff members at the opening of the new Tauranga branch.

Senior Management Team

SENIOR MANAGEMENT TEAM



L-R: Richard O' Regan, Lending Manager, Hannah Goodhue, Business Development Manager, Michael Cathro, Insurance Manager, Ana Braunias, Call Centre Manager, Tieri Carswell, Systems Manager, Michelle Arundel, Collections Manager, Simon Scott, General Manager, Jarrod Dowd, Chief Information Officer, Melissa Hay, Marketing & Communications Manager, Stephen Hawkins, Chief Financial Officer, Asenaca Kaloumaira, Risk & Compliance Manager.

Board of Directors

BOARD OF DIRECTORS



JUDITH TAANE
Chair/Trustee



MALCOLM BLAIR
Deputy Chair



SIMON SCOTT
General Manager/Director



KATHY ROBB
Retired 12 March 2018



JOHN HARVEY
Trustee



PETER ILES
Treasurer



NATASHA GRAINGER
Trustee

■ FIRST CREDIT UNION

Audited Financial Statements

for the year ended
30 June 2018

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Directory

For the year ended 30 June 2018

BOARD OF DIRECTORS	
Chair	Judith Taane
Deputy Chair	Malcolm Blair
Directors	Peter Iles John Harvey Simon Scott Natasha Grainger
Secretary/Treasurer	Peter Iles
Trustees	John Harvey Judith Taane Natasha Grainger
Executive Management	
General Manager	Simon Scott
Chief Financial Officer	Stephen Hawkins
Marketing & Communications Manager	Melissa Hay
Risk & Compliance Manager	Asenaca Kaloumaira
Key Management Personnel	
General Manager	Simon Scott
Chief Financial Officer	Stephen Hawkins
Call Centre Manager	Ana Braunias
Collections Manager	Michelle Arundel
Insurance Manager	Michael Cathro
Lending Manager	Richard O'Regan
Marketing & Communications Manager	Melissa Hay
Risk & Compliance Manager	Asenaca Kaloumaira
Systems Manager	Tieri Carswell
Chief Information Officer	Jarrod Dowd
Business Development Manager	Hannah Goodhue

Auditors BDO Wellington

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 2018

	Note	30 Jun 18	30 Jun 17
REVENUE		\$000	\$000
Interest Revenue	2	22,430	22,005
Interest Expenditure	2	9,257	8,779
Net Interest Revenue		13,173	13,226
Other Income	2	6,796	6,527
		19,969	19,753
EXPENDITURE			
Loan Impairment Expenses	8 (a)	1,257	1,289
Employee Benefits	2	7,226	6,372
Occupancy		830	709
Depreciation	9(b)	819	695
Amortisation Expenses	9(a)	495	105
Other Administration Expenses	2	8,594	8,507
Total Operating Expenditure		19,221	17,677
Surplus for the Year Attributable to Members		748	2,076
Other Comprehensive Revenue and Expense		-	-
Total Comprehensive Revenue and Expense for the Year Attributable to Members		748	2,076

First Credit Union

Statement of Changes in Net Assets/Equity

For the year ended 30 June 2018

	Note	Accumulated Revenue and Expense	Property Revaluation Reserve	Total
		\$000	\$000	\$000
Balance at 1 July 2017		52,552	3,207	55,759
Surplus for the year attributable to members		748	-	748
Total Comprehensive Revenue and Expense for the Year		748	-	748
Balance at 30 June 2018	4	53,300	3,207	56,507
Balance at 1 July 2016		50,476	3,207	53,683
Surplus for the year attributable to members		2,076		2,076
Total Comprehensive Revenue and Expense for the Year		2,076	-	2,076
Balance at 30 June 2017	4	52,552	3,207	55,759

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

First Credit Union

Statement of Financial Position

As at 30 June 2018

	Note	30 Jun 18	30 Jun 17
		\$000	\$000
MEMBERS' FUNDS			
Retained Earnings	4	53,300	52,552
Property Revaluation Reserve	4	3,207	3,207
Total Members' Funds		56,507	55,759
ASSETS			
Cash and Cash Equivalents	5(a)	11,633	3,799
Deposits at New Zealand Association of Credit Unions and Trading Banks	5(b)	123,299	128,925
Trade and Other Receivables	6	1,207	1,236
Capital Notes	10	5,410	5,410
Prepayments		307	439
Loans to Members	7-8	197,227	195,993
Intangible Assets	9(a)	6,343	3,518
Property, Plant and Equipment	9(b)	12,597	8,798
Total Assets		358,023	348,118
LIABILITIES			
Trade and Other Payables	11	2,563	2,684
Employee Entitlements		757	767
Members' Deposits	12	298,196	288,908
Total Liabilities		301,516	292,359
Net Assets		56,507	55,759

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

DIRECTOR
Judith Taane



Date 29 August 2018

DIRECTOR
Peter Iles



Date 29 August 2018

First Credit Union

Statement of Cash Flows

For the year ended 30 June 2018

	Note	30 Jun 18	30 Jun 17
CASH FLOWS FROM OPERATING ACTIVITIES		\$000	\$000
Interest Received		22,429	21,648
Fees, Commissions and Other Income		6,387	6,214
Bad Loans Recovered		438	437
Interest Paid		(9,286)	(9,000)
Payments to Suppliers and Employers		(16,674)	(16,235)
Net Cash Provided by Operating Activities	23	3,294	3,064
CASH FLOWS FROM INVESTING ACTIVITIES			
Net Movement in Members' Loans		(2,491)	(18,446)
Payments for Property, Plant, Equipment and Intangibles		(7,938)	(2,832)
(Increase) Decrease in Deposits at NZACU and Trading Banks		5,626	5,932
Net Cash Used in Investing Activities		(4,803)	(15,346)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net Increase (Decrease) in Member Deposits		9,343	12,245
Net Cash provided by Financing Activities		9,343	12,245
Total Net Increase (Decrease) in Cash and Cash Equivalents Held		7,834	(37)
Cash and Cash Equivalents at the Beginning of the Period		3,799	3,836
Cash and Cash Equivalents at the End of the Period	5(a)	11,633	3,799

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

First Credit Union

Notes to the Financial Statements

For the year ended 30 June 2018

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. The financial statements have been prepared in accordance with the Financial Reporting Act 2013, the Friendly Societies and Credit Unions Act 1982 and the Financial Markets Conduct Act 2013. The financial statements comprising First Credit Union and its controlled entity First Insurance Limited, together comprise the Group and referred to as 'The Credit Union'.

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 for the purposes of complying with generally accepted accounting practice in New Zealand ("NZ GAAP"), it is designated a "not-for-profit" 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 2018. 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.

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.

First Credit Union

Notes to the Financial Statements

For the year ended 30 June 2018

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

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, 8 and 10, and relates to measurement of loans to customers, fair value of property, plant and equipment described in note 9(b), and carrying value of the Capital Notes described in note 10.

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

(b) Basis of Consolidation

Controlled entities are all those entities over which the controlling entity has the power to govern the financial and operating policies so as to benefit from its activities. The controlled entities are consolidated from the date on which control is transferred and are de-consolidated from the date that control ceases. In preparing the consolidated financial statements, all inter entity balances and transactions, and unrealised gains and losses arising within the consolidated entity are eliminated. The accounting policies of the controlled entity are consistent with the policies adopted by the Group and have a 30 June 2018 reporting date.

(c) 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 & Other Income

Fees, commissions and other income are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. The Credit Union does not charge loan origination fees.

(d) 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.

(e) Goods & Services Tax

The Credit Union is registered for GST to comply with Inland Revenue Department requirements to pay GST on types of income where appropriate. Generally GST is not recoverable and is therefore included in the expense or asset value. Recoverable GST is excluded from the financial statements, with the exception of receivables and payables, which are stated inclusive of GST, where applicable.

(f) 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.

(g) 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.

First Credit Union

Notes to the Financial Statements

For the year ended 30 June 2018

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

(h) 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 10-20% amortisation.

(i) 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 to 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.

(j) 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 2018

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.

(k) 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 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 respect of employees' services up to the reporting date and are measured at the present value of the estimated future cash flows expected to be paid when the liabilities are settled.

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.

(l) Financial Instruments Recognition

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

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

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

The Credit Union does not hold any derivative financial instruments.

Cash and cash equivalents

Cash and cash equivalents comprise cash and call deposits at other financial institutions.

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

All term deposits at the New Zealand Association of Credit Unions and other financial institutions are classified as short term investments, measured at amortised cost using the effective interest method, less any impairment losses.

First Credit Union

Notes to the Financial Statements

For the year ended 30 June 2018

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

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 and 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.

First Credit Union

Notes to the Financial Statements

For the year ended 30 June 2018

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

(m) Impairment – Loans and Receivables

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

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

Loans which are known to be uncollectible are written off as an expense in 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 past due but not impaired loans and 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 2018

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) Accounting Standards Issued but Not Yet Effective

At the date of authorisation of the financial statements the following PBE Standards applicable to the Credit Union were in issue but not yet effective:

STANDARD		EFFECTIVE
PBE IPSAS 39	<i>Employee Benefits</i>	<i>1 January 2019</i>
PBE IFRS 9	<i>Financial Instruments</i>	<i>1 January 2021</i>

PBE IPSAS 39 is not expected to have a material effect on the Credit Union and the impact of PBE IFRS 9 is yet to be assessed.

First Credit Union

Notes to the Financial Statements

For the year ended 30 June 2018

2. REVENUE AND EXPENDITURE	30 Jun 18	30 Jun 17
REVENUE	\$000	\$000
Interest Revenue		
<u>Interest on Loans and Receivables</u>		
Interest on Loans to Members	18,544	18,326
Interest on Bank Deposits	3,747	3,470
Interest On Cash and Cash Equivalents	139	209
Total Interest Revenue	22,430	22,005
Other Income		
Transactional Fee Income-Overdraft, ATM, EFTPOS etc	4,990	4,470
Cost Recoveries	529	461
Bad Debts Recovered	438	437
Commissions Received	733	874
Income from Capital Notes	-	121
Other Income	106	164
Total Other Income	6,796	6,527
Total Operating Income	29,226	28,532

First Credit Union

Notes to the Financial Statements

For the year ended 30 June 2018

2. REVENUE AND EXPENDITURE (continued)	30 Jun 18	30 Jun 17
	\$000	\$000
EXPENDITURE		
Interest Expenditure-Liabilities at Amortised Cost		
Interest on Members Call Shares	3,319	3,082
Interest on Members Term Shares	5,938	5,697
Total Interest Expenditure	9,257	8,779
Other Expenditure		
External Audit of Financial Statements		
- BDO Audits	90	47
- BDO Other Services (Internal Control Reviews)	10	4
Internal Audit Costs	8	6
Directors Fees	180	220
Directors' Expenses and Training	124	121
Printing and Stationery	307	253
Data Processing and Support	1,709	2,203
Banking Services Fees	1,103	785
Accesscard Costs	2,353	2,186
NZACU Member Contributions	102	99
Trust Deed	74	85
Members Protection	86	49
Marketing	909	804
Other Expenses	1,539	1,645
Total Other Expenditure	8,594	8,507
Employee Benefits		
Wages and Salaries	6,521	5,735
Staff Welfare, Benefits, Training etc	528	477
Defined Contribution Expense	177	160
Total Employee Benefits	7,226	6,372

First Credit Union

Notes to the Financial Statements

For the year ended 30 June 2018

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 18	30 Jun 17
Ordinary and Special Purpose Shares	0.00 - 4.00%	0.00 - 4.00%
Loan Provider Shares	3.00%	3.00%
Christmas Club and Jimmy Jumper Shares	3.00%	3.00%
Money Maker Shares	2.00 - 3.00%	2.00 - 3.00%
Online Saver Shares	3.00%	3.00%
Term Shares	30 Jun 18	30 Jun 17
Term Deposits (3 Months)	3.10 - 3.70%	3.00 - 3.32%
Term Deposits (6 Months)	3.10 - 4.30%	3.60 - 4.70%
Term Deposits (9 Months)	3.10 - 4.35%	3.45 - 4.00%
Term Deposits (12 Months)	3.10 - 5.00%	3.00 - 4.25%
Term Deposits (> 12 Months to 36 Months)	3.10 - 5.50%	3.75 - 5.75%

4. RESERVES	Retained Earnings	Property Revaluation Reserve	Total
Reserves at 30 Jun 2018	\$000	\$000	\$000
Balance at 30 Jun 2018	53,300	3,207	56,507
The Reserve % to Total Assets	14.89%	0.90%	15.78%
Reserves at 30 Jun 2017			
Balance at 30 Jun 2017	52,552	3,207	55,759
The Reserve % to Total Assets	15.10%	0.92%	16.02%

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, 33 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).

First Credit Union

Notes to the Financial Statements

For the year ended 30 June 2018

5. CASH AND CASH EQUIVALENTS AND TERM DEPOSITS	Interest Rates	30 Jun 18	30 Jun 17
(a) Cash and Cash Equivalents		\$000	\$000
Cash on Hand	0.00%	739	1,792
Bank Balances - On Call	1.50%	10,894	2,007
Total Cash and Cash Equivalents		11,633	3,799
(b) Deposits at New Zealand Association of Credit Unions and Trading Banks			
New Zealand Association of Credit Unions	Call 1.50%	-	9,010
Westpac Bank	3.08 to 3.40%	85,553	19,226
ANZ	2.71 to 3.53%	19,771	55,342
BNZ	2.71 to 3.09%	17,975	45,347
Total Term Deposits		123,299	128,925
Total Deposits and Cash		134,932	132,724

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 18	30 Jun 17
	\$000	\$000
Accrued Interest	1,135	1,023
Sundry Debtors	72	213
Total Trade and Other Receivables	1,207	1,236

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

First Credit Union

Notes to the Financial Statements

For the year ended 30 June 2018

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 18	30 Jun 17
	\$000	\$000
Performing Loans		
Neither Past Due Nor Impaired	178,600	173,614
Past Due But Not Impaired		
1 to 30 days	10,946	15,767
31 to 90 days	523	1,549
over 90 days	1,240	1,612
Total Performing Loans	191,309	192,542
Impaired Loans		
Specifically Impaired	193	384
Collectively Impaired	4,792	3,034
Restructured	3,603	2,423
Gross Loans	199,897	198,383
Less:		
Allowance for Impaired Individually	40	180
Allowance for Impaired Collectively	1,378	1,108
Allowance for Restructured	1,252	1,102
Net Loans to Members	197,227	195,993

The total of past due and impaired loans greater than 90 days in arrears is \$1,439 (2017: \$3,706).

(b) Credit Quality - Security Dissection	30 Jun 18	30 Jun 17
	\$000	\$000
Secured by 1st Mortgage Over Real Estate	108,465	104,488
Secured by 2nd Mortgage Over Real Estate	172	365
Partially Secured by Motor Vehicles and Other Collateral	60,042	62,849
Secured by Members Shares	21,504	20,210
Unsecured Loans	9,714	10,471
Gross Loans to Members	199,897	198,383

First Credit Union

Notes to the Financial Statements

For the year ended 30 June 2018

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 \$21.5 million loan provider shares held as security against loans (2017: \$20.2 million).

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

	30 Jun 18	30 Jun 17
Security held as mortgage against real estate is on the basis of:	\$000	\$000
Loan to valuation ratio of less than 80%	71,058	70,303
Loan to valuation ratio of more than 80% (Welcome Home Loans, underwritten/secured by Housing New Zealand)	1,614	2,078
Loan to valuation ratio of more than 80%	35,965	32,472
Total Mortgages	108,637	104,853
(c) Current v's Non Current		
Current	36,515	36,665
Non Current	163,382	161,718
Total Loans to Members	199,897	198,383
(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 2018

8. IMPAIRMENT OF LOANS AND ADVANCES

(a) Impairment Expense

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

	30 Jun 18	30 Jun 17
	\$000	\$000
Provision for impairment - Increase/(Decrease) in the year	280	(69)
Bad Loans Written Off	977	1,358
Loan Impairment Expenditure	1,257	1,289

(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, the historical losses arising in past years and current/projected conditions where possible. The circumstances may vary for each loan over time resulting in higher or lower impairment losses.

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

	30 Jun 18	30 Jun 17
	\$000	\$000
Individually Impaired Assets Provision		
Opening Balance	180	438
Provisions made during the year	-	-
Provisions reversed during the year	(140)	(258)
Transfer to bad debts written off	-	-
Closing Balance	40	180
Restructured Assets Provision		
Opening Balance	1,102	1,095
Movement in provision for the year	598	900
Transfer to bad debts written off	(448)	(893)
Closing Balance	1,252	1,102
Collective Assets Provision		
Opening Balance	1,108	926
Movement in provision for the year	270	182
Closing Balance	1,378	1,108

First Credit Union

Notes to the Financial Statements

For the year ended 30 June 2018

8. IMPAIRMENT OF LOANS AND ADVANCES (continued)

	30 Jun 18	30 Jun 17
(d) Interest on impaired Loans	\$000	\$000
Total Interest Revenue Recognised on Impaired Loans	581	445
(e) Interest Revenue Foregone on Impaired Loans		
Total Interest Revenue Foregone on Impaired Loans	435	305
(f) Fair Value of Assets Acquired		
Total Assets Acquired Through The Enforcement of Security	-	-

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.

9. (a) Intangible Assets

	2018	2017
Cost or Valuation	\$000	\$000
Cost or Valuation brought forward 1 July	3,911	1,396
Additions	3,320	2,515
Items scrapped	(55)	-
Closing Cost at 30 June	7,176	3,911
Opening Accumulated Amortisation 1 July	393	288
Amortised During the Year	495	105
Items scrapped	(55)	-
Closing Accumulated Amortisation at 30 June	833	393
Net Book Value at 30 June	6,343	3,518

First Credit Union

Notes to the Financial Statements

For the year ended 30 June 2018

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 2017	3,121	5,209	1,829	2,026	265	12,450
Additions	967	2,851	565	248	129	4,760
Reclassification of assets	(1,076)	1,076	(14)	(92)	-	(106)
Disposals or Written off	-	-	(872)	(512)	(143)	(1,527)
Closing Cost 30 June 2018	3,012	9,136	1,508	1,670	251	15,577
Accumulated Depreciation						
Opening Accumulated Depreciation 1 July 2017	-	878	1,441	1,154	179	3,652
Depreciation for the period	-	237	312	215	55	819
Reclassification of assets	-	(26)	-	26	-	-
Disposals or Written off	-	-	(872)	(512)	(107)	(1,491)
Closing Accumulated Depreciation 30 June 2018	-	1,089	881	883	127	2,980
Net Book Value at 30 June 2018	3,012	8,047	627	787	124	12,597

First Credit Union

Notes to the Financial Statements

For the year ended 30 June 2018

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 2016	3,121	5,151	1,839	2,283	309	12,703
Additions	-	58	208	115	7	388
Revaluations	-	-	-	-	-	-
Disposals	-	-	(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
Depreciation on Disposals	-	-	(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

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. 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 air-conditioning, 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 2018

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, and they 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.

The Credit Union stopped using NZACU’s Business Services (for the supply of banking services) on the 9th of September 2017. The Credit Union has given notice to NZACU that since it no longer uses the services of the Association, the Credit Union is seeking repayment of the Capital Notes. NZACU proposed a two-stage process: a) the Credit Union negotiate directly with NZACU member credit unions for the sale of some, or all, of the Capital Notes; b) If the negotiations are inconclusive, the Credit Union negotiate directly with NZACU.

At the date of authorisation of the financial statements, the Credit Union is in negotiation with several of the NZACU member credit unions. At this time there is no certainty as to the outcome of these negotiations.

The Directors of the Credit Union are aware of a proposal to restructure the NZACU, which includes the sale of NZACU’s Insurance Business. To the extent that the restructure results in the repayment of the Capital Notes to the Credit Union, the Directors of the Credit Union 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.

All of the above issues point to uncertainties in regard to the repayment of Capital Notes. The Directors are of the opinion that the carrying value of the Capital Notes at cost is appropriate.

	30 Jun 18	30 Jun 17
	\$000	\$000
Capital Notes	5,410	5,410
Total Available-For-Sale Investments at Cost	5,410	5,410

First Credit Union

Notes to the Financial Statements

For the year ended 30 June 2018

11. TRADE AND OTHER PAYABLES	30 Jun 18	30 Jun 17
	\$000	\$000
Trade Payables	1,520	1,388
Sundry Creditors and Accrued Expenses	120	390
Accesscard Settlement	923	906
Total Trade and Other Payables	2,563	2,684

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.

12. MEMBER'S DEPOSITS	30 Jun 18	30 Jun 17
	\$000	\$000
Call Shares		
Ordinary, and Special Purpose Shares	47,504	43,309
Loan Provider Shares	28,518	29,040
Christmas Club	2,135	3,468
Money Maker Shares	19,763	17,407
Online Savings Shares	41,967	38,911
Total Call Shares	139,887	132,135
Term Shares		
<i>Term shares maturing:</i>		
- within 1 month	13,654	11,671
- over 1 month and up to 3 months	32,372	29,242
- over 3 months and up to 6 months	50,253	42,697
- over 6 months and up to 12 months	54,853	58,090
Total Term Shares	151,132	141,700
Total Current Members' Deposits	291,019	273,835
Non Current Members' Deposits		
- over 1 year and up to 2 years	6,002	14,589
- over 2 years and up to 3 years	1,175	484
Total Non Current Members' Deposits	7,177	15,073
Total Members' Deposits	298,196	288,908

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.

First Credit Union

Notes to the Financial Statements

For the year ended 30 June 2018

12. MEMBER'S DEPOSITS (CONTINUED)

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.

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 18	30 Jun 17
	\$000	\$000
Not longer than 1 year	159	1,830
Total Future Capital Commitments	159	1,830

(b) Operating Lease Commitments

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

Not longer than 1 year	49	214
Longer than 1 and not longer than 5 years	36	182
Longer than 5 years	-	-
Total Operating Lease Commitments	85	396

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	359	3,855
Undrawn Overdraft and Line of Credit	295	391
Total Outstanding Loan Commitments	654	4,246

14. CONTINGENT LIABILITIES

There are no material contingent liabilities not provided for in the financial statements (2017 \$150,000).

First Credit Union

Notes to the Financial Statements

For the year ended 30 June 2018

15. STANDBY BORROWING FACILITIES	30 Jun 18	30 Jun 17
	\$000	\$000
Overdraft Facility	-	50
Total Standby Borrowing Facilities	-	50

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 risk
- 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. The Credit Union does not trade in the financial instruments it holds on its books.

The Credit Union is exposed to interest rate risk. This is where the return on loans provided to members (i.e. interest rate on loans) falls relative to the cost of borrowing funds from members (paid out in the form of dividends/interest on members shares).

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 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 2018

16. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

	30 Jun 18 Interest Rate Risk			30 Jun 17 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	134,193	(823)	823	130,932	(810)	810
Loan Receivables	197,227	(1,614)	1,614	195,993	(1,551)	1,551
		(2,437)	2,437		(2,361)	2,361
Financial Liabilities						
Member Deposits	298,196	1,996	(1,996)	288,908	2,084	(2,084)
		1,996	(1,996)		2,084	(2,084)
Total Increase /(Decrease)		(441)	441		(277)	277

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 2018

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 registered trading banks

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 90 days. Should the liquidity ratio fall below this level, the management and board are to address the matter and ensure that the liquid funds are obtained from new deposits or borrowing facilities available. The Credit Union has maintained the policy level throughout the financial period under review.

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

Capital Management

The Credit Union is regulated under the Friendly Societies and Credit Union Act 1982. The Credit Union operates under a Trust Deed and must also comply with the Non Bank Deposit Takers Regulations 2010 (Credit Ratings, Capital Ratios and Related Party Exposures). The minimum Capital Ratio under the Trust Deed, in accordance with the Non Bank Deposit Takers Act 2013, is 8%. 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.

First Credit Union

Notes to the Financial Statements

For the year ended 30 June 2018

16. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The Credit Union's capital is determined as follows:

	30 Jun 18	30 Jun 17
Tier 1	\$000	\$000
Retained Earnings	53,300	52,552
Total Tier 1 Reserves	53,300	52,552
Tier 1 Capital Ratio	14.89%	15.10%
Tier 2		
Property Revaluation Reserve	3,207	3,207
Total Reserves	3,207	3,207
Total Tier 2 Capital Ratio	0.90%	0.92%
Total Tier 1 and Tier 2 Reserves	56,507	55,759
Total Tier 1 and Tier 2 Capital Ratio	15.78%	16.02%

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

First Credit Union

Notes to the Financial Statements

For the year ended 30 June 2018

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 2018	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
Financial Assets										
Cash and Bank	11,633	-	-	-	-	-	-	-	-	11,633
Trade and Other Receivables	-	283	284	471	169	-	-	-	-	1,207
Investments - Base Capital Notes	-	-	-	-	-	-	-	-	5,410	5,410
Deposits at New Zealand Banks	-	13,519	33,246	54,045	22,489	-	-	-	-	123,299
Future Interest Receivable	-	1,526	4,362	4,069	7,158	11,366	13,265	54,513	-	96,259
Loans to Members	-	3,986	6,184	8,914	17,431	30,907	36,799	95,676	-	199,897
Total Financial Assets	11,633	19,314	44,076	67,499	47,247	42,273	50,064	150,189	5,410	437,705
Financial Liabilities										
Payables	-	2,563	-	-	-	-	-	-	-	2,563
Future Interest Payable	-	261	1,137	970	1,563	337	119	-	-	4,387
Members Call Shares	139,887	-	-	-	-	-	-	-	-	139,887
Member Term Shares	-	13,654	32,372	50,253	54,853	6,002	1,175	-	-	158,309
Total Financial Liabilities	139,887	16,478	33,509	51,223	56,416	6,339	1,294	-	-	305,146
Liquidity (Shortfall)/Surplus	(128,254)	2,836	10,567	16,276	(9,169)	35,934	48,770	150,189	5,410	132,559

First Credit Union

Notes to the Financial Statements

For the year ended 30 June 2018

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

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
Financial Assets										
Cash and Bank	3,799	-	-	-	-	-	-	-	-	3,799
Trade and Other Receivables	-	544	365	277	50	-	-	-	-	1,236
Investments - Base Capital Notes	-	-	-	-	-	-	-	-	5,410	5,410
Deposits at NZACU and Banks	9,010	16,931	30,794	46,986	25,204	-	-	-	-	128,925
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 Financial Assets	12,809	22,337	40,761	61,236	51,526	44,724	62,287	127,387	5,410	428,477
Financial Liabilities										
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
Member Term Shares	-	13,046	29,242	42,696	56,715	14,589	485	-	-	156,773
Total Financial Liabilities	132,135	16,210	30,166	43,878	58,220	15,066	497	-	-	296,172
Liquidity (Shortfall)/Surplus	(119,326)	6,127	10,595	17,358	(6,694)	29,658	61,790	127,387	5,410	132,305

First Credit Union

Notes to the Financial Statements

For the year ended 30 June 2018

18. INTEREST RISK

The Credit Union's exposure to interest risk is set out below detailing the contractual interest change profile based on the next contractual repricing or maturity date (whichever is earlier) as at the reporting date.

	Repricing period at 30 Jun / Fixed Interest Rate Maturing in:															
	Weighted average effective interest rate		Floating Interest rate		0 to 6 months		6 to 12 months		1 to 2 years		2 to 5 years		Non-interest sensitive		Total	
	Jun-18	Jun-17	Jun-18	Jun-17	Jun-18	Jun-17	Jun-18	Jun-17	Jun-18	Jun-17	Jun-18	Jun-17	Jun-18	Jun-17	Jun-18	Jun-17
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Monetary Assets																
Cash & Bank	1.50%	0.50%	11,633	3,799	-	-	-	-	-	-	-	-	-	-	11,633	3,799
Deposits at NZACU & Banks	3.18%	3.48%	-	9,010	100,810	94,711	22,489	25,204	-	-	-	-	-	-	123,299	128,925
Trade & Other Receivables	n/a	n/a	-	-	-	-	-	-	-	-	-	-	1,207	1,236	1,207	1,236
Loans to Members - Fixed	4.73%	6.12%	-	-	18,911	8,534	20,421	14,961	17,139	30,249	-	-	-	-	56,471	53,744
Loans to Members - Floating	11.07%	10.49%	143,426	144,639	-	-	-	-	-	-	-	-	-	-	143,426	144,639
Base Capital Notes	0.00%	2.23%	-	-	-	-	-	-	-	-	-	-	5,410	5,410	5,410	5,410
Total Monetary Assets			155,059	157,448	119,721	103,245	42,910	40,165	17,139	30,249	-	-	6,617	6,646	341,446	337,753
Monetary Liabilities																
Deposits	3.17%	3.89%	139,887	132,135	96,279	84,984	54,853	56,715	6,002	14,589	1,175	485	-	-	298,196	288,908
Other Payables	n/a	n/a	-	-	-	-	-	-	-	-	-	-	2,563	2,684	2,563	2,684
Total Monetary Liabilities			139,887		96,279	84,984	54,853	56,715	6,002	14,589	1,175	485	2,563	2,684	300,759	291,592
Total Monetary Assets			15,172	25,313	23,442	18,261	(11,943)	(16,550)	11,137	15,660	(1,175)	(485)	4,054	3,962	40,687	46,161

* 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. No interest was paid for the year ended 30 June 2018 (Jun 2017 : 2.23% per annum).

First Credit Union

Notes to the Financial Statements

For the year ended 30 June 2018

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 loans and receivables as disclosed in Note 21.

(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 18	Number of counterparties 30 Jun 17
Over 100%	1 Westpac	0
Between 90% and 100% of equity	0	1 ANZ
Between 80% and 90% of equity	0	1 BNZ
Between 70% and 80% of equity	0	0
Between 60% and 70% of equity	0	0
Between 50% and 60% of equity	0	0
Between 40% and 50% of equity	0	0
Between 30% and 40% of equity	2 ANZ & BNZ	1 Westpac
Between 20% and 30% of equity	0	1 NZACU
Between 10% and 20% of equity	0	0
Between 0% and 10% of equity	1 NZACU	0

(d) Loans to Members

Loans can only be made to Credit Union members. Loan interest rates range from 3.8% to 26% p.a. (2017 4.0% 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 2018

19. OTHER CREDIT RISKS (continued)

Loans to Members	30 Jun 18	30 Jun 17
The proportion of loans with repayments in arrears in excess of three months is:	3.14%	1.87%
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:	27.5 mths	24.9 mths
The proportion of loans owed in aggregate by the debtors who owe the six largest amounts is:	3.36%	2.79%
The Credit Union offers an overdraft facility		
The amounts drawn down are as follows:	\$377,779	\$796,079

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 New Zealand 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 \$56,471,766 fixed mortgage loans receivable is \$55,430,588 assuming an average floating mortgage interest rate of 5.85% at 30 June 2018. 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 approximately 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.

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.

First Credit Union

Notes to the Financial Statements

For the year ended 30 June 2018

21. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair Value of Financial Instruments	30 Jun 18 Carrying Value	30 Jun 18 Fair Value	30 Jun 17 Carrying Value	30 Jun 17 Fair Value
	\$000	\$000	\$000	\$000
Loans and Receivables				
Cash & Cash Equivalents	11,633	11,633	3,799	3,799
Bank Term Deposits	123,299	123,299	119,915	119,915
NZACU Deposit	-	-	9,010	9,010
Accounts Receivable	1,207	1,207	1,236	1,236
Loans to Members	197,227	196,186	195,993	194,949
Capital Notes	5,410	5,410	5,410	5,410
	338,776	337,735	335,363	334,319
Financial Liabilities at Amortised Cost				
On Call Shares	139,887	139,887	132,135	132,135
Fixed Term Shares	158,309	158,309	156,773	156,773
Accounts Payable	2,114	2,114	2,210	2,210
	300,310	300,310	291,118	291,118

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 seven directors/trustees and nine 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 2018

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:

	30 Jun 18 Directors	30 Jun 18 Other KMP	30 Jun 17 Directors	30 Jun 17 Other KMP
	\$000	\$000	\$000	\$000
(a) Short-Term Employee Benefits	230	1,055	270	799
(b) Post-Employment Benefits - contributions to defined contribution scheme	-	-	-	-
Total Related Party Disclosures	230	1,055	270	799

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 18	30 Jun 17
Director Holdings	\$000	\$000
Owing to Directors (Shares)	708	1,563
Owing by Directors (Loans)	974	769
KMP Holdings		
Owing to KMP (Shares)	83	210
Owing by KMP (Loans)	1,006	766
Connected Parties Holdings		
Owing to Connected Parties (Shares)	1,255	1,996
Owing by Connected Parties (Loans)	3,113	3,441
Total Related Parties Holdings		
Owing to Related Parties (Shares)	2,046	3,769
Owing by Related Parties (Loans)	5,093	4,976

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 \$0.26 million (2017 \$1.15million).

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 (2017: \$NIL).

First Credit Union

Notes to the Financial Statements

For the year ended 30 June 2018

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

	30 Jun 18	30 Jun 17
	\$000	\$000
Profit for the Period Attributable to Members	748	2,076
Non Cash Items		
Depreciation, Amortisation and Loss on Sale	1,314	800
Bad Debts Written off	977	1,358
Bad Debt Provision	280	(69)
	2,571	2,089
Changes in Assets and Liabilities		
Movement in Accounts Receivable	29	(233)
Movement In Prepayments	132	(244)
Movement in Accounts Payable	(147)	(460)
Movement in Employee Benefits	(11)	57
Movement in Accrued Interest Member Deposits	(28)	(221)
	(25)	(1,101)
Net Operating Cash Flows	3,294	3,064

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).

26. FIRST INSURANCE LIMITED

On the 5th July 2017, the Credit Union incorporated a 100% owned subsidiary company, First Insurance Limited (FIL). On 11th May 2018, FIL received a non-life insurance licence from the RBNZ. The licence will enable FIL to underwrite the loan protection cover on loans taken out by members of the Credit Union. The Credit Union has capitalised FIL with \$4million in order to meet minimum capital requirements of the RBNZ Solvency Standard for Non-Life Insurance Business, December 2014, this is above the minimum requirement of \$3million.

FIL has a Credit rating of BB+ outlook stable from Fitch, issued 24 May 2018. On 1 June 2018 FIL commenced trading. FIL received premium income of \$138,000 for the month of June 2018, this has not been consolidated into the Group as this is considered immaterial. The \$4million capital invested with FIL is comprised of call and term deposits with Westpac, included in note 5.

First Credit Union

Notes to the Financial Statements

For the year ended 30 June 2018

27. 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 default (IDR) rating of BB with a stable outlook, issued on 26 April 2018 (2017: BB with a stable outlook).

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 Wellington Audit Limited

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 2018, 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 2018, and its financial performance and its cash flows for the year then ended in accordance with Public Benefit Entity 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.

Other than in our capacity as auditor we have no 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.

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.



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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.

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 Wellington Audit Limited

BDO Wellington Audit Limited
Wellington
New Zealand
29 August 2018



