

AOTEAROA CREDIT UNION

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2017

AOTEAROA CREDIT UNION

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AOTEAROA CREDIT UNION

DIRECTORY FOR THE YEAR ENDED 30 SEPTEMBER 2017

| | | |
|------------------------------|---|--|
| Nature of Business | Providing financial services to members | |
| Registered Office | Unit B, 123 Ormiston Road, Botany Junction, Manukau | |
| Board of Directors | Chairman | Wyn Osborne |
| | Deputy Chair | Lucy Steel |
| | Treasurer | Graham Pryor (Associate 27/09/2016; Director 16/02/2017) Diana Puketapu (Resigned 16/02/2017) |
| | Secretary | Frances Smiler-Edwards |
| | Director | Poutoa Papali'i Pauline Kingi (Associate 28/03/17; Director 25/07/2017) |
| Trustees | Poutoa Papali'i Wyn Osborne | |
| Chief Executive | Anthony Wilson | |
| Auditors | Staples Rodway PO Box 3899 Auckland 1140 | |
| Bankers | Co-op Money NZ Central Banking Facility Level 3, 25 Teed Street Newmarket Auckland 1023 Westpac Institutional Bank PO Box 691 Wellington 6140 ANZ Banking Group (NZ) Ltd PO Box 1492 Wellington 6140 | |
| Solicitors | Lowndes Ltd Level 5, Lowndes House 18 Shortland Street PO Box 7311 Auckland 1141 | Anthony Harper Level 8, Chorus House 66 Wyndham Street PO Box 2640 Auckland 1140 |
| Affiliations | Co-op Money NZ Credit Union Institute of New Zealand | |
| Prudential Supervisor | Covenant Trustee Services Ltd Level 6, 191 Crombie Lockwood Tower Auckland 1010 PO Box 4243, Shortland Street Auckland 1140 | |

AOTEAROA CREDIT UNION

STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE FOR THE YEAR ENDED 30 SEPTEMBER 2017

| | Note | Year Ended 30-Sep-17 \$ | Year Ended 30-Sep-16 \$ |
|---|------|-------------------------------|-------------------------------|
| Revenue | | | |
| Interest Revenue | 2 a. | 2,210,372 | 1,696,788 |
| Finance Costs | 2 b. | 462,534 | 462,081 |
| Net Interest Margin | | <u>1,747,838</u> | <u>1,234,707</u> |
| Dividend Revenue | 2 c. | 1,750 | 18,938 |
| Rendering of Services Revenue | 2 d. | 4,486,355 | 4,873,213 |
| Other Revenue | 2 e. | 83,925 | 118,724 |
| TOTAL NET REVENUE FROM EXCHANGE TRANSACTIONS | | <u>6,319,868</u> | <u>6,245,582</u> |
| Expenditure | | | |
| Loan Impairment Expenses | 2 f. | 413,923 | 450,050 |
| Employee Benefits | 2 g. | 2,266,831 | 2,196,458 |
| Occupancy | 2 h. | 681,348 | 591,052 |
| Depreciation and Amortisation Expenditure | 2 i. | 447,378 | 337,090 |
| Marketing and Administrative Expenses | 2 j. | 530,161 | 398,666 |
| Impairment of base capital notes | 13 | 220,230 | - |
| Other Expenditure | 2 k. | 2,564,936 | 2,113,478 |
| TOTAL EXPENDITURE | | <u>7,124,807</u> | <u>6,086,794</u> |
| Surplus (Loss) for the Period Attributable to Members | | (804,939) | 158,788 |
| Other Comprehensive Revenue and Expense | | - | - |
| Total Comprehensive Revenue and Expense for the period Attributable to Members | | <u>(804,939)</u> | <u>158,788</u> |

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 SEPTEMBER 2017

| | Year Ended 30-Sep-17 \$ | Year Ended 30-Sep-16 \$ |
|---|-------------------------------|-------------------------------|
| Balance as at the beginning of the year | 3,898,346 | 3,739,558 |
| Surplus (Loss) for the Period Attributable to Members | (804,939) | 158,788 |
| Balance as at the end of the year | <u>3,093,407</u> | <u>3,898,346</u> |

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

AOTEAROA CREDIT UNION

STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2017

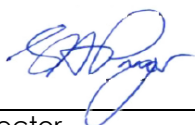
| | | As at 30-Sep-17 \$ | As at 30-Sep-16 \$ |
|-------------------------------|---------|--------------------------|--------------------------|
| | Note | | |
| MEMBERS FUNDS | | | |
| Retained Earnings | 5 | 3,093,407 | 3,898,346 |
| TOTAL MEMBERS FUNDS | | 3,093,407 | 3,898,346 |
| ASSETS | | | |
| Cash and Cash Equivalents | 6 | 2,063,004 | 1,576,040 |
| Short Term Deposits | 7 | 3,128,945 | 4,375,000 |
| Trade and Other Receivables | 8 | 136,919 | 139,499 |
| Prepayments | 9 | 486,809 | 177,724 |
| Loans to Members | 10 & 11 | 12,740,215 | 11,635,982 |
| Property, Plant and Equipment | 12 | 1,068,866 | 1,013,154 |
| Capital Notes | 13 | 220,229 | 352,688 |
| Intangible Assets | 14 | 41,318 | 475,405 |
| TOTAL ASSETS | | 19,886,305 | 19,745,492 |
| LIABILITIES | | | |
| Trade and Other Payables | 15 | 1,392,468 | 906,240 |
| Members' Deposits | 16 | 15,400,430 | 14,940,906 |
| TOTAL LIABILITIES | | 16,792,898 | 15,847,146 |
| NET ASSETS | | 3,093,407 | 3,898,346 |

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



Director

Date 2 March 2018



Director

Date 2 March 2018

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

AOTEAROA CREDIT UNION

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 SEPTEMBER 2017

| | | Year Ended 30-Sep-17 \$ | Year Ended 30-Sep-16 \$ |
|---|-------------|-------------------------------|-------------------------------|
| | Note | | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Interest Received | | 2,185,368 | 1,895,447 |
| Fees & Commissions Received | | 4,588,766 | 4,869,290 |
| Bad Debts Recovered | | 23,507 | 33,760 |
| Net Loans to Members | | (1,518,157) | (1,256,147) |
| Interest Paid | | (408,287) | (438,749) |
| Payment to Suppliers and Employees | | (5,543,120) | (5,470,459) |
| Net Cash (Used In)/Provided by Operating Activities | | (671,923) | (366,858) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of Property, Plant & Equipment | 12b | (458,597) | (552,538) |
| Purchase of Intangible Asset | 14 | (324) | (404,869) |
| Purchase of Capital Notes | 13 | (87,771) | - |
| Net Movement in Short Term Investments | | 1,246,055 | 1,675,000 |
| Net Cash Provided by / (Used In) Investing Activities | | 699,363 | 717,593 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Net Proceeds from Member Deposits | | 459,524 | (1,404,187) |
| Net Cash Provided by / (Used In) Financing Activities | | 459,524 | (1,404,187) |
| Total Net (Decrease) / Increase in Cash and Cash Equivalents | | 486,964 | (1,053,452) |
| Cash and Cash Equivalents at the Beginning of the Period | | 1,576,040 | 2,629,492 |
| Cash and Cash Equivalents at the End of the Period | | 2,063,004 | 1,576,040 |
| RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES WITH OPERATING SURPLUS / (LOSS) | | | |
| | | Year Ended 30-Sep-17 \$ | Year Ended 30-Sep-16 \$ |
| | Note | | |
| Surplus (Loss) for the period | | (804,939) | 158,788 |
| Non Cash items: | | | |
| Depreciation | 12b | 402,886 | 290,219 |
| Amortisation of Intangible Assets | 14 | 44,492 | 46,871 |
| Bad debts written off | 11d | 32,298 | 476,673 |
| Movement in provision for impairment | 11d | 381,625 | (26,623) |
| Impairment of base capital notes | 13 | 220,230 | - |
| Prior year intangible asset expensed in current year | 14 | 138,114 | - |
| Change in Assets and Liabilities: | | | |
| Movements in Trade and Other Receivables | | 2,580 | 90,832 |
| Movement in Prepayments | | (309,085) | (122,428) |
| Movement in prepayment attributed to prior year intangible asset | 14 | 251,805 | - |
| Movement in Loans to Members | | (1,518,157) | (1,256,146) |
| Movement in Trade and Other Payables | | 486,228 | (25,044) |
| | | (671,923) | (366,858) |

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

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2017

Reporting Entity

The Aotearoa Credit Union ("The Credit Union") is a public-benefit entity registered and domiciled in New Zealand under the Friendly Societies and Credit Unions Act 1982. The Credit Union is licenced under the Non-Bank Deposit Takers Act 2013 by the Reserve Bank of New Zealand. The Credit Union is a FMC Reporting Entity for the purposes of the Financial Markets Conduct Act 2013. The financial report is a general purpose financial report which has been prepared in accordance with the Financial Markets Conduct Act 2013 and the Financial Reporting Act 2013.

The presentation and functional currency is New Zealand Dollars. Figures are rounded to the nearest dollar.

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.

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.

The Credit Union operates predominantly in one industry, being the investment of members' funds. All operations are based in New Zealand.

Trust Deed

To meet the requirements of The Securities Act 1978 a Trust Deed was entered into on the 18 October 2001 between the Trustees of the Credit Union and Perpetual Trust Ltd. Perpetual Trust Ltd 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. On 28 September 2012, the Financial Markets Authority appointed Covenant Trustee Services Ltd (formally, Foundation Corporate Trust) to take over these duties. 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.

Clause 8.1(d) of the Trust Deed requires the Credit Union to provide a Directors Certificate to the Prudential Supervisor by the last day of the next month confirming that the Credit Union is in compliance with the ratio's set out in clauses 7.2 of the Trust Deed.

1 SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the material accounting policies adopted by the Credit Union in the preparation of the financial report. Except where stated, the accounting policies have been consistently applied.

a) Basis of Preparation

These financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with Public Benefit Entity Accounting Standards (PBE Standards), as appropriate for Tier 1 not-for-profit public benefit entities.

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2017

1 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

b) Measurement Base

These financial statements have been prepared on a going concern basis in accordance with the historic cost convention, as modified by the revaluation of certain assets and liabilities as identified in specific accounting policies below.

c) Members' Shares (Deposits)

Members' deposits are the members' shares in the Credit Union. For the purpose 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 member deposits.

Members' term deposits are initially recognised at fair value net of transaction costs and thereafter carried at amortised cost. Interest accrued at balance date is shown as a part of other payables.

d) Financial Instruments

The Credit Union classifies its financial instruments in the following categories:

- Financial assets comprising of loans and receivables and available for sale financial assets; and
- Financial liabilities comprising of financial liabilities at amortised cost

The classification depends on the purpose for which the financial assets were acquired and financial liabilities were incurred. Management determines the classification of its financial instruments at initial recognition and re-evaluates this designation at every reporting date.

All financial instruments are initially recognised at fair value plus transaction costs.

Initial recognition and derecognition

All financial instrument purchases and disposals are accounted for on a trade date basis.

Financial assets are derecognised when the Credit Union neither retains the risks and rewards of ownership nor controls the contractual rights to the cash flows arising from them. Financial liabilities are derecognised when the Credit Union's obligation under the liability is discharged, cancelled or expires.

Subsequent to initial recognition the instruments are measured as below:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Credit Union's loans and receivables comprise cash and cash equivalents, short term investments, and members' loans. Subsequent to initial recognition loans and receivables are carried at amortised cost using the effective interest method, less impairment allowances.

Gains and losses on these financial instruments arise on sale, derecognition and impairment and are recognised in the Statement of Comprehensive Revenue and Expense. Any interest revenue arising on loans and receivables is recognised in the profit or loss in accordance with the effective interest method.

Available for sale financial assets

Available for sale financial assets include any financial asset not included in the above category or designated as available for sale at initial recognition. Available for sale assets comprise Co-op Money NZ Base Capital Notes ("Capital Notes"). The Capital Notes are equity instruments that do not have a quoted market price in an active market. 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. 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*.

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2017

1 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Financial liabilities at amortised cost

Non-derivative financial liabilities are recognised at amortised cost, using the effective interest method. This category includes Members' deposits and trade and other payables. Members' deposits meet the definition of financial liabilities under PBE IPSAS 28 *Financial Instruments: Presentation* as they are secured by a first ranking registered Trust Deed over the Credit Union's assets and revenues.

Impairment of financial assets

The Credit Union recognises a loan impairment provision where there is objective evidence of impairment. In determining whether an impairment loss should be recorded, the Credit Union makes judgements as to whether there is observable data indicating that there is a measurable decrease in the estimated future cash flows from each class of loans.

The Credit Union specifically reviews all loans in arrears greater than 30 days at each reporting date to assess whether an impairment loss has occurred. In particular, judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Credit Union makes judgements about the borrower's financial situation and the net realisable value and timing of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

All loans not individually impaired including those in arrears less than 31 days are then assessed collectively in loan portfolios with similar risk characteristics, to determine whether provision should be made due to incurred loss events where there is objective evidence but whose effects are not yet evident. The collective assessment from the loan portfolio (such as credit quality, levels of arrears and collateral type) uses historical loss information adjusted on the basis of current observable data.

Loans which are known to be uncollectible are written off as an expense in the profit or loss. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtors credit assessment), the previously recognised impairment loss is reversed by adjusting the impairment allowance, with the reversal being recognised in the Statement of Comprehensive Revenue and Expense.

e) Revenue Recognition

Interest Revenue-Loans

Loan interest is calculated on the daily loans balance outstanding and is charged at each payment date. Loan interest is recognised in the Statement of Comprehensive Revenue and Expense using the effective interest rate method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is a rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Interest Revenue-Investment

Investment interest revenue is recognised on a time-proportion basis using the effective interest rate method.

Dividend Revenue

Dividend income is recognised when the right to receive payment is established.

Fees & Commissions Revenue

Fees and commission are brought to account on an accrual basis once a right to receive consideration has been attained.

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2017

1 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Loan Origination Fees Revenue

Fees collected represent reimbursement of costs incurred as specified by the Credit Contracts and Consumer Finance Act 2003 (CCCFA). Loan application fees are deferred and amortised as a component of the calculation of the effective interest rate in relation to originated loans.

f) Interest Expense and borrowing costs

Interest expense and borrowing costs are recognised in the Statement of Comprehensive Revenue and Expense as they accrue, using the effective interest rate method.

g) Goods & Services Tax

The Credit Union is not registered for GST. GST is therefore included in the amounts recognised as expenses, assets and liabilities.

h) Income Tax

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

i) Property, Plant and Equipment (PP&E)

Each class of plant and equipment is carried at cost less, where applicable, adjustments for any accumulated depreciation and impairment losses.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (i.e. if the asset is impaired).

Depreciation

The depreciable amount of all plant and equipment is depreciated over their useful lives to the Credit Union commencing from the time the asset is held ready for use.

Plant and Equipment is depreciated on a straight-line basis. A summary of the rates used are:

| | |
|---------------------------------|-------------------|
| Office Equipment | 20% straight line |
| Computer Equipment and Hardware | 25% straight line |
| Furniture and Fittings | 20% straight line |

Assets under \$500 are not capitalised.

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance date. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the Statement of Comprehensive Revenue and Expense.

j) Intangible Assets

Intangible assets have a finite useful life. Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses.

Intangible assets are amortised over their useful lives to the Credit Union commencing from the time the asset is held and ready for use. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period.

Intangible assets are amortised on a straight-line basis as follows;

| | |
|-------------------|----------------|
| Computer Software | 20% per annum. |
|-------------------|----------------|

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2017

1 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

k) Impairment of Non-Financial Assets

At each reporting date, the Credit Union reviews the carrying values of its tangible and intangible assets to determine whether those assets have been impaired. If impaired, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the assets carrying value. Value in use is determined by estimating future cash flows from the use and ultimate disposal of the asset and discounting these to their present value using a pre-tax discount rate that reflects current market rates and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Any excess of the assets carrying value over its recoverable amount is expensed to the Statement of Comprehensive Revenue and Expense.

l) Leases

Leases of property, plant and equipment, where substantially all the risks and benefits incidental to ownership of the asset, but not the legal ownership, are transferred to the Credit Union are classified as finance leases. The credit union has not classified any leases as finance leases.

Leased assets are depreciated on a straight-line basis over their estimated useful lives.

Leased payments for operating leases net of any incentives received from the lessor, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

m) Employee Benefits

Provision is made for the liability for employee benefits wholly arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made.

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:

"Cash & Cash Equivalents" comprise cash, bank balances, call deposits and deposits with less than 3 months maturity from inception.

Bank overdrafts that are repayable on demand and form an integral part of the Credit Union's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

"Investing Activities" are those activities relating to the acquisition and disposal of investments and any other non-current assets.

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

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

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 members rather than the Credit Union.

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2017

1 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

o) Accounting Judgements, Estimates & Assumptions

The preparation of the financial statements requires the use of management judgements, estimates and assumptions that affect reported amounts and the application of policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an on-going basis. Revision to accounting estimates are recognised in the year in which the estimates are revised and in any future years affected.

Management have made judgements when applying the Credit Union's accounting policies with respect to the classification of financial instruments.

Impairment of loans

The Credit Union makes estimates and assumptions concerning future cash flows when assessing the impairment provision on loans. The Credit Union reviews its loan portfolio to assess impairment at least monthly. The impairment provision is adjusted based on evidence relating to borrowers circumstances including the period that the loans are in arrears. The resulting accounting estimates will seldom equal the related actual results and there is significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The details of the critical accounting estimates and assumptions are set out in Note 9 for the impairment provisions for loans.

Measurement of Capital Notes

A key judgement has been made in relation to the subsequent measurement of the Capital Notes. Available for sale financial assets are normally carried at fair value in subsequent periods with changes in fair value being recognised in the Statement of Comprehensive Revenue and Expense as part of other comprehensive revenue and expense. However, as the Capital Notes, do not have a quoted market price in an active market and their fair value cannot be measured reliably, they are measured at cost price in accordance with PBE IPSAS 29.

The Credit Union reviews the Capital Notes for impairment at each reporting date. In determining whether an impairment loss should be recognised, the Credit Union makes judgements as to whether there is observable data indicating that there is a measurable decrease in the estimated future cash flows. Impairment losses are recognised in the statement of comprehensive revenue and expense.

p) Accounting standards issued but not yet effective

The following accounting standards which may impact the Credit Union have been issued but are not yet effective for the Credit Union.

PBE IFRS 9 Financial Instruments

PBE IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. PBE IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through Other Comprehensive Revenue and Expense ('OCRE') and fair value through surplus or deficit.

The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through surplus or deficit with the irrevocable option at inception to present changes in fair value in OCRE not recycling.

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2017

1 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

The expected loss impairment model will apply to debt instruments measured at amortised cost or fair value through other comprehensive revenue and expense, lease receivables, and certain written loan commitments and financial guarantee contracts. The loan loss allowance will be for either 12-month expected losses or lifetime expected losses (the latter applies if credit risk has increased significantly since initial recognition). A different approach applies to purchased or originated credit-impaired financial assets, and there are some simplifications and/or accounting policy choices in relation to trade receivables and lease receivables.

For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive revenue and expense for liabilities designated at fair value through surplus or deficit.

PBE IFRS 9, although based on NZ IFRS 9, has incorporated PBE-specific differences that currently exist between the requirements in NZ IAS 39 and PBE IPSAS 29 (e.g. requirements for concessionary loans and guidance on initial recognition of financial assets arising from non-exchange transactions).

Alignment to existing PBE Standards has also been addressed – e.g. there is no PBE Standard-equivalent for NZ IFRS 13 Fair Value Measurement or NZ IFRS 15 Revenue from Contracts with Customers, therefore the current fair value and revenue guidance in PBE IPSAS 29 has been incorporated into PBE IFRS 9.

PBE IFRS 9 has an effective date for annual periods beginning on or after 1 January 2021, with early application permitted. Management is in the process of assessing the impact the adoption of PBE IFRS 9 will have on the Credit Union's financial statements.

a) Comparatives

Where necessary, comparative information has been reclassified and repositioned for consistency with current year disclosures.

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2017

2 REVENUE AND EXPENDITURE

| | Note | Year Ended 30-Sep-17 \$ | Year Ended 30-Sep-16 \$ |
|--|------|-------------------------------|-------------------------------|
| a. Interest Revenue | | | |
| Interest on Loans | | 2,085,779 | 1,494,100 |
| Interest on Investments | | 124,593 | 202,688 |
| Total Interest Revenue | | 2,210,372 | 1,696,788 |
| b. Finance Costs | | | |
| Interest on Members Call Shares | | 125,023 | 126,049 |
| Interest on Members Term Shares | | 337,511 | 336,032 |
| Total Finance Costs | | 462,534 | 462,081 |
| c. Dividend Revenue | | | |
| Dividend Revenue | | 1,750 | 18,938 |
| Total Dividend Revenue | | 1,750 | 18,938 |
| d. Rendering of Services Revenue | | | |
| Service Fees | | 3,523,333 | 3,899,605 |
| Loan Application Fees | | 887,070 | 899,770 |
| Commissions | | 75,952 | 73,838 |
| Total Rendering of Services Revenue | | 4,486,355 | 4,873,213 |
| e. Other Revenue | | | |
| Bad Debt Recovered | | 23,507 | 33,760 |
| Other Fees | | 60,418 | 84,964 |
| Total Other Revenue | | 83,925 | 118,724 |
| f. Loan Impairment Expenses | 11d | | |
| Movement in allowance for impaired loans | | 413,923 | 450,050 |
| Total Loan Impairment Expenses | | 413,923 | 450,050 |
| g. Employee Benefits | | | |
| Short Term Employee Benefits | | 2,191,348 | 2,134,271 |
| Post-Employment Benefits | | 74,050 | 60,017 |
| Termination Payments | | 1,433 | 2,170 |
| Total Employee Benefits | | 2,266,831 | 2,196,458 |
| h. Occupancy | | | |
| Rent & Rates | | 458,654 | 409,135 |
| Security | | 66,991 | 51,700 |
| Other Occupancy | | 155,703 | 130,217 |
| Total Occupancy | | 681,348 | 591,052 |
| i. Depreciation and Amortisation Expenditure | | | |
| Computer Equipment | 12b | 59,371 | 42,455 |
| Furniture and Fittings | 12b | 329,532 | 222,960 |
| Office Equipment | 12b | 13,983 | 24,804 |
| Amortisation of Intangible Assets | 14 | 44,492 | 46,871 |
| Total Depreciation and Amortisation Expenditure | | 447,378 | 337,090 |

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2017

2 REVENUE AND EXPENDITURE CONTINUED

j. Marketing and Administrative Expenses

| | | | |
|--|--|----------------|----------------|
| Advertising | | 100,912 | 12,561 |
| Printing & Stationery | | 161,077 | 176,263 |
| Advisory & Compliance Costs | | 185,178 | 137,500 |
| Telephone Expenses | | 82,994 | 72,342 |
| Total Marketing and Administrative Expenses | | 530,161 | 398,666 |

k. Other Expenditure

| | | | |
|---|---|------------------|------------------|
| Auditors Remuneration | | | |
| Audit of Financial Statements - Staples Rodway* | | 110,254 | 45,595 |
| Other Assurance Services - Staples Rodway | | 17,351 | 4,206 |
| Core Banking Implementation Expenditure | 3 | 529,832 | - |
| Data Processing | | 303,472 | 308,704 |
| Directors Fees | | 97,099 | 109,676 |
| Directors Expenses and Training | | 13,213 | 7,842 |
| Donations Made/Community Support | | 24,814 | 36,105 |
| Transactions Costs | | 976,882 | 1,092,252 |
| Other Expenses | | 492,019 | 509,098 |
| Total Other Expenditure | | 2,564,936 | 2,113,478 |

* In the current year additional audit costs were incurred due to the change in the core banking system.

3 CORE BANKING IMPLEMENTATION EXPENDITURE

| | | Year Ended 30-Sep-17 \$ | Year Ended 30-Sep-16 \$ |
|---|----|--|--|
| Core banking implementation expenditure | | 391,718 | - |
| Allocation from intangible asset work in progress in 2016 | 14 | 138,114 | - |
| | | 529,832 | - |

In August 2017, ACU was the first credit union to convert onto the Oracle FlexCube tier one core banking platform. It was the intention of the Credit Union to capitalise the costs associated with the implementation of the core banking system as an intangible asset. In the comparative period these costs were capitalised as a Work in Progress Intangible Asset (refer to Note 14).

In March 2017, the Credit Union entered into an agreement for the provision for "bureau services" with New Zealand Association of Credit Unions (trading as Co-op Money NZ). Under the bureau services agreement Co-op Money NZ grants access to and, use of, the core banking system software. The Credit Union determined that it did not own (or jointly own) the core banking system and as a result an intangible asset was unable to be recognised. Rather the agreement and payments to Co-op Money NZ gave rise to a prepayment for future bureau services (refer to Note 9).

The Credit Union assessed whether the costs incurred to implement the core banking system could be recognised as a separate intangible asset from the prepayment. While the Credit Union believes the Core Banking System is an integral part of its operations and will provide members with an ongoing benefit; the Credit Union determined that this expenditure did not meet the recognition criteria of an intangible asset and therefore has expensed the costs incurred. The costs consist of internal labour, contractor costs and other expenditure incurred to prepare the system for its intended use.

The new banking platform is expected to benefit members for a minimum of 10 years.

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2017

4 INTEREST PAID

Interest is paid to depositing members and relates to the Credit Union's ability to pay the interest. At times during the year the Credit Union may offer depositors special accounts that have a pre-set interest rate. All interest is calculated monthly on the Minimum Monthly Balance (MMB) held in the account over the month. Interest rates applied to members' deposits for the period were:

| | | Year Ended 30-Sep-17 | Year Ended 30-Sep-16 |
|-------------------------|--------------------|---------------------------------|-------------------------|
| Savings Accounts | | | |
| Cash Account | All balances | 0% MMB | 0% MMB |
| Serious Saver Account | Up to \$499 | 1.0% MMB | 1.0% - 2.0% MMB |
| | \$500 to \$999 | 2.0% MMB | 2.0% - 3.0% MMB |
| | Over \$1,000 | 2.5% MMB | 2.5% - 3.0% MMB |
| Children's Account | Up to \$499 | 1.6% MMB | 2% MMB |
| | \$500 to \$999 | 2.6% MMB | 3% MMB |
| | Over \$1,000 | 3.6% MMB | 4% MMB |
| Home Deposit Account | Up to \$999 | 1.5% MMB | 2.5% MMB |
| | \$1,000 to \$4,999 | 2.0% MMB | 3.0% MMB |
| | \$5,000 to \$9,999 | 2.0% MMB | 3.0% - 3.5% MMB |
| | Over \$10,000 | 2.5% MMB | 3.5% - 4.0% MMB |
| Loan Provider | All balances | 1.0% MMB | 0% - 1% MMB |
| Christmas Account | All balances | 4.0% MMB | 4.0% - 5.0% MMB |
| Education Account | Up to \$499 | 1.6% MMB | 2% MMB |
| | \$500 to \$999 | 2.6% MMB | 3% MMB |
| | Over \$1,000 | 3.6% MMB | 4.0% - 6.0% MMB |
| Primary | Up to \$499 | 1.0% - 2% MMB | 2% MMB |
| | \$500 to \$999 | 2.0% MMB | 2% MMB |
| | Over \$1,000 | 2.0% - 2.5% MMB | 2% MMB |
| Special Savings | Up to \$499 | 1.0% - 2% MMB | 2% MMB |
| | \$500 to \$999 | 2.0% MMB | 2% MMB |
| | Over \$1,000 | 2.0% - 2.5% MMB | 2% MMB |
| Special Purpose | Up to \$499 | 1.0% - 2% MMB | 2% MMB |
| | \$500 to \$999 | 2.0% MMB | 2% MMB |
| | Over \$1,000 | 2.0% - 2.5% MMB | 2% MMB |

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2017

4 INTEREST PAID CONTINUED

Term Shares

| | | | |
|--------------------------|----------|----------------------|---------------|
| Term Deposit (1 month) | \$500 MD | 2.90% | 2.9% - 3.0% |
| Term Deposit (3 months) | \$500 MD | 2.90% | 2.9% - 3.5% |
| Term Deposit (6 months) | \$500 MD | 3.10% | 3.1% - 3.8% |
| Term Deposit (9 months) | \$500 MD | 3.6% - 4.5% | 3.6% - 4.5% |
| Term Deposit (12 months) | \$500 MD | 3.75% - 5.0% | 3.7% - 5.25% |
| Term Deposit (18 months) | \$500 MD | 3.85% - 5.25% | 3.75% - 4.75% |
| Term Deposit (24 months) | \$500 MD | 4.0% - 5.5% | 4.0% - 5.0% |
| Term Deposit (36 months) | \$500 MD | 4.25% - 5.55% | - |

5 MEMBERS' FUNDS

Retained Earnings

Reserves arising from retained profits accumulated from operations.

Total Members' Reserves

The Trust Deed requires that the total members' reserves, including retained earnings, of the Credit Union amount to at least 11% of the total assets of the Credit Union. At the year end this was 15.6% (September 2016: 19.7%)

6 CASH AND CASH EQUIVALENTS

| | Year Ended 30-Sep-17 \$ | Year Ended 30-Sep-16 \$ |
|--|--|--|
| Cash & Bank: | | |
| Co-op Money Central Banking | 968,470 | 740,530 |
| ANZ Bank | 521,624 | 49,600 |
| | 1,490,094 | 790,130 |
| Credit Union ATM Cash Float | 572,910 | 785,910 |
| Total Cash and Cash Equivalents | 2,063,004 | 1,576,040 |

Short term deposits with maturities between 30 and 89 days have been classified as Cash & Bank.

All cash and cash equivalents are current assets.

7 SHORT TERM DEPOSITS

| | | Year Ended 30-Sep-17 \$ | Year Ended 30-Sep-16 \$ |
|---|---------------------|--|--|
| Deposits at Co-op Money Central Banking | 90 days to 365 days | 525,000 | 1,425,000 |
| Deposits at ANZ Bank | 90 days to 365 days | 2,603,945 | 2,950,000 |
| Total Short Term Deposits | | 3,128,945 | 4,375,000 |

The Credit Union does not hold tradable securities. Effective interest rates are the original contracted values. Movements in market rates will not affect the recorded value of investments. The deposits with Co-op Money Central Banking facility are excess funds held by the Credit Union. Co-op Money minimises its exposure to credit risk by maintaining a diversified portfolio with controls over maturity, counter party and concentration of investment risks.

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2017

7 SHORT TERM DEPOSITS CONTINUED

There are no restrictions on use of cash and cash equivalents. There is a requirement to maintain a level of term deposits with Co-op Money to cover 7 days of card settlements. It is calculated by taking the aggregate settlement value of all members' card transactions over a three month period and multiplying the average daily value by 7 days. At the year end the value was \$1,304,117 (September 2016: \$1,417,051)

All short term deposits mature within 12 months and are current assets.

8 TRADE AND OTHER RECEIVABLES

| | Year Ended 30-Sep-17 \$ | Year Ended 30-Sep-16 \$ |
|-----------------------------------|-------------------------------|-------------------------------|
| Accrued Interest | 121,502 | 82,453 |
| Other Receivables | 15,417 | 57,046 |
| Total Trade and Other Receivables | <u>136,919</u> | <u>139,499</u> |

The trade and other receivables are current assets.

9 PREPAYMENTS

| | Year Ended 30-Sep-17 \$ | Year Ended 30-Sep-16 \$ |
|---|-------------------------------|-------------------------------|
| Co-op Money NZ Bureau Services Prepayment | 458,398 | - |
| Other Prepayments | 28,411 | 177,724 |
| Total Prepayments | <u>486,809</u> | <u>177,724</u> |

In March 2017, the Credit Union entered into an agreement for the provision for "bureau services" with New Zealand Association of Credit Unions (trading as Co-op Money NZ). Under the bureau services agreement Co-op Money NZ grants access to and, use of, the core banking system software. The Co-op Money NZ bureau services prepayment relates to upfront payments made in exchange for the contractual right to receive bureau services provided by Co-op Money NZ. The bureau services agreement states that the Credit Union does not own (or jointly own) the core banking system as result of the provision of the bureau services. Consequently, the upfront payments by the Credit Union do not represent property, plant and equipment or an intangible asset in the form of software rights. Nor does the arrangement represent a lease as the Credit Union is only one of a number of credit unions that will receive the 'output' from the core banking system. Management has determined that the upfront payments should be treated as a prepayment as they represent an economic benefit or service potential that the Credit Union controls as a result of a past event. The bureau services agreement has a termination clause which limits each party's ability to terminate the bureau services agreement without penalties. The prepayment is amortised as an expense over the period of which the bureau services are to be performed, which is 10 years.

It was the intention of the Credit Union to capitalise the payments to Co-op Money NZ associated with the implementation of the core banking system as an intangible asset. In the comparative period these payments amounting to \$251,805 were capitalised as a Work in Progress Intangible Asset (refer to Note 14). Following the signing of the bureau services agreement, Management has reclassified the payments recognised in the previous year to prepayments.

The non-current portion of the Co-op Money NZ Bureau Services Prepayment is \$414,678 with \$43,720 being current. Other prepayments are current.

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2017

10 LOANS TO MEMBERS

Loans are made in accordance with the lending policy of the Credit Union. A provision for impairment has been made at the end of the reporting period. Bad loans are written off against the provision for impairment. All significant loans are assessed for impairment individually and provided for in full if there is no realisable collateral held.

| a) Loans to Members Comprises: | Year Ended 30-Sep-17 \$ | Year Ended 30-Sep-16 \$ |
|---------------------------------------|--|--|
| Neither Past Due nor Impaired | 10,206,400 | 10,482,943 |
| Past due but not impaired | 2,142,078 | 884,442 |
| Individually assessed impaired assets | - | - |
| Collectively assessed impaired assets | 1,107,979 | 603,214 |
| Gross Loans | 13,456,457 | 11,970,599 |
| Less: | | |
| Allowance for impairment: | | |
| Individually assessed | - | - |
| Collectively assessed | (716,242) | (334,617) |
| Net Loans to Members | 12,740,215 | 11,635,982 |

| b) Credit Quality - Security Dissection | Year Ended 30-Sep-17 \$ | Year Ended 30-Sep-16 \$ |
|--|--|--|
| Secured by First Mortgage over Real Estate | 924,681 | 900,188 |
| Secured by Motor Vehicles/Boats | 4,605,676 | 4,580,209 |
| Secured by Assets not a Motor Vehicle/Boat | 191,478 | 204,081 |
| Secured by Members Shares | 4,601,955 | 3,931,912 |
| Unsecured | 3,132,667 | 2,354,209 |
| | 13,456,457 | 11,970,599 |

For the 2017 year overdrafts have been classified as 'Unsecured'

It is impractical to provide a valuation of the security held against loans due to the large number of assets to be valued to arrive at the amount. A breakdown by loan to value ratio, of those loans secured by first mortgage over real estate is as follows:

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2017

10 LOANS TO MEMBERS CONTINUED

| | Year Ended 30-Sep-17 \$ | Year Ended 30-Sep-16 \$ |
|---|-------------------------------|-------------------------------|
| Security held as First Mortgage against Real Estate is on the basis of: | | |
| - Loan to Valuation Ratio of less than 80% | 796,930 | 792,398 |
| - Loan to Valuation Ratio of more than 80% but Mortgage insured | - | - |
| - Loan to Valuation Ratio of more than 80% but not Mortgage insured | 127,752 | 107,790 |
| | 924,682 | 900,188 |

c) Credit Quality - Concentration of Loans

| | Year Ended 30-Sep-17 \$ | Year Ended 30-Sep-16 \$ |
|---|-------------------------------|-------------------------------|
| (i) Loans to individual or related groups of members which exceed 10% of member funds in aggregate | - | - |
| (ii) Loans to members are concentrated solely in New Zealand and principally within the common bond of the Credit Union | 100% | 100% |
| (iii) Loans by member type (purpose): | | |
| Loans to natural persons | | |
| Residential loans and facilities | 924,682 | 900,188 |
| Personal loans and facilities | 12,531,775 | 11,070,411 |
| | 13,456,457 | 11,970,599 |

The Credit Union's policy for managing concentration of credit risk is disclosed in Note 19 Credit Risk.

11 IMPAIRMENT OF LOANS AND ADVANCES

a) Allowance for Impairment

| | Year Ended 30-Sep-17 \$ | Year Ended 30-Sep-16 \$ |
|---------------------------------------|-------------------------------|-------------------------------|
| Individually Assessed | | |
| Balance at 1 October | - | (152,435) |
| (Addition)/Reduction in allowance | - | 72,750 |
| Bad Debts Written off to allowance | - | 79,685 |
| Balance at 30 September | - | - |
| Collectively Assessed | | |
| Balance at 1 October | (334,617) | (208,805) |
| (Addition)/Reduction in allowance | (381,625) | (522,800) |
| Bad Debts Written off to allowance | - | 396,988 |
| Balance at 30 September | (716,242) | (334,617) |
| Total Allowance for Impairment | (716,242) | (334,617) |

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2017

11 IMPAIRMENT OF LOANS AND ADVANCES CONTINUED

| b) Individually assessed impaired loans | Year Ended 30-Sep-17 \$ | Year Ended 30-Sep-16 \$ |
|---|--|--|
| Balance as at the beginning of the year | - | 269,867 |
| Additions | - | - |
| Write-offs | - | (79,685) |
| Reversals | - | (190,182) |
| Balance as at end of the year | - | - |
| Impairment Provision-individually assessed | - | - |
| Net individually assessed impaired loans | - | - |
| c) Collectively assessed loans | Year Ended 30-Sep-17 \$ | Year Ended 30-Sep-16 \$ |
| Balance as at the beginning of the year | 603,214 | 476,549 |
| Additions | 1,264,109 | 523,653 |
| Write-offs | - | (396,988) |
| Balance as at the end of the year | 1,107,979 | 603,214 |
| Impairment Provision-collectively assessed | (716,242) | (334,617) |
| Net collectively assessed impaired loans | 391,737 | 268,597 |
| Net impaired loans | 391,737 | 268,597 |
| d) Loan Impairment Expenses | Year Ended 30-Sep-17 \$ | Year Ended 30-Sep-16 \$ |
| Addition/(Reversal) in total allowance for impairment | 381,625 | (26,623) |
| Bad Debts Written off | 32,298 | 476,673 |
| Total Loan Impairment Expenses | 413,923 | 450,050 |

e) Interest and Other Revenue recognised and foregone

There is no interest and other revenue recognised and foregone.

f) Fair Value of Assets Acquired

There are no assets acquired through the enforcement of security.

g) Loans with Repayments past Due but not impaired

The total past-due loans but not impaired as at 30 September 2017 was \$2,142,078 (30 September 2016: \$884,442)

Loans over 30 days overdue that were not impaired was \$821,407 at 30 September 2017 (30 September 2016 Nil).

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2017

12 PROPERTY, PLANT AND EQUIPMENT

a) Classes of Property, Plant & Equipment

| | Year Ended 30-Sep-17 \$ | Year Ended 30-Sep-16 \$ |
|--|-------------------------------|-------------------------------|
| Computer Equipment/Hardware | 341,500 | 497,900 |
| Accumulated Depreciation | <u>(204,319)</u> | <u>(389,883)</u> |
| | 137,181 | 108,017 |
| Furniture and Fittings | 2,104,918 | 2,694,963 |
| Accumulated Depreciation | <u>(1,216,157)</u> | <u>(1,833,661)</u> |
| | 888,761 | 861,302 |
| Office Equipment | 140,139 | 162,478 |
| Accumulated Depreciation | <u>(97,215)</u> | <u>(118,643)</u> |
| | 42,924 | 43,835 |
| Total Property, Plant & Equipment | 1,068,866 | 1,013,154 |

Property, Plant & Equipment are non current assets

b) Movements in Carrying Amounts

| Period Ended 30 September 2017 | Computer Equipment and Hardware \$ | Furniture and Fittings \$ | Office Equipment \$ | Total \$ |
|--|---|-------------------------------------|-------------------------------|------------------|
| Balance at Beginning of the period | 108,018 | 861,301 | 43,836 | 1,013,155 |
| Additions | 88,534 | 356,671 | 13,392 | 458,597 |
| Transfers | - | 321 | (321) | - |
| Disposals | - | - | - | - |
| Depreciation | <u>(59,371)</u> | <u>(329,532)</u> | <u>(13,983)</u> | <u>(402,886)</u> |
| Carrying amount 30 September 2017 | 137,181 | 888,761 | 42,924 | 1,068,866 |
| Period Ended 30 September 2016 | Computer Equipment and Hardware \$ | Furniture and Fittings \$ | Office Equipment \$ | Total \$ |
| Balance at Beginning of the period | 91,055 | 592,065 | 67,716 | 750,836 |
| Additions | 59,418 | 492,196 | 924 | 552,538 |
| Disposals | - | - | - | - |
| Depreciation | <u>(42,455)</u> | <u>(222,960)</u> | <u>(24,804)</u> | <u>(290,219)</u> |
| Carrying amount 30 September 2016 | 108,018 | 861,301 | 43,836 | 1,013,155 |

c) Impairment Losses

There was no impairment loss in respect of plant and equipment

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2017

13 CO-OP MONEY NZ CAPITAL NOTES

New Zealand Association of Credit Unions, trading as Co-op Money NZ, Capital Notes are classified as "available for sale" financial assets and are 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 New Zealand Association of Credit Unions Business Service Division Trust for an open-ended term. The Capital Notes constitute unsecured obligations of the 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 Business Services Division Trust and with the consent of the Business Services Division Trust's Board of Directors. The Capital Notes may only be sold or transferred to another credit union that is a member of the Business Services Division Trust. The Capital Notes are redeemable in full, with five years notice, by NZACU. However, the Credit Union has no intention of redeeming the investments in the foreseeable future.

There is no active market for these securities which have no guaranteed rate of return.

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

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's investment in these Base Capital Notes enables NZACU to provide the Credit Union with essential services such as the core operating system, a central bank and treasury function, debit card facilities and insurance products.

An independent financial assessment report on Co-op Money NZ was completed and a draft received in February 2018. Both Co-op Money NZ and the Credit Union are assessing the implications of the report.

The scope of the assessor's work was broadly to undertake high level analysis in order to report on Co-op Money NZ's financial position and performance, cash-flow and management practises. The report identified the following key issues:

- Loss of revenue as a result of two Credit Unions no longer using Co-op Money NZ's services;
- A high fixed cost base and increased operating costs;
- Capex overruns on the Oracle Flexcube core banking implementation;
- Losses from the insurance business; and
- A number of one-off costs associated with legal and PR costs for a Court hearing, a proposed restructuring, legislative changes and the related party application to Reserve Bank of New Zealand.

The Board of the Directors have determined that the issues raised in the report are objective evidence of impairment. The Board has made the decision to impair the Capital Notes to reflect the risks identified in the report. The Board of Directors has estimated on a conservative basis that there is a 50% impairment in the carrying value Capital Notes.

| | Year Ended 30-Sep-17 \$ | Year Ended 30-Sep-16 \$ |
|---|--|--|
| Carrying amount at beginning of period | 352,688 | 352,688 |
| Additions - ex Steelsands Credit Union at par value | 87,771 | - |
| Impairment | (220,230) | - |
| Total Capital Notes | 220,229 | 352,688 |

The Board has concluded that the remaining carrying value of the Capital Notes is dependent upon Co-op Money NZ:

- Receiving continued support from its members;
- Achieving its strategic objectives around non-member business;
- Being able to raise further capital if required; and
- Meeting its forecasted and budgeted performance and cash flows.

Should Co-op Money not achieve these objectives, further adjustments may need to be made to the carrying value of the Capital Notes. These issues point to uncertainty regarding carrying value of the Capital Notes.

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2017

14 INTANGIBLE ASSETS

| | | Year Ended 30-Sep-17 \$ | Year Ended 30-Sep-16 \$ |
|---|---|-------------------------------|-------------------------------|
| Movements in Carrying Amounts of Intangible Assets | | | |
| Carrying amount at beginning of period | | 475,405 | 117,407 |
| Additions * | | 324 | 404,869 |
| Disposals | | - | - |
| Reallocation of core banking system costs* | | (389,919) | - |
| Amortisation | | (44,492) | (46,871) |
| Total Intangible Assets | | 41,318 | 475,405 |
| *Additions | | | |
| WIP | | - | 389,919 |
| In use | | 324 | 14,950 |
| | | <u>324</u> | <u>404,869</u> |
| *Reallocation of core banking software costs to: | | | |
| Co-op Money NZ Bureau Services Prepayment | 9 | (251,805) | - |
| Expensed in current year | 3 | (138,114) | - |
| | | <u>(389,919)</u> | <u>-</u> |

In August 2017, ACU was the first credit union to convert onto the Oracle FlexCube tier one core banking platform. It was the intention of the Credit Union to capitalise the payments to Co-op Money NZ and implementation costs associated with the implementation of the core banking system as an intangible asset. In the comparative period these costs amounting to \$389,919 were capitalised as a Work in Progress Intangible Asset.

In March 2017, the Credit Union entered into an agreement for the provision for "bureau services" with New Zealand Association of Credit Unions (trading as Co-op Money NZ). Under the bureau services agreement Co-op Money NZ grants access to and, use of, the core banking system software. The Credit Union determined that it did not own (or jointly own) the core banking system as such an intangible asset was unable to be recognised. Rather the agreement and payments to Co-op Money NZ gave rise to a prepayment for future bureau services (refer to Note 9). The Credit Union assessed whether the costs incurred to implement the core banking system could be recognised as a separate intangible asset. While the Credit Union believes the Core Banking System is an integral part of its operations and will provide members with an ongoing benefit; the Credit Union determined that the expenditure did not meet the recognition criteria of an intangible asset and therefore has expensed the costs incurred (refer to Note 3).

Intangible Assets are Non Current Assets.

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2017

| 15 | TRADE AND OTHER PAYABLES | Note | Year Ended 30-Sep-17 \$ | Year Ended 30-Sep-16 \$ |
|----|---------------------------------------|------|-------------------------------|-------------------------------|
| | Trade Payables | | 235,662 | 195,578 |
| | Accrued interest payable | | 169,119 | 114,872 |
| | Sundry Creditors and Accrued Expenses | | 170,181 | 91,335 |
| | Employee Entitlements | | 319,605 | 339,288 |
| | ACCESS CARD Settlement | | 497,901 | 165,167 |
| | Total Trade and Other Payables | | 1,392,468 | 906,240 |

Trade and Other Payables are Current Liabilities.

| 16 | MEMBERS' DEPOSITS | | Year Ended 30-Sep-17 \$ | Year Ended 30-Sep-16 \$ |
|----|--------------------------------|--|-------------------------------|-------------------------------|
| | Ordinary Shares | | | |
| | Savings Accounts | | 3,019,122 | 3,159,388 |
| | Christmas Club | | 328,667 | 413,485 |
| | Loan Provider Account | | 4,399,381 | 4,421,145 |
| | Total Ordinary Shares | | 7,747,170 | 7,994,018 |
| | Term Shares | | | |
| | Original Maturity Terms: | | | |
| | 0-3 Months | | 702,617 | 139,455 |
| | 6 Months | | 2,774,609 | 246,307 |
| | 9 Months | | 1,838,045 | 693,969 |
| | 12 Months | | 1,295,544 | 3,356,202 |
| | Greater than 12 Months | | 1,042,445 | 2,510,955 |
| | Total Term Shares | | 7,653,260 | 6,946,888 |
| | Total Members' Deposits | | 15,400,430 | 14,940,906 |

| 17 | COMMITMENTS | | Year Ended 30-Sep-17 \$ | Year Ended 30-Sep-16 \$ |
|----|---|--|-------------------------------|-------------------------------|
| | a) Future Capital Commitments | | | |
| | As at balance date, the Credit Union has contracted to the purchase of: | | | |
| | Core banking software | | 179,660 | 167,870 |
| | Property, Plant & Equipment | | 20,739 | 179,781 |
| | | | 200,399 | 347,651 |

b) Operating Lease Commitments

The Credit Union leases various branch outlets and offices under non-cancellable operating lease agreements. All property leases are non-cancellable with one to six year terms. Rent is payable monthly in advance. Options exist to renew the leases at the end of each term.

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2017

17 COMMITMENTS CONTINUED

| | Year Ended 30-Sep-17 \$ | Year Ended 30-Sep-16 \$ |
|---|-------------------------------|-------------------------------|
| Not longer than 1 Year | 238,347 | 200,579 |
| Longer than 1 and not longer than 5 Years | 614,373 | 635,746 |
| Longer than 5 years | 178 | 66,610 |
| Total | 852,898 | 902,935 |

c) Minimum sub-lease payments

The Credit Union sub-leases part of its Papatoetoe branch. Rent is payable monthly in advance. Options exist to renew the lease at the end of each term.

| | Year Ended 30-Sep-17 \$ | Year Ended 30-Sep-16 \$ |
|---|-------------------------------|-------------------------------|
| Not longer than 1 Year | 33,087 | 18,087 |
| Longer than 1 and not longer than 5 Years | 99,260 | 132,347 |
| Total | 132,347 | 150,434 |

d) Outstanding loan commitments

Loans and credit facilities approved but not disbursed or drawn at the end of the financial period:

| | Year Ended 30-Sep-17 \$ | Year Ended 30-Sep-16 \$ |
|--------------------------------------|-------------------------------|-------------------------------|
| Loans approved but not yet disbursed | - | 278,106 |
| | - | 278,106 |

18 CONTINGENT LIABILITIES

There are no contingent liabilities for the period ended 30 September 2017 (30 September 2016:Nil)

19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The board has 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 management
- Credit risk management
- Liquidity risk management
- Operations risk management
- Capital adequacy management

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2017

19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES CONTINUED

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

Market Risk Policy

The Credit Union is not exposed to currency risk or other price risks. The Credit Union does not trade in the financial instruments it holds on its books.

The Credit Union is exposed to interest rate risk arising from changes in market interest rates. The investment of surplus funds on a short term basis may result in members receiving a higher interest rate where term shares are accepted over a longer fixed term.

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 is between 10 – 12% of the difference between loans and members deposits. The Credit Union has performed within that range and maintained a lower level of term shares during the year. The gap is measured monthly to identify any large exposures to interest rate movements and to rectify the excess through targeted fixed rate interest products available through investment assets, and term deposit 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 Union performs sensitivity analysis to measure market risk exposures. The method used in determining the sensitivity was to evaluate the profit based on the timing of the interest re-pricing between the members' loans and 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 deposits with similar terms and rates applicable.
- All loans would be repaid in accordance with the current 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.

Interest Rate Risk Sensitivity

| | Carrying Amount \$ | Profit & Equity \$ -1% | Profit & Equity \$ +1% |
|------------------------------------|--------------------------|---------------------------------|---------------------------------|
| 2017 | | | |
| Financial Assets | | | |
| Short Term Deposits | 3,128,945 | (37,520) | 37,520 |
| Loans to Members | 12,740,215 | (121,881) | 121,881 |
| | | <u>(159,401)</u> | <u>159,401</u> |
| Financial Liabilities | | | |
| Members Deposits | 15,400,430 | (151,707) | 151,707 |
| Total Increase / (Decrease) | | <u>7,694</u> | <u>(7,694)</u> |

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2017

19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES CONTINUED

| | Carrying Amount \$ | Profit & Equity \$ | Profit & Equity \$ |
|------------------------------------|--------------------------|--------------------------|--------------------------|
| 2016 | | | |
| Financial Assets | | -1% | +1% |
| Short Term Deposits | 4,375,000 | (43,750) | 43,750 |
| Loans to Members | 11,635,982 | (116,493) | 116,493 |
| | | <u>(160,243)</u> | <u>160,243</u> |
| Financial Liabilities | | | |
| Members Deposits | 14,940,906 | (149,409) | 149,409 |
| Total Increase / (Decrease) | | <u>10,834</u> | <u>(10,834)</u> |

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. The Credit Union exposure to interest rate risk is set out in Note 22 which details the contractual interest rate risk profile.

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 Credit Union.

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.

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

The Credit Union has a concentration in the retail lending for members who are within the territory of the Tai Tokerau, Tamaki Makaurau, Hauraki-Waikato, Waikato, Te Tai Hauauru, Ikarua Rawhiti, electoral districts and the main centres of the Te Tai Tonga electorate.

Daily reports monitor the loan repayments to detect delays in repayments and recovery action is undertaken after 7 days if not rectified. For loans where repayments are doubtful, recovery action commences when the loan is over 7 days in arrears. The exposures to losses arise predominantly in the non-secure personal loans and facilities.

Significant accounting judgements are related to the determination of the provision for impairment of loans which is set out in Note 1(d).

Credit Risk – Liquid Investments

There is a concentration of credit risk with respect to investment receivables with the placement of deposits and investments in NZACU and ANZ Bank Limited.

The risk of losses from the liquid investments undertaken is reduced by the nature and quality of the independent rating

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2017

19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES CONTINUED

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 reserve, liquidity support facilities and reserve borrowing facilities.

The Credit Union's policy is to maintain at least 10% of total assets as liquid assets capable of being converted to cash within 7 days (liquidity ratio at balance date 26.1% (2016: 25.6%)). Liquid assets comprise Cash on Hand, Cash at Bank and ATM's and Term Deposits. 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. In the current year the Credit Union has insured that it has liquid assets by maintaining short term deposits of less than 90 days.

The maturity profile of the financial liabilities, based on the contractual maturities are set out in the specific Note 18.

The Rules allow the Trustees, at their discretion, to restrict a member access to their shares if the withdrawal of shares would reduce the member's deposits in the Credit Union to an amount less than the member's total liability to the Credit Union. The Credit Union has the discretion to defer payment of the shares for up to 60 days.

Operational Risk

Operations risks relate to those risks arising from a number of sources including legal compliance, business continuity, data infrastructure and outsourced services failures and employee errors.

These risks are managed through the implementation of policies and systems to monitor the likelihood of the events and minimise the impact. A system of internal controls is enhanced through:

- The segregation of duties between employee duties and functions, including approval and processing duties.
- Documentation of the policies and procedures, employee job descriptions and responsibilities, to reduce the incidence of errors and inappropriate behaviour.
- Implementation of the whistleblowing policies to promote a compliant culture and awareness of the duty to report exceptions by staff.

Capital Management

The Credit Union is regulated under the Friendly Societies and Credit Union Act 1982. In accordance with the RBNZ Deposit Takers (Credit Ratings, Capital Ratios, and Related Party Exposures) Regulations 2010, the Credit Union operates under a trust deed which requires the minimum reserves to be held by the Credit Union to be 11% of total assets. The Credit Union reserves as at the end of the reporting period are stated in the statement of financial position.

The Credit Union's capital is determined as follows:

| | Year Ended 30-Sep-17 \$ | Year Ended 30-Sep-16 \$ |
|-----------------------|--|--|
| Retained Earnings | 3,093,407 | 3,898,346 |
| Total Reserves | <u>3,093,407</u> | <u>3,898,346</u> |

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2017

19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES CONTINUED

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 11%. 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. The requirement to comply with a ratio of in excess of 11% is established by the trustee in accordance with Reserve Bank requirements, and the Credit Union submits the calculation monthly to the Reserve Bank. The Credit Union has submitted returns in excess of 11% in the current and comparative periods.

Trust and Fiduciary Activities

The Credit Union does not undertake any trust or fiduciary activities (2016: Nil).

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2017

20 MATURITY PROFILE OF FINANCIAL ASSETS AND LIABILITIES

Monetary 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 monetary 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 plus interest will be repaid based on the remaining period to the repayment date assuming contractual repayments are maintained. For term loans the following disclosure 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 cash flows arising from the contractual obligations of the underlying monetary assets and liabilities respectively.

| 2017 | On Call | <1 mth | 1-3 mth | 3-6 mth | 6-12 mth | 1-2 year | 2-5 year | > 5 year | Total |
|---|--------------------|--------------------|------------------|------------------|------------------|------------------|------------------|------------------|-------------------|
| Monetary Assets Receivable | | | | | | | | | |
| Cash and Cash Equivalents | 1,838,004 | | 225,000 | | | | | | 2,063,004 |
| Short Term Deposits | | | | 3,128,945 | | | | | 3,128,945 |
| Trade and Other Receivables | | 136,919 | | | | | | | 136,919 |
| Loans to Members | | 1,386,073 | 1,280,440 | 1,654,783 | 2,980,733 | 3,193,108 | 2,037,846 | 923,474 | 13,456,457 |
| Future Interest Receivable | | 130,158 | 239,419 | 312,539 | 475,425 | 531,344 | 496,223 | 545,344 | 2,730,452 |
| Capital Notes | | | | | | | | 220,229 | 220,229 |
| Total Monetary Assets Receivable | 1,838,004 | 1,653,150 | 1,744,859 | 5,096,267 | 3,456,158 | 3,724,452 | 2,534,069 | 1,689,047 | 21,736,006 |
| Monetary Liabilities Payable | | | | | | | | | |
| Trade and Other Payable | | 1,072,863 | | | | | | - | 1,072,863 |
| Members Deposits* | 3,347,789 | 4,778,864 | 323,134 | 2,774,609 | 3,133,589 | 730,707 | 311,738 | - | 15,400,430 |
| Future Interest on Members Deposits | | 24,073 | 42,994 | 125,449 | 159,457 | 58,797 | 8,810 | - | 419,580 |
| Total Monetary Liabilities Payable | 3,347,789 | 5,875,800 | 366,128 | 2,900,058 | 3,293,046 | 789,504 | 320,548 | - | 16,892,873 |
| Net Amount Receivable/(Payable) | (1,509,785) | (4,222,650) | 1,378,731 | 2,196,209 | 163,112 | 2,934,948 | 2,213,521 | 1,689,047 | 4,843,133 |

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2017

20 MATURITY PROFILE OF FINANCIAL ASSETS AND LIABILITIES CONTINUED

| 2016 | On Call | <1 mth | 1-3 mth | 3-6 mth | 6-12 mth | 1-2 year | 2-5 year | > 5 year | Total |
|---|--------------------|--------------------|------------------|------------------|------------------|------------------|------------------|------------------|-------------------|
| Monetary Assets Receivable | | | | | | | | | |
| Cash and Cash Equivalents | 1,576,040 | - | - | - | - | - | - | - | 1,576,040 |
| Short Term Deposits | - | 1,650,000 | 1,825,000 | 900,000 | - | - | - | - | 4,375,000 |
| Trade and Other Receivables | - | 139,498 | - | - | - | - | - | - | 139,498 |
| Loans to Members | - | 637,112 | 1,205,509 | 1,607,283 | 3,060,345 | 2,834,468 | 1,811,853 | 814,029 | 11,970,599 |
| Future Interest Receivable | - | 133,130 | 249,243 | 325,628 | 486,164 | 496,532 | 450,018 | 543,663 | 2,684,378 |
| Capital Notes | - | - | - | - | - | - | - | 352,688 | 352,688 |
| Total Monetary Assets Receivable | 1,576,040 | 2,559,740 | 3,279,752 | 2,832,911 | 3,546,509 | 3,331,000 | 2,261,871 | 1,710,380 | 21,098,203 |
| Monetary Liabilities Payable | | | | | | | | | |
| Trade and Other Payable | - | 566,950 | - | - | - | - | - | - | 566,950 |
| Members Deposits* | 3,572,872 | 4,587,779 | 484,883 | 2,954,997 | 1,292,465 | 2,047,910 | - | - | 14,940,906 |
| Future Interest on Members Deposits | - | 5,742 | 29,192 | 102,999 | 77,603 | 139,711 | - | - | 355,247 |
| Total Monetary Liabilities Payable | 3,572,872 | 5,160,471 | 514,075 | 3,057,996 | 1,370,068 | 2,187,621 | - | - | 15,863,103 |
| Net Amount Receivable/(Payable) | (1,996,832) | (2,600,731) | 2,765,677 | (225,085) | 2,176,441 | 1,143,379 | 2,261,871 | 1,710,380 | 5,235,100 |

* The Credit Union is unable to reliably estimate the expected maturity of the members' deposits as they are regularly rolled over, however, the Rules allow the Trustees, at their discretion, to restrict a member access to their shares if the withdrawal of shares would reduce the member's deposits in the Credit Union to an amount less than the member's total liability to the Credit Union. The Credit Union has the discretion to defer payment of the shares for up to 60 days.

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2017

21 OTHER CREDIT RISKS

a) Maximum Credit Risk Exposure

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

b) Concentration 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. Lending is concentrated in and limited to the area of the "common bond" and consequently the Credit Union lending is almost exclusively to individuals residing within Te Tai Tokerau, Tamaki Makaurau, Hauraki-Waikato, Waikariki, Te Tai Hauauru, Ikaroa Rawhiti, electoral districts and the main centres of the Te Tai Tonga electorate. Refer to Note 10 (c).

c) Large Counterparties

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

| | Year Ended 30-Sep-17 | Year Ended 30-Sep-16 |
|--------------------------------|-----------------------------|-----------------------------|
| | Number of Counterparties | Number of Counterparties |
| Greater than 100% of equity | 1 | - |
| Between 90% and 100% of equity | - | - |
| Between 80% and 90% of equity | - | - |
| Between 70% and 80% of equity | - | 1 |
| Between 60% and 70% of equity | - | - |
| Between 50% and 60% of equity | - | 1 |
| Between 40% and 50% of equity | 1 | - |
| Between 30% and 40% of equity | - | - |
| Between 20% and 30% of equity | - | - |
| Between 10% and 20% of equity | - | - |

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

Counter-parties include cash and cash equivalents and short term deposits held with the Co-op Money NZ (between 40% and 50% of equity), ANZ Bank (greater than 100% of equity).

d) Loans to Members

Loans can only be made to Credit Union members. Loan interest rates range from 6% to 20% p.a. (2016; 6% to 20% p.a.). The Credit Union has a lending policy that requires various levels and types of security for loans and includes that a portion of loans may be secured over the borrowing members shares.

The Friendly Societies and Credit Unions Act 1982 limits the risk of any one member and provides, along with the loan agreement that any and all shares might be used to offset an individual loan to the limit of their liability. Under section 110 of the Act, the maximum indebtedness and repayment terms of a member shall not, without the prior consent of the Registrar, exceed the following limits:

Unsecured Loan 5% of the value of the assets of the Credit Union and 5 Years
Secured Loan 10% of the value of the assets of the Credit Union and 10 Years

The Credit Union has met these requirements in the current year and in the prior year.

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2017

21 OTHER CREDIT RISKS CONTINUED

The proportion of loans with repayments in arrears in excess of three months is 8.62% (2016: 4.06%).

Other than loans there are no other monetary assets in arrears.

The proportion of loans owed in aggregate by the debtors who owe the six largest amounts is 9.62% (2016: 9.59%)

Loans are for varying terms. The monthly repayments on loans for the past period represent an average loan of 12.93 months (2016: 14.78 months)

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2017

22 INTEREST RATE REPRICING TABLE

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

| | Floating Interest Rate | | Fixed Interest Rate Maturing: | | | | | | | | | | | | | |
|-----------------------------------|------------------------|----------------|-------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|------------------------|----------------|----------------------------|----------------|----------------|----------------|
| | | | 0-3 months | | 3-6 months | | 6-12 months | | >1 year | | Non-interest sensitive | | Set six-monthly in arrears | | Total | |
| | 2017 \$'000 | 2016 \$'000 | 2017 \$'000 | 2016 \$'000 | 2017 \$'000 | 2016 \$'000 | 2017 \$'000 | 2016 \$'000 | 2017 \$'000 | 2016 \$'000 | 2017 \$'000 | 2016 \$'000 | 2017 \$'000 | 2016 \$'000 | 2017 \$'000 | 2016 \$'000 |
| Monetary Assets | | | | | | | | | | | | | | | | |
| Cash and Cash Equivalents | - | - | 225 | - | - | - | - | - | - | - | 1,838 | 1,576 | - | - | 2,063 | 1,576 |
| Short Term Deposits | - | - | - | 3,475 | 3,129 | 900 | - | - | - | - | - | - | - | - | 3,129 | 4,375 |
| Trade and Other Receivable | - | - | - | - | - | - | - | - | - | - | 137 | 139 | - | - | 137 | 139 |
| Loans to Members | - | - | 2,666 | 1,843 | 1,655 | 1,607 | 2,981 | 3,060 | 6,154 | 5,460 | - | - | - | - | 13,456 | 11,970 |
| Capital Notes (a) | - | - | - | - | - | - | - | - | - | - | - | - | 220 | 353 | 220 | 353 |
| Total Monetary Assets | - | - | 2,891 | 5,318 | 4,784 | 2,507 | 2,981 | 3,060 | 6,154 | 5,460 | 1,975 | 1,715 | 220 | 353 | 19,005 | 18,413 |
| Monetary Liabilities | | | | | | | | | | | | | | | | |
| Members' Deposits | 8,127 | 8,161 | 323 | 485 | 2,775 | 2,955 | 3,133 | 1,292 | 1,042 | 2,048 | - | - | - | - | 15,400 | 14,941 |
| Trade and Other Payables | - | - | - | - | - | - | - | - | - | - | 1,073 | 567 | - | - | 1,073 | 567 |
| Total Monetary Liabilities | 8,127 | 8,161 | 323 | 485 | 2,775 | 2,955 | 3,133 | 1,292 | 1,042 | 2,048 | 1,073 | 567 | - | - | 16,473 | 15,508 |

(a) Capital notes do not have any predetermined rate of interest. Dividend is payable on a six monthly basis in arrears subject to the profitability of the NZACU Business Services Division Trust. The last Dividend payment was at 0.0% per annum (2016: 4.46% per annum).

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2017

23 CONCENTRATION OF FUNDING

The Credit Union's source of funding is members' deposits. Accordingly, the funding is concentrated in and limited to the area of the "common bond" and consequently the Credit Union funding is almost exclusively from individuals residing within Te Tai Tokerau, Tamaki Makaurau, Hauraki-Waikato, Waikato, Te Tai Hauauru, Ikarua Rawhiti, electoral districts and the main centres of the Te Tai Tonga electorate. The funding from members is recorded as Members' Shares in the Statement of Financial Position.

24 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value has been determined on the basis of the present value of expected future cash flows under the terms and conditions of each financial asset and financial liability. Market assumptions would be applied in determining fair value. Significant assumptions used in determining the cash flows are that the cash flows will be consistent with the contracted cash flows under the respective contracts. The information is only relevant to circumstances at balance date and will vary depending on the contractual rates applied to each asset and liability, relative to market rates and conditions at the time. No assets held are regularly traded by the Credit Union. There is no active market to assess the value of the capital notes.

The net fair value estimates were determined by the following methodologies and assumptions:

Financial Assets

Loans to Members

As detailed in the accounting policies, loans are carried at amortised cost less impairment. The directors believe that any differences between carrying value and fair value are not material because the loan periods are relatively short and can be changed to "on demand" by the trustees. In addition, interest rate differences between lending dates and balance date are not significant.

Cash and Cash Equivalents

The reported amount is equal to fair value.

Trade and Other Receivables

The reported amount takes into account the likelihood of collecting the amounts owed. The Directors believe these amounts reflect their fair value.

Term Deposits-Investments

Investments are disclosed on the basis of the value at the time of purchase. Any variance between market value and cost price is not material.

Capital Notes

The Credit Union holds an equity interest in NZACU as a result of its holding of NZACU Capital Notes. For these instruments the Credit Union has determined that there is no active market and that fair value cannot be reliably measured. As such they have been carried at cost at 30th September 2017 (2016: at cost).

Financial Liabilities

Members Deposits

Members' Deposits are carried at amortised cost which approximates fair value due to the short term nature of the instruments.

Trade and Other Payables

Accounts Payable is carried at amortised cost which approximates fair value due to their short payment terms.

25 RELATED PARTY DISCLOSURES

Key management personnel are those persons 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 the 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 persons (KMP) has been taken to comprise the directors and one executive manager responsible for the day to day financial and operational management of the Credit Union.

No directors are employed by the Credit Union. Directors fees are disclosed in Note 2.

Remuneration of Key Management Persons (KMP)

The aggregate compensation of **key management persons** during the year comprising amounts paid or payable or provided for was as follows:

| | Year Ended 30-Sep-17 \$ | Year Ended 30-Sep-16 \$ |
|--|-------------------------------|-------------------------------|
| Short Term Employee Benefits | 311,867 | 289,414 |
| Post Employment Benefits | 6,443 | 5,392 |
| | <u>318,310</u> | <u>294,806</u> |
| Number of persons recognised as Key Management Persons | 1.89 | 1.75 |

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2017

25 RELATED PARTY DISCLOSURES CONTINUED

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

The Credit Union deals with Directors and Trustees on the same terms and conditions applied to all members.

| | Year Ended 30-Sep-17 \$ | Year Ended 30-Sep-16 \$ |
|-------------------------------|-------------------------------|-------------------------------|
| KMP Holdings | | |
| Holdings at balance date are: | | |
| Owing to Directors (Shares) | (6,567) | (26,695) |
| Owing from Directors (Loans) | 61,975 | 111,874 |

Mr Wyn Osborne is the chair of the Credit Union, and from September 2016 a director of Co-op Money NZ. Co-op Money NZ provides banking services to the credit union.

| | Year Ended 30-Sep-17 \$ | Year Ended 30-Sep-16 \$ |
|---|-------------------------------|-------------------------------|
| Owing to Co-op Money NZ as at 30 September: | | |
| Core banking software | (167,870) | - |
| Service charges | (168,913) | (106,658) |
| Owing by Co-op Money NZ as at 30 September: | | |
| Co-op Money NZ Investment | 925,000 | 1,825,000 |
| Co-op Money NZ Base Capital Notes | 220,229 | 352,688 |
| Co-op Money NZ related party transactions: | | |
| Core banking software | 212,056 | 251,805 |
| Service charges paid | 1,447,205 | 1,483,398 |
| Interest received | 33,809 | 88,590 |

Mr Wyn Osborne holds the position of General Manager of Operations for Manukau Urban Maori Authority (MUMA) and exercises significant influence in that entity. MUMA has the following relationships with the credit union:

| | Year Ended 30-Sep-17 \$ | Year Ended 30-Sep-16 \$ |
|--|-------------------------------|-------------------------------|
| Owing to MUMA as at 30 September: | | |
| Savings Account | (6,961) | (4,639) |
| Loan Dispersal Account | (76) | - |
| Owing by MUMA as at 30 September: | | |
| Loans on vehicles - secured | - | 12,131 |
| Loans on property - secured | 397,721 | 397,721 |
| Rent and contribution to leasehold premise fit-out | 2,757 | 43,000 |

MUMA related party transactions:

Leasehold property sub-leased to MUMA:

| | Year Ended 30-Sep-17 \$ | Year Ended 30-Sep-16 \$ |
|--------------------------------|-------------------------------|-------------------------------|
| Rental and Opex | 8,012 | 12,295 |
| Signage | - | 7,705 |
| Leasehold fit-out contribution | (23,000) | 23,000 |
| | <u>(14,988)</u> | <u>43,000</u> |

Savings and Loans:

Period Ended 30 September 2017

| | Savings \$ | Loans Vehicles \$ | Loans Dispersal \$ | Loans Property \$ | Total \$ |
|--|----------------|-------------------------|--------------------------|-------------------------|----------------|
| Balance at Beginning of the period | (4,639) | 12,131 | - | 397,721 | 405,213 |
| (Deposits) /Loans | (52,450) | - | - | - | (52,450) |
| Withdrawals / (Payments) | 50,187 | (12,507) | (76) | (40,255) | (2,651) |
| Interest Paid to MUMA | (101) | - | - | - | (101) |
| Interest Charged to MUMA | 7 | 376 | - | 40,087 | 40,470 |
| Net Fees and other charges | 35 | - | - | - | 35 |
| Carrying amount 30 September 2017 | (6,961) | - | (76) | 397,553 | 390,516 |

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2017

25 RELATED PARTY DISCLOSURES CONTINUED

MUMA related party transactions continued:

Period Ended 30 September 2016

| | Savings | Loans Vehicles | Loans Dispersal | Loans Property | Total |
|--|----------------|-------------------|--------------------|-------------------|----------------|
| | \$ | \$ | \$ | \$ | \$ |
| Balance at Beginning of the period | (2,569) | 44,274 | - | - | 41,705 |
| (Deposits) /Loans | (36,956) | - | - | 398,830 | 361,874 |
| Withdrawals / (Payments) | 26,320 | (35,412) | - | (10,654) | (19,746) |
| Interest Paid to MUMA | (101) | - | - | - | (101) |
| Interest Charged to MUMA | 8,465 | 3,269 | - | 9,545 | 21,279 |
| Net Fees and other charges | 202 | - | - | - | 202 |
| Carrying amount 30 September 2016 | (4,639) | 12,131 | - | 397,721 | 405,213 |

26 CATEGORISATION OF FINANCIAL ASSETS AND LIABILITIES

| | Available for Sale \$ | Loans and Receivables \$ | Other Financial Liabilities \$ | Total Carrying Amount \$ |
|--|-----------------------------|--------------------------------|---|-----------------------------------|
| As at 30 September 2017 | | | | |
| Financial Assets | | | | |
| Cash and Cash equivalents | | 2,063,004 | | 2,063,004 |
| Short Term Deposits - Co-op Money | | 525,000 | | 525,000 |
| Short Term Deposits - Banks | | 2,603,945 | | 2,603,945 |
| Trade and other receivables (excluding prepayments) | | 136,919 | | 136,919 |
| Loans to Members | | 12,740,215 | | 12,740,215 |
| Capital Notes | 220,229 | | | 220,229 |
| Total | 220,229 | 18,069,083 | | 18,289,312 |

Financial Liabilities

| | | | | |
|--------------------------|--|--|-------------------|-------------------|
| Trade and other payables | | | 1,392,468 | 1,392,468 |
| Members Deposits | | | 15,400,430 | 15,400,430 |
| Total | | | 16,792,898 | 16,792,898 |

| | Available for S \$ | Loans and Receivables \$ | Other Financial Liabilities \$ | Total Carrying Amount \$ |
|--|-----------------------|--------------------------------|---|-----------------------------------|
| As at 30 September 2016 | | | | |
| Financial Assets | | | | |
| Cash and Cash equivalents | | 1,576,040 | | 1,576,040 |
| Short Term Deposits - Co-op Money | | 1,425,000 | | 1,425,000 |
| Short Term Deposits - Banks | | 2,950,000 | | 2,950,000 |
| Trade and other receivables (excluding prepayments) | | 139,499 | | 139,499 |
| Loans to Members | | 11,635,982 | | 11,635,982 |
| Capital Notes | 352,688 | | | 352,688 |
| Total | 352,688 | 17,726,521 | | 18,079,209 |

Financial Liabilities

| | | | | |
|--------------------------|--|--|-------------------|-------------------|
| Trade and other payables | | | 906,240 | 906,240 |
| Members Deposits | | | 14,940,906 | 14,940,906 |
| Total | | | 15,847,146 | 15,847,146 |

27 EVENTS OCCURRING AFTER BALANCE DATE

There are no significant events subsequent to 30 September 2017.

INDEPENDENT AUDITOR'S REPORT

To the Members of Aotearoa Credit Union

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Aotearoa Credit Union ('the Credit Union') on pages 2 to 36, which comprise the statement of financial position as at 30 September 2017, and the statement of comprehensive revenue and expense, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including 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 September 2017, and its financial performance and its cash flows for the year then ended in accordance with Public Benefit Entity Standards ('PBE Standards').

Our report is made solely to the Members of Aotearoa Credit Union. 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 Aotearoa Credit Union and the Members of Aotearoa Credit Union, for our audit work, for our report or for the opinions we have formed.

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 the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. 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 and provider of other assurance services we have no relationship with, or interests in, Aotearoa Credit Union. The provision of these other assurance services has not impaired our independence.

Emphasis of Matter

We draw attention to Note 13 of the financial statements, which describes the effects of the uncertainty regarding the carrying value of the capital notes. Our opinion is not modified in respect of this matter.

Responsibilities of Those Charged with Governance for the Financial Statements

Those Charged with Governance 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 Those Charged with Governance determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Those Charged with Governance 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 Those Charged with Governance either intend to liquidate the Credit Union or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

The engagement partner on the audit resulting in this independent auditor's report is G K Raniga.

A stylized, handwritten signature of 'Staples Rodway' in black ink.

STAPLES RODWAY AUCKLAND

Auckland, New Zealand

2 March 2018