10064438292

CO-OP MONEY NZ
(The trading name of New Zealand Association of Credit Unions)

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

	Note	2017 $000	2016 $000
Interest Revenue	2	2,497	2,966
Interest Expense	3	1,714	1,986
NET INTEREST REVENUE		783	980
Banking Services Revenue		15,023	14,000
Insurance Premium Revenue	7	12,470	10,755
Other Revenue	4	868	1,296
TOTAL REVENUE NET OF INTEREST EXPENSE		**29,144**	**27,031**
Employee Costs	5	5,552	5,113
Insurance Claims & Commissions	7	9,888	8,196
Transaction Costs		6,925	7,331
Operating Expenses	6	6,149	4,738
TOTAL EXPENDITURE		**28,514**	**25,378**
NET PROFIT BEFORE IMPAIRMENT		**630**	**1,653**
Impairment Credit	8	139	59
NET PROFIT BEFORE TAXATION		**769**	**1,712**
Taxation Expense	9	-	-
TOTAL COMPREHENSIVE REVENUE AND EXPENSE FOR THE YEAR		**769**	**1,712**

This statement should be read in conjunction with the accompanying notes.

CO-OP MONEY NZ
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS/EQUITY (MEMBERS' FUNDS)
FOR THE YEAR ENDED 30 JUNE 2017

	Base Capital Notes	(Accumulated Losses)/Retained Earnings	Total
	$000	$000	$000
Balance at 1 July 2015	13,695	(854)	12,841
Base Capital Notes Dividends Paid	-	(786)	(786)
Total Comprehensive Revenue and Expense for the Year	-	1,712	1,712
Balance at 30 June 2016	**13,695**	**72**	**13,767**
Balance at 1 July 2016	13,695	72	13,767
Base Capital Notes Dividends Paid	-	(305)	(305)
Total Comprehensive Revenue and Expense for the Year	-	769	769
Balance at 30 June 2017	**13,695**	**536**	**14,231**

This statement should be read in conjunction with the accompanying notes.

pwc

CO-OP MONEY NZ
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2017

	Note	2017 $000	2016 $000
NET ASSETS / EQUITY (MEMBERS' FUNDS)			
Base Capital Notes	10	13,695	13,695
Retained Earnings/(Accumulated Losses)	11	536	72
TOTAL EQUITY (MEMBERS' FUNDS)		**14,231**	**13,767**
ASSETS			
Cash and Cash Equivalents	12	16,597	20,481
Accounts Receivable	13	10,619	7,805
Expected Recoveries	7	158	92
Investments	14	46,755	58,872
Prepayments	15	1,763	1,448
Inventory	16	74	123
Property, Plant and Equipment	17	811	866
Other Intangible Assets	18	7,079	4,180
Non-current Deposit		147	147
TOTAL ASSETS		**84,003**	**94,014**
LIABILITIES			
Deposits Received	19	56,120	68,654
Accounts Payable	20	3,277	3,656
Provisions	22	415	407
Outstanding Claims Liability	7	3,380	2,959
Unearned Premium Liability	21	6,580	4,571
TOTAL LIABILITIES		**69,772**	**80,247**
NET ASSETS		**14,231**	**13,767**

This statement should be read in conjunction with the accompanying notes.

These financial statements were authorised for issue by the Board of Directors on 20 September 2017 and were signed for on its behalf.

Chair

Deputy Chair

pwc

CO-OP MONEY NZ
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017 $000	2016 $000
Cash Flows from operating activities			
Cash was provided from			
Membership Contributions Received		608	628
Insurance Premiums Received		11,894	10,282
Other Receipts from Customers		16,914	14,241
Loan Repayments from Customers		139	59
Investment Interest Received		2,339	3,034
Motor Vehicle Claims Recoveries		479	160
Credit Union Foundation Grants and Donations		-	7
		32,373	**28,411**
Cash was applied to			
Payments to Suppliers and Employees		21,737	18,342
Insurance Claims, Acquisition Costs and Rebates Paid		8,367	7,124
Interest Paid		1,511	2,073
Credit Union Foundation Grants and Donations		11	-
		31,626	**27,539**
NET CASH FLOWS FROM OPERATING ACTIVITIES	**30**	**747**	**872**
Cash Flows from investing activities			
Cash was provided from			
Sale of Fixed Assets and Intangibles		-	8
Proceeds from Sales and Maturities of Investment Securities		481,091	670,491
		481,091	**670,499**
Cash was applied to			
Purchase of Property, Plant and Equipment		429	572
Purchase of Intangible Assets		3,575	3,523
Purchase of Investment Securities		468,974	639,237
		472,978	**643,332**
NET CASH FLOWS FROM INVESTING ACTIVITIES		**8,113**	**27,167**
Cash Flows from financing activities			
Cash was provided from			
Net increase in Deposits		-	-
		-	-
Cash was applied to			
Base Capital Note Dividend Paid		305	786
Net decrease in Deposits		12,538	25,582
		12,843	**26,368**
NET CASH FLOWS FROM FINANCING ACTIVITIES		**(12,843)**	**(26,368)**
Net (decrease)/increase in Cash and Cash Equivalents		(3,884)	1,671
Cash and Cash Equivalents at the Beginning of the Year		20,481	18,810
Cash and Cash Equivalents at the End of the Year	**12**	16,597	20,481

This statement should be read in conjunction with the accompanying notes.

pwc

1 SUMMARY OF ACCOUNTING POLICIES

REPORTING ENTITY
The Economic Entity consists of Co-op Money NZ and its controlled entities as detailed in note 1(e).

Co-op Money NZ, the trading name of New Zealand Association of Credit Unions (the "Association"), is an association of Credit Unions registered under the Friendly Societies and Credit Unions Act 1982. It comprises two Trusts ("Divisions"): a Member Services Division and a Business Services Division. The Divisions are established pursuant to the Rules of Association, which were approved by its members on 25 September 1994 and were first registered with the Registrar of Friendly Societies and Credit Unions on 10 November 1994.

The Association's wholly owned Controlled Entity, Credit Union Insurance Limited trading as Co-op Insurance NZ holds an Insurance licence issued by the Reserve Bank of New Zealand on 1 April 2013 under the Insurance (Prudential Supervision) Act 2010. Co-op Insurance NZ is registered under the Companies Act 1993 and is an FMC reporting entity under Part 7 of the Financial Markets Conduct Act 2013.

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with Public Benefit Entity Standards ("PBE Standards") and authoritative notices that are applicable to entities that apply PBE Standards as appropriate for Tier 1 not-for-profit public benefit entities.

Co-op Money NZ is domiciled in New Zealand and its principal activities are to provide banking and other services for credit unions.

GENERAL ACCOUNTING POLICIES
These financial statements have been prepared on the basis of historical cost, except for the revaluation of certain financial instruments. Cost is based on the fair value of the consideration given in exchange for the assets.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events are reported.

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in New Zealand Dollars, which is the Economic Entity's functional and presentation currency. All values have been rounded off to the nearest 1,000 dollars ($) unless otherwise stated.

Foreign currency monetary assets and liabilities have been translated into the functional currency at the rate of foreign exchange ruling as at balance sheet date. Transactions denominated in a foreign currency are converted to New Zealand dollars at the exchange rates in effect at the date of the transaction. Foreign exchange differences relating to monetary items and gains and losses arising from foreign exchange dealings by the Economic Entity are recognised in the Statement of Comprehensive Revenue and Expense.

Presentation of the statement of financial position

The Economic Entity's insurance and related assets are realised and settled over periods of several years, reflecting the long-term nature of the Economic Entity's products. Accordingly, the Economic Entity presents the assets and liabilities in its statement of financial position in approximate order of liquidity, rather than distinguishing current and non-current assets and liabilities. The Economic Entity regards its intangible assets, and plant and equipment as non-current assets as these are held for the longer-term use of the Economic Entity.

Significant Judgements, Estimates and Assumptions
In the application of PBE Standards management is required to make judgements, estimates and assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that management believe to be reasonable under the circumstances, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below:

- **Allowance for Impairment Loss**
  Where Loans Receivable are outstanding beyond the normal contractual terms, or where uncertainty exists over the recoverability of loans receivable, the likelihood of the recovery of these assets is assessed by management. The specific impairment loss is estimated with reference to the probability of recovery, the cost of possible enforcement through security and related costs and sale proceeds. Any collective provision is estimated using historical and industry trends.

- **Estimation of Fair Value of Financial Instruments**
  The determination of fair values of financial instruments is based on quoted market prices or dealer price quotations for financial instruments traded in active markets, or by using valuation techniques. Valuation techniques include discounted cash flow analysis and comparison to similar financial instruments for which a market observable price exists.

  To the extent possible, models use only observable data. Inputs to valuation models such as credit risk, volatilities and correlations require management to make judgements and estimates. Changes in the assumptions used in these models and projections of future cash flows could affect the reported fair value of financial instruments.

- **Estimation of Insurance Contract Liabilities**
  Insurance contract liabilities are computed using statistical or mathematical methods. The computations are made by suitably qualified personnel on the basis of recognised actuarial methods, with due regard to relevant actuarial principles.

The methodology takes into account the risks and uncertainties of the particular classes of insurance business written.

The key factors that affect the estimation of these liabilities and related assets are:

- discontinuance experience, which affects the Economic Entity's ability to recover the cost of acquiring new business over the lives of the contracts
- the cost of providing benefits and administering these insurance contracts
- the discount rate applied to calculate the present value of future benefits.

In addition, factors such as regulation, inflation, interest rates, taxes, investment market conditions and general economic conditions affect the level of these liabilities.

Other judgements made by management in the application of PBE Standards that have significant effect on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

PARTICULAR ACCOUNTING POLICIES

The particular accounting policies used in the preparation of the financial statements are as follows:

(a) Revenue and Expense Recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Economic Entity and that revenue can be reliably measured. The principal sources of revenue are interest revenue, insurance premiums, transaction and other fees.

Interest Revenue and Expense

For all financial instruments measured at amortised cost, interest revenue or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The application of the method has the effect of recognising revenue and expense evenly in proportion to the amount outstanding over the expected life of the financial asset or liability.

The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest revenue or expense.

Other than for non-accrual items, once the recorded value of the financial asset or group of similar financial assets has been reduced due to an impairment loss, interest revenue continues to be recognised using the original effective interest rate applied to the new carrying amount.
The Economic Entity recognises interest revenue and lending fees on an accrual basis when the services are rendered using the effective interest rate method.

Lending Fees

The calculation of the life of Loan Receivables is based on contractual data. The actual life of Loan Receivables is used to apportion loan origination and associated direct costs on a straight line basis.

Banking Services Transaction and Other Fees

Commissions or fees which relate to specific transactions or events are recognised in surplus or deficit on the Statement of Comprehensive Revenue and Expense when the service is provided to the Member or customer. When commissions and fees are charged for services provided over a period, they are taken to income on an accruals basis as the service is provided.

Insurance Premiums

Premium revenue is recognised from the attachment date as soon as there is a basis on which it can reliably be estimated. Premium revenue is recognised in surplus or deficit on the Statement of Comprehensive Revenue and Expense over the period of the contract in accordance with the pattern of incidence of risk expected under the insurance contract. Premium revenue excludes fire service and earthquake levies collected on behalf of statutory bodies. The unearned portion of premium is recognised as an unearned premium liability on the Statement of Financial Position.

Reinsurance Expense

Premium ceded to reinsurers is recognised as an expense that is evenly spread from the date of attachment of the risk to the end of the period of the reinsurance contract over the period of indemnity of the reinsurance contract.

Expense Recognition

All expenses are recognised in surplus or deficit on the Statement of Comprehensive Revenue and Expense on an accruals basis.

Foreign Currency Transactions

When a good or service is purchased in a foreign currency the cost is recognised at the rate of exchange at which the commitment is settled. All outstanding invoices at year end are valued at the ruling rate of exchange or at the rate of any foreign exchange contract held for settlement of that liability.

(b) Valuation of Assets and Liabilities

Financial Instruments

Financial Instruments are transacted on a commercial basis to derive an interest yield / cost with the terms and conditions having due regard to the nature of the transaction and the risks involved.

Financial Assets

Financial Assets are classified in one of the following categories at initial recognition:

- Loans and receivables
- Fair value through surplus or deficit
- Held to maturity
- Available-for-sale.

Certain categories of these require measurement at fair value. Where quoted market prices do not exist, fair values are estimated using discounted cash flow models, using methods and assumptions that are based on market conditions and risks existing at balance date.

pwc

Financial instruments are recognised and accounted for on a settlement date basis.

(i) Loans and Receivables
Assets in this category are measured at amortised cost using the effective interest method. Financial assets classified as loans and receivables include:

- Cash and Cash Equivalents
- Accounts Receivable
- Loans Receivable
- Investments.

Loans Receivable cover all forms of lending to customers, and include residential lending, commercial lending and vendor finance. They are recognised in the Statement of Financial Position when cash is advanced to the customer.

Loans Receivable are reported net of provisions for impairment to reflect the estimated recoverable amounts.

(ii) Fair Value through Surplus or Deficit
Financial assets backing insurance liabilities are measured at fair value with movements recognised in surplus or deficit on the Statement of Comprehensive Revenue and Expense. Interest is recognised on an amortised cost basis in surplus or deficit on the Statement of Comprehensive Revenue and Expense. Fair value movements have been calculated taking this into account.

(iii) Held to Maturity Investments
Financial Assets in this category are measured at amortised cost using the effective interest method. There are currently no financial assets in this category.

(iv) Available-For-Sale
Available-for-sale financial assets are measured at fair value. The fair value of the assets is based on quoted market prices and fair value movements are recognised directly in equity. Interest is recognised on an amortised cost basis in surplus or deficit on the Statement of Comprehensive Revenue and Expense.

There are currently no financial assets in this category.

Financial Liabilities
Debt and equity instruments are classified as either liabilities or Members' Funds in accordance with the substance of the contractual arrangement.

Liabilities are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, liabilities are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in surplus or deficit on the Statement of Comprehensive Revenue and Expense over the period of borrowing using the effective interest rate method. Interest expense is recognised in surplus or deficit on the Statement of Comprehensive Revenue and Expense using the effective interest method.

Deposits Received
Deposits received cover all forms of deposits and include transactional and savings accounts, and term deposits.

(i) Offsetting Financial Instruments
The Economic Entity offsets financial assets and financial liabilities and reports the net balance in the Statement of Financial Position where there is a legally enforceable right to set-off and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

(ii) Derivative Financial Instruments
Derivative financial instruments are contracts whose value is derived from changes in one or more underlying financial instruments or indices. The Economic Entity does not engage in trading derivatives for speculative purposes.

- **Interest Rate Swaps:** The Economic Entity enters into interest rate swaps to assist Member credit unions with interest rate risk management. The net fair value of interest rate swaps receivable from counterparties is disclosed as Derivative Financial Assets. The net fair value of interest rate swaps payable to counterparties is disclosed as Derivative Financial Liabilities.

  Interest rate swaps are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The movement in the fair value of interest rate swaps is recognised in surplus or deficit on the Statement of Comprehensive Revenue and Expense immediately.

The Economic Entity does not undertake any form of hedge accounting.

(c) Asset Quality

Impairment of Financial Assets
Financial assets measured at amortised cost are reviewed at each balance date to determine whether there is any objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated and provision is made for the difference between the carrying amount and the recoverable amount.

(i) Loans Receivable
Specific provisions are made for loans receivable which are considered doubtful and are presented net of the specific provisions. Specific allowances are made against the carrying amount of loans receivable that are identified as being impaired based on regular reviews of outstanding balances, to reduce these loans receivable to their recoverable amounts.

Collective allowances are maintained to reduce the carrying amount of portfolios of similar loans receivable to their estimated recoverable amounts at balance date. These allowances relate to incurred losses not yet specifically identified in the portfolio. The expected future cash flows for the portfolios of similar assets are estimated based on previous experience and considering the credit rating of the underlying customers and late payments of interest and penalties.

Increases in the specific and collective allowances are recognised in the surplus or deficit on the Statement of Comprehensive Revenue and Expense. When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off directly to surplus or deficit on the Statement of Comprehensive Revenue and Expense.

(ii) Impaired Loans Receivable

Impaired Loans Receivable consist of non-accrual items, past due assets, assets acquired through enforcement of security and restructured items:

- Non-accrual items, which are defined as items in respect of which revenue may no longer be accrued ahead of its receipt because reasonable doubt exists as to the collectability of principal and interest. They include exposures where contractual payments are 90 or more consecutive days in arrears and where security is insufficient to ensure payment.
- Past-due assets, which are assets where the counterparty has failed to make a payment when contractually due.
- 90 day past-due assets, which are any assets that have not been operated by the counterparty within its key terms for at least 90 days and which are not restructured assets, other impaired assets, or financial assets acquired through enforcement of security.
- Financial assets acquired through enforcement of security, which are assets acquired through the enforcement of security or where the Economic Entity has assumed ownership of an asset in settlement of all or part of a debt.
- Restructured items, which are defined as items in which the original contractual terms have been formally modified to provide for concessions of interest or principal for reasons related to the financial difficulties of the member, the revised terms of the facility are not comparable with the terms of new facilities with comparable risks and the yield on the asset following restructure is equal to or greater than the Economic Entity's average cost of funds or a loss is not otherwise expected to be incurred.

(iii) Impairment of Assets at amortised cost

- An assessment is made at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the directors about the following loss events:

- significant financial difficulty of the issuer or obligor
- a breach of contract, such as a default or delinquency in interest or principal payments
- a concession granted to the borrower that the lender would not otherwise consider for economic or legal reasons relating to the borrower's financial difficulty
- it becoming probable that the borrower will enter Registered Bankruptcy or other financial reorganisation
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group; including adverse changes in the payment status of borrowers in the group.

Firstly an assessment is made whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence exists for an individually assessed financial asset, whether significant or not, the assets are included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Comprehensive Revenue and Expense. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, impairment may be measured on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling collateral, whether or not foreclosure is probable. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Economic Entity's grading process that considers collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and historical loss experience for assets with similar credit characteristics.

pwc

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in payment status or other factors indicative of changes in probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off to the Statement of Comprehensive Revenue and Expense. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

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

(iv) Impairment of Assets measured at fair value
The Economic Entity assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. Any impairment of financial assets measured at fair value through surplus or deficit will be included as part of the fair value movement for those assets, reflected directly in surplus or deficit on the Statement of Comprehensive Revenue and Expense.

(d) De-recognition of financial assets

A financial asset is de-recognised when:

- The Economic Entity has transferred its rights to receive cash flows from the asset and either:
  - has transferred substantially all the risks and rewards of the asset.
  - has neither transferred nor retains substantially all the risks and rewards of the asset, but has transferred control of the asset.
- The rights to receive cash flows from the asset have expired.
- The Economic Entity retains the right to receive cash flow from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass through" arrangement.

When the Economic Entity has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Economic Entity's continuing involvement in the asset.

(e) Consolidation

The Economic Entity's financial statements consolidate the Association and the following entities:
- Co-op Insurance NZ (wholly owned controlled entity) – an insurance company;
- Co-op Services NZ (wholly owned controlled entity) – a company providing services to non-members of the parent entity;
- CU Group Trust the investment holding trust of the parent entity.

(i) Controlled Entities
Controlled Entities are all entities (including special purpose entities) over which the Association has the power, exposure or rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power.

Where Controlled Entities have been acquired or sold during the year, their operating results have been included from the date control is passed to the Association, or to the date control ceases.

Acquisition-related costs are expensed as incurred.

Changes in a Controlling Entity's ownership interest in a Controlled Entity that do not result in the Controlling Entity losing control of the Controlled Entity are recorded through equity to reflect a transaction amongst shareholders.

The acquisition of any Controlled Entity is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and liabilities assumed are measured at their acquisition date fair values.

On consolidation, all significant inter-company transactions, balances and unrealised gains on transactions have been eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of Controlled Entities have been changed where necessary to ensure consistency with the policies adopted by the Economic Entity.

(ii) Joint Ventures
Joint Ventures are those entities over whose activities the Economic Entity has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Jointly controlled entities are accounted for by the Economic Entity using the equity method (equity accounted investees) and are recognised initially at cost. The consolidated financial statements include the Economic Entity's share of the income and expenses and equity movements of equity accounted investees, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. Dividends received from jointly controlled entities are recorded in surplus or deficit on the Statement of Comprehensive Revenue and Expense.

Profits and losses resulting from upstream and downstream transactions between the Economic Entity and its Joint Venture are recognised in the Economic Entity's financial statements only to the extent of unrelated investor's interests in the Joint Venture.

(f) Cash and Cash Equivalents

Cash and Cash Equivalents comprise cash on hand and call deposits.

(g) Accounts Receivables

Accounts Receivables are initially recognised at fair value, and are subsequently measured at amortised cost using the effective interest method.

Appropriate allowance is estimated for irrecoverable amounts which are recognised in surplus or deficit on the Statement of Comprehensive Revenue and Expense when there is objective evidence that the asset is impaired.

(h) Deferred Commission Costs

Acquisition costs incurred in obtaining insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in subsequent reporting periods. Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue.

(i) Inventories

Inventories are stated at the lower of cost, determined on a first in, first out basis, and net realisable value. Net realisable value represents the estimated selling price less all estimated costs to be incurred in marketing, selling and distribution.

(j) Property, Plant and Equipment

Property, Plant and Equipment is carried at cost less accumulated depreciation and impairment losses.

All Property, Plant and Equipment is depreciated on a straight line basis at rates which will write off their cost less estimated residual value over their expected useful lives. Depreciation rates are as follows:

Computer Equipment	20% - 40%
Office Furniture & Equipment, Leasehold Improvement Costs and Motor Vehicles	10% - 36%

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the Statement of Comprehensive Revenue and Expense.

The asset's residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate at each balance date.

(k) Intangible Assets

Intangible Assets comprise Computer Software.

Computer Software is capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over their expected lives on a straight line basis of between 20% and 40% amortisation.

(l) Impairment of Property Plant and Equipment and Intangible Assets

Property, plant and equipment and intangible assets subsequently measured at cost that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

If an asset's carrying amount exceeds its recoverable amount, the asset is regarded as impaired and the carrying amount is written-down to the recoverable amount. The total impairment loss is recognised in the surplus or deficit. The reversal of an impairment loss is recognised in the surplus or deficit.

(i) Value in use for non-cash-generating assets

Non-cash-generating assets are those assets that are not held with the primary objective of generating a commercial return.

For non-cash-generating assets, value in use is determined using an approach based on either a depreciated replacement cost approach, restoration approach, or a service units approach. The most appropriate approach used to measure value in use depends on the nature of the impairment and availability of information.

(ii) Value in use for cash generating assets

Cash generating assets are those assets that are held with the primary objective of generating a commercial return.

The value in use for cash-generating assets and cash-generating units is the present value of expected future cash flows.

(m) Taxation

The Association has not provided for income tax on the basis it is exempt for tax under Section CW44 (a) of the Income Tax Act 2007. However other controlled entities are subject to taxation.

Income tax on the net profit for the period comprises current and deferred tax. Income tax is recognised in surplus or deficit except to the extent that it relates to items recognised in other Comprehensive Revenue and Expense or directly in equity, in which case it is

pwc

recognised in other Comprehensive Revenue and Expense or directly in equity.

(i) Current Tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable). Tax assets and liabilities are offset only when the Economic Entity has a legally enforceable right to set off the recognised amounts, and intends to settle on a net basis.

(ii) Deferred Tax

Deferred tax is accounted for using the liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised.

However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit.

Deferred tax liabilities are not recognised for taxable temporary differences arising on investments in Controlled Entities and associates except where the Economic Entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Economic Entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

(iii) Goods and Services Tax (GST)

Revenue, expenses and assets are recognised net of the amount of GST except:

- When the GST incurred on a purchase of goods and services is not recoverable from Inland Revenue in which case the GST is recognised as part of the cost of the acquisition of the assets or as part of the expense item as applicable.
- Accounts Receivables and Accounts Payable, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of accounts receivable or accounts payable in the Statement of Financial Position.

Cash flows, with the exception of deposit cash flows, are included in the Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is included as an operating activity.

(n) Insurance Liabilities

The policy liabilities of Co-op Insurance NZ, a Controlled Entity, have been determined in accordance with Professional Standards No. 20 & 30 of the New Zealand Society of Actuaries.

Premium that has not been recognised in surplus or deficit on the Statement of Comprehensive Revenue and Expense is unearned premium and is recognised in the Statement of Financial Position as an unearned premium liability.

The adequacy of the unearned premium liability is assessed by considering current estimates of the present value of the expected future cash flows and a margin for risk relating to future claims arising from motor vehicle insurance contracts. In the event of a deficit the entire deficit is recognised in surplus or deficit on the Statement of Comprehensive Revenue and Expense.

Life Insurance Liabilities are recorded as the undiscounted accumulated benefits to policyholders except where the outcome is materially different from the net present value of future payments to policyholders.

Motor Vehicle claims liability is measured as the central estimate of the present value of the expected future payment for claims incurred with an additional risk margin to allow for the inherent uncertainty in the central estimate.

Life Insurance claims liability and Motor Vehicle Insurance claims liability are not discounted due to the short term nature of these claims. Open disability claims are discounted at an assessed risk free rate as the liability may extend for the duration of the underlying loan.

(o) Provisions

Provisions are recognised when the Economic Entity has a present obligation, the future sacrifice of benefits is probable, and the amount of the provision can be measured reliably.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance date. If the effect of the time value of money is material, provisions are discounted using a pre-tax rate that reflects the time value of money and the risks specific to the liability. The increase in the provisions resulting from the passage of time is recognised as a finance cost.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

(p) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease rentals/expenses are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are derived.

Assets held under finance leases are initially recognised as assets of the Economic Entity at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Statement of Financial Position as a finance lease obligation.

Lease payments are apportioned between finance charges and the reduction of the lease obligation so as to achieve a constant rate of interest on the remaining liability. Finance charges are charged directly against income. Finance lease assets are amortised on a straight line basis over the estimated useful life of the asset or the lease term whichever is shorter.

Present obligations arising under onerous leases are recognised and measured as provisions. An onerous lease is considered to exist where the Economic Entity has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

(q) Employee Entitlements

Provision is made for entitlements accruing to employees in respect of salaries and wages, annual leave, long service leave and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee entitlements expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee entitlements which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Economic Entity in respect of services provided by employees up to reporting date.

(r) Other Liabilities

Other liabilities are recognised when the Economic Entity becomes obliged to make future payments resulting from the purchase of goods and services.

Other liabilities are measured at amortised cost. The amounts are unsecured.

(s) Statement of Cash Flows

The Statement of Cash Flows is prepared exclusive of GST.

The following are definitions of the terms used in the Statement of Cash Flows:

- Cash and Cash Equivalents are considered to be cash on hand and call deposits.
- Investing activities are those relating to the acquisition, holding and disposal of property, plant and equipment and investments. Investments can include movements in related party balances and securities not falling within the definition of cash and cash equivalents.
- Financing activities are those activities which result in changes in the size, composition and the capital structure of the Economic Entity. This includes both equity and debt not falling within the definition of cash and cash equivalents.
- Operating activities include all transactions and other events that are not investing or financing activities.

(t) Segment Reporting

The Economic Entity's primary reporting format is business segments. The Economic Entity operates solely within New Zealand and does not recognise separate geographical segments.

The Economic Entity elects to present an analysis of the operating segments on the basis of internal reports about the components of the Economic Entity.

(u) Accounting Standards Adopted during the Year

No new Accounting Standards have been adopted during the year.

(v) New Accounting Standards and Interpretations Issued not yet effective and have not been early adopted by the Economic Entity

There are no pending PBE standard requiring consideration.

(w) Comparative Information

The Comparative figures have been re-classified for better presentation purposes.

	2017 $000	2016 $000
2 INTEREST REVENUE		
Other Bond Interest	148	222
Bank, Money Market Securities, Local Authority and Floating Rate Note Interest	2,010	2,422
Other Interest	339	322
TOTAL INTEREST REVENUE	2,497	2,966
3 INTEREST EXPENSE		
Interest on Deposits	1,712	1,984
Other Interest	2	2
TOTAL INTEREST EXPENSE	1,714	1,986
NET INTEREST REVENUE	783	980
4 OTHER REVENUE		
Membership Contributions	593	628
Litigation Settlement	-	500
Other Revenue	275	169
TOTAL OTHER REVENUE	868	1,297
5 EMPLOYEE COSTS		
Salaries and Wages	5,454	5,089
Other Staff Costs	98	24
TOTAL EMPLOYEE COSTS	5,552	5,113
6 OPERATING EXPENSES		
Auditor's Remuneration:		
- Audit fees to PricewaterhouseCoopers	97	98
- Other fees to PricewaterhouseCoopers		
Information System Review	26	26
Taxation	15	16
Other Statutory Returns	47	6
Total Auditor's Remuneration	185	146
Depreciation:		
- Furniture, Fittings, Office Equipment & Vehicles	66	73
- Computer Equipment	323	207
Amortisation of Intangible Assets	676	634
Directors' Fees	274	264
Directors' and Governance Expenses	671	175
Leasing Charges	275	267
Loss/(Gain) on Disposal of Property, Plant & Equipment	-	(7)
Other Operating Expenses	3,679	2,979
TOTAL OPERATING EXPENSES	6,149	4,738

7 INSURANCE PRODUCTS

Included in the income and expenditure for the Economic Entity are the following underwriting results:

Underwriting Results

	2017 $000	2016 $000
Life Insurance		
Gross Earned Premium	2,354	2,168
Reinsurance Premiums	-	-
Net Earned Premium prior to Rebates	2,354	2,168
Gross Claims	1,022	1,113
Reinsurance Received	-	-
Net Claims	1,022	1,113
Commission	268	269
Underwriting Result	1,063	787
Credit Union Rebates	190	264
	873	523
Other non-life insurance		
Gross Earned Premium	4,107	4,202
Reinsurance Premiums	-	-
Net Earned Premium prior to Rebates	4,107	4,202
Gross Claims	1,456	1,973
Reinsurance Received	-	-
Net Claims	1,456	1,973
Commission	905	923
Underwriting Result	1,746	1,306
Credit Union Rebates	214	448
	1,532	858
Motor Vehicle Insurance		
Gross Earned Premium	6,227	5,097
Premium Funding Income	467	366
Reinsurance Premiums	(350)	(272)
Net Earned Premium prior to Rebates	6,344	5,191
Gross Claims	5,029	3,199
Reinsurance Received	-	-
Net Claims	5,029	3,199
Commission & Acquisition Costs	1,208	720
Underwriting Result	107	1,273
Credit Union Rebates	(71)	95
	178	1,177
Total Insurance		
Net Earned Premium prior to Rebates	12,804	11,562
Net Claims	7,507	6,285
Commissions	2,381	1,912
Underwriting Result	2,916	3,365
Credit Union Rebates	334	807
Insurance Claims, Commission and Rebates	10,222	9,004
Total Underwriting Result after Commission and Rebates	2,582	2,558

Claims Estimates and Risk Margin

The policy liabilities have been determined by the Appointed Actuary, Peter Davies B.Bus Sc., FIA, FNZSA.

The actuary is satisfied as to the accuracy of the data from which the policy liabilities have been determined. The actuary's report is based on data as at 30 June 2017. The Actuary's valuation was carried out in accordance with Professional Standards no. 20 and 30 of the New Zealand Society of Actuaries report and had no qualifications.

Life and Other Non-life

The Life and Other insurance contracts consist of group schemes providing death, disability, redundancy, trauma and bankruptcy benefits on a unit rated basis, and a group scheme providing funeral benefits on the basis of individually rated premiums.

All covers are written on a basis of monthly premiums received at the end of the month. The policy liabilities comprise the following:

- A provision for claims incurred but not reported (IBNR), calculated separately for Life insurance and Other Non-life insurance (disability, redundancy, trauma and bankruptcy cover products) respectively.
- A provision for the remaining payments expected to be made on disability, redundancy, and bankruptcy claims that have been notified and remain open.

The actuary has recommended a risk margin of nil (2016 : 8.5%) with respect to the Other Non-Life insurance Outstanding Claims Liability.

The IBNR provisions for death, disability, redundancy, trauma and bankruptcy claims respectively have been calculated using a chain ladder method applied to past claim reporting patterns, and the average size of claims incurred in the past.

The provision for open disability claims has been based on past claim termination patterns, applied to the insured benefit of notified claims. Claims provisions have been discounted using an interest rate of 2.07% per annum (2016 : 2.10%).
All pending trauma and redundancy claims have been provided for at their face value

Motor Vehicle Insurance

The claims estimation process commences with the projection of the future payments relating to claims incurred at the reporting date. The expected future payments include those in relation to claims reported but not yet paid in full, claims incurred but not yet reported (IBNR) and claims closed that may be reopened.
The estimation of the outstanding claims liability is based on advice from independent professional assessors. These may be supplemented over the life of the claim by revisions, made by experienced claims staff as the claim develops. The estimates are reduced by actual claims payments made. A percentage factor is added to allow for claims that are closed at balance date but will be reopened. This is calculated by analysing past claims to determine the historical incidence of claims being reopened. An overhead and risk margin is added to arrive at the final liability estimate.
The IBNR provision is based on a conventional chain ladder method applied to the cost of claims reported to date in respect of each month of loss.
An additional risk margin is maintained in the claim provisions to ensure a greater than 50% likelihood of the sufficiency of the provisions. The actuary has recommended a risk margin of 10% (2016 : 8.5%), which provides a likelihood of sufficiency of 75% (2016 : 75%). The Board has elected to use a risk margin of 10% (2016 : 8.5%) which gives a 75% (2016 : 75%) likelihood of sufficiency.

Insurance costs are subject to inflationary pressure over time. However the period between the valuation date and the settlement of most claims is relatively short so any increase in costs as a result of inflation is limited. Also, due to the short settlement periods the effect of discounting expected future payments is also limited and with these two elements being small and acting in opposite directions, both have been ignored.

Expected Recoveries Receivable is calculated by discounting the Recoveries ledger by a range of factors and then adding on an allowance to recognise that a portion of the Outstanding Claims Liability will also be recovered. The allowance is based on historical monies recovered against claims paid.

The Recoveries ledger is divided into three categories; debts where liability is acknowledged and covered by other insurance companies, debts where the debtor has acknowledged liability and entered into a payment arrangement, and remaining debts where the liability is either disputed or no payment arrangement is yet entered into. Recoveries Receivable from other insurers are discounted by 20%. Receivables under payment arrangements are discounted by 40%.

	Economic Entity	
	2017	2016
	$000	$000
Outstanding Claims Liability		
Life Insurance		
Opening Claims Liability	117	117
Claims Expense	1,022	1,113
Claims Paid	(1,074)	(1,113)
Closing Claims Liability	**65**	**117**
Other Non-life Insurance		
Opening Claims Liability	1,810	1,648
Claims Expense	1,456	1,972
Claims Paid	(1,767)	(1,810)
Closing Claims Liability	**1,499**	**1,810**
Motor Vehicle Insurance		
Opening Claims Liability	1,032	677
Claims Expense	5,573	5,578
Claims Paid	(4,789)	(5,223)
Closing Gross Claims Liability	**1,816**	**1,032**
Total Gross Outstanding Claims Liability	**3,380**	**2,959**
Motor Vehicle Expected Recoveries Receivable		
Opening Expected Recoveries	92	120
Increase in Expected Recoveries	548	361
Actual Third Party Recoveries Received	(482)	(389)
Closing Expected Recoveries	**158**	**92**
Motor Vehicle Net Claims Liability	**1,658**	**940**
Total Net Outstanding Claims Liability (Current)	**3,222**	**2,867**

Outstanding claims are reported in the Statement of Financial Position as Outstanding Claims Liability and Expected Recoveries

	Economic Entity 2017 $000	2016 $000
Composition of Outstanding Claims Liability		
Life Insurance		
IBNR	65	117
Closing Claims Liability	**65**	**117**
Other Non-life Insurance		
Outstanding Claims	1,241	1,377
Management Allowance - 8.5%	117	129
Risk Margin - Nil (2016 :8.5%)	-	164
IBNR	140	140
Closing Claims Liability	**1,499**	**1,810**
Motor Vehicle Insurance		
Outstanding Claims	1,322	673
Risk Margin - 10% (2016 :8.5%)	132	101
Indirect Claims Management - 12.5% (2016 : 15%)	182	138
IBNR	180	120
Closing Gross Claims Liability	1,816	1,032
Closing Expected Recoveries	(158)	(92)
Closing Claims Liability	**1,658**	**940**
Total Net Outstanding Claims Liability (Current)	**3,222**	**2,867**

Insurance Contract Risk Management

A key risk from operating in the insurance industry is exposure to insurance risk arising from underwriting insurance contracts. The insurance contracts transfer risk to the insurer by indemnifying the policyholders against adverse effects arising from the occurrence of specified uncertain future events. The risk is that the actual claims to be paid in relation to contracts will be different to that estimated at the time a product was designed and priced. The Company is exposed to this risk because the price for a contract must be set before the losses relating to the product are known. Hence the insurance business involves inherent uncertainty. This risk is mitigated in the Other Non-life insurance products as all policies are monthly renewable and there is no effective contractual price risk.

A fundamental part of the overall risk management strategy is the effective governance and management of the risks that impact the amount, timing and uncertainty of cash flows arising from insurance contracts.

Solvency Requirements

(a) Capital Management Policies and Objectives

From the issuance of the Insurance Licence by the Reserve Bank of New Zealand ("RBNZ") on 1 April 2013, the Company is required to maintain a Fixed Minimum Solvency Capital of $5,000,000 as determined under the Solvency Standards for Life and Non-Life Insurance Business (the solvency standard) issued by the RBNZ. RBNZ defines Actual Solvency Capital as: Co-op Insurance NZ's Capital less Intangible Assets less dividends payable on Ordinary and Perpetual Preference Shares in the period leading up to the filing of the RBNZ Solvency Return.

The Company has defined in its Capital Risk Management Policy that it will maintain a Target Minimum Solvency Capital at the higher of:
- 105% of the Fixed Minimum Solvency Capital set by the RBNZ which is $5,250,000 (2016 : minimum Actual Capital of $5,250,000);
- *125% of the Calculated Minimum Solvency Capital which at 30 June 2017 was $4,518,259 (2016 : $2,550,485).*

The Directors believe that the Fixed Minimum Solvency Capital of $5,000,000 set by RBNZ has been achieved, but the Company's target has been missed by $2,379 (0.05%).

The Company has embedded in its capital management framework the necessary tests to ensure continuous and full compliance with the solvency standard.

(b) Capital Composition

The Company manages its capital by considering both regulatory and economic capital. The primary source of capital used by the Company is total equity attributable to the owner. Total equity attributable to the owner equates to "capital" as defined in the solvency standard.

The Solvency Margin is calculated as actual solvency capital less minimum solvency capital and is as follows

30 June	2017	2016
	$	$
Actual Solvency Capital	5,247,621	5,761,699
Fixed Minimum Solvency Capital	5,000,000	5,000,000
Solvency Margin	247,621	761,699
Solvency Ratio	105.0%	115.2%

Risk Management Objectives and Policies for Mitigating Insurance Risk
Risk management activities can be broadly separated into underwriting, claims management, reserving and investment management

The objective of these risk management functions is to enhance the longer term financial performance of the overall insurance operations. The key policies in place to mitigate risks arising from underwriting insurance contracts include the following

Acceptance of Risk - the Company restricts its lines of business primarily to Company unit rated consumer credit insurance (Life and Other Non-Life), funeral plan and motor vehicle insurance. The consumer credit business is sold exclusively to the ultimate holding entity's Member credit unions. Records of results and trends achieved for each seller of insurance for all lines of business are analysed carefully and sellers whose portfolios are returning unacceptable levels of risk either have their price adjusted accordingly or lose their right to sell policies for the Company.

Pricing - the primary lines of business are backed by historical underwriting results. This enables the Economic Entity's underwriters to calculate acceptable pricing and terms of cover.

Reinsurance - the Company does not maintain reinsurance cover on its Life and Other Non-life risks as its historical underwriting surpluses are such that in the Directors view there are sufficient underwriting surpluses being generated to be able to meet the obligations that would otherwise have been met by a catastrophe reinsurer. The Company has a reinsurance programme on the Motor Vehicle risks structured to adequately protect the Company's solvency and capital position. It covers third party property damage and own damage catastrophe single event protection. The Company's reinsurer up until 30 June 2016 was Munich Re which had a financial strength rating of "AA".

With effect from 1 July 2016, the Company's motor vehicle insurance provider has been changed to Swiss Reinsurance Company Limited for a signed line of 75% and to Aspen Insurance UK Limited for a signed line of 25%. Swiss Reinsurance Company Limited and Aspen Insurance UK Limited have financial strength ratings of "AA-" and "A" respectively. The excess of loss cover, under the new treaty arrangements, has been set at $50,000.

Claims Management - claims are handled in-house by the Company's own claims department. Staff are allocated settling limits and authorities commensurate with their levels of experience. These authority limits are reviewed regularly. Overall authority and claims management by experienced managers. Claims files are regularly audited on a random basis by independent staff.

Investment Management - all premium income is held in bank accounts and short term deposits with registered banks or Co-op Money NZ.

Geographical Spread - the Company regularly analyses and reviews its geographical spread of risk to ensure its insurance operations are not overexposed in any one region.

Terms and Conditions of Insurance Contracts

The Economic Entity's insurance contracts written are entered into on a standard form and on an instalment or annual payment basis. There are no special terms and conditions in any non standard contracts that would have a material impact on the financial report.

Credit Risk

Financial assets or liabilities arising from insurance contracts are presented on the Statement of Financial Position. These amounts best represent the maximum credit risk exposure at reporting date. The Economic Entity's credit risk exposure on Life and Other Non-life Insurance contracts relates exclusively to credit unions. The credit risk relating to Motor Vehicle insurance contracts relates primarily to premium receivable which is due from intermediaries.

Interest Rate Risk

The underwriting of the disability component of the Other Non-Life product creates an exposure to interest rate risk because the termination dates of the outstanding claims liability vary according to the term of the underlying loan or savings account. However this exposure has historically been low as approximately 90% of claims terminate within 12 months. The underwriting of Life and Motor Vehicle insurance contracts create no exposure to the risk that interest rate movements may impact the value of the outstanding claims liability. The outstanding claims liability is not discounted due to the very short term nature of the claims.

Operational Risk

Operational risk is the risk of financial loss (including lost opportunities) resulting from external events and/or inadequate or failed internal processes, people and systems. Operational risk is identified and assessed on an ongoing basis and the capital management strategy includes consideration of operational risk. Management and staff are responsible for identifying, assessing and managing operational risks in accordance with their roles and responsibilities.

Sensitivity Analysis

Sensitivity of risks relates primarily to the risk margin assessments which are set out above. These are reviewed annually and change in accordance with current best estimates using advice of the Appointed Actuary. The financial impact of these sensitivity changes are:

	2017		2016	
	$000	$000	$000	$000
Sensitivity Calculations	**Balance**	**Sensitivity**	**Balance**	**Sensitivity**
Outstanding Claims Liability	2,995		2,582	
Reopening allowance 10% higher		3		3
Reopening allowance 10% lower		(3)		(3)
Claim estimates 10% higher		299		258
Claim estimates 10% lower		(299)		(258)
Administration costs 10% higher		20		20
Administration costs 10% lower		(20)		(20)
IBNR	385		377	
Claim reporting 10% longer		135		132
Claim reporting 10% quicker		(121)		(121)
	3,380		**2,959**	

Insurance Rating

The Company has a Financial Strength rating of 'BBB-' issued by Fitch Ratings on 31 July 2015 and affirmed in February 2017. The Company's reinsurance programme is structured to adequately protect the Company's solvency and capital position. It covers per risk and event losses in New Zealand on the Company's motor vehicle insurance book. The Counterparty reinsurers are Swiss Reinsurance Company Ltd and Aspen Insurance UK Ltd which have a credit rating of "AA-" and "A" respectively.

	2017	2016
	$000	$000
8 IMPAIRMENT		
Movement in Provisions in respect of:		
Bad Debts Recovered	139	59
Impairment Credit	139	59

Refer to notes 15 and 16 for further information.

	2017	2016
	$000	$000
9 TAXATION		
Profit before Taxation	**769**	**1,712**
Income Tax at current rate of 28%	215	479
Exempt Income	(119)	(558)
Non Deductible Expenses	-	-
Movement in Temporary Differences (not recognised)	-	-
Prior Period Adjustments	-	-
Tax Losses not recognised (Utilisation of Tax Losses)	(96)	79
TAXATION EXPENSE	-	-

Taxation losses have been recognised to the extent of the deferred tax liability on temporary differences. The additional tax losses have not been recognised because there is not sufficient probability of taxable profits in future years to offset such losses. Tax losses are subject to Inland Revenue assessment in the next tax return and shareholder continuity requirements. Tax losses not recognised are $5,306,149 ($1,485,722 at the tax rate of 28%) (2016 : $5,297,919 ($1,483,417 at the tax rate of 28%)).

pwc

Economic Entity

2017	Opening Balance $000	Charged to Income $000	Closing Balance $000
Deferred Tax Assets:			
Tax Losses Recognised	291	69	360
Provisions	8	-	8
	299	**69**	**368**
Deferred Tax Liabilities:			
Intangible Assets	(31)	(8)	(39)
Deferred Acquisition Costs	(268)	(61)	(329)
	(299)	**(69)**	**(368)**

Economic Entity

2016	Opening Balance $000	Charged to Income $000	Closing Balance $000
Deferred Tax Assets:			
Tax Losses Recognised	89	202	291
Provisions	4	4	8
	93	**206**	**299**
Deferred Tax Liabilities:			
Intangible Assets	(13)	(18)	(31)
Deferred Acquisition Costs	(80)	(188)	(268)
	(93)	**(206)**	**(299)**
	-	-	-

	Economic Entity and Association 2017 '000 Units	Economic Entity and Association 2016 '000 Units	Economic Entity and Association 2017 $000	Economic Entity and Association 2016 $000
10 BASE CAPITAL NOTES				
Issue I	11	13	110	130
Issue II	13,585	13,565	13,585	13,565
	13,596	**13,578**	**13,695**	**13,695**

The Rules of the Association provide for the creation of the Association Business Services Division Trust (the "Business Services Division"). Base Capital Notes are those unsecured subordinated Capital Notes forming the capital of the Business Services Division. All notes qualify for Dividends as determined by the Directors.

	Economic Entity and Association 2017 '000 Units	Economic Entity and Association 2016 '000 Units	Economic Entity and Association 2017 $000	Economic Entity and Association 2016 $000
Issue I				
Balance at 1 July	13	13	130	130
Notes redeemed by transfer to Base Capital Notes II	(2)	-	(20)	-
Balance at 30 June	**11**	**13**	**110**	**130**

	Economic Entity and Association 2017 '000 Units	Economic Entity and Association 2016 '000 Units	Economic Entity and Association 2017 $000	Economic Entity and Association 2016 $000
Issue II				
Balance at 1 July	13,565	13,565	13,565	13,565
Notes Issued:				
By transfer from Base Capital Notes I	20	-	20	-
Notes Redeemed	-	-	-	-
Balance at 30 June	**13,585**	**13,565**	**13,585**	**13,565**

Base Capital Notes Issue II have a face value of $1.

Base Capital Notes Issues constitute unsecured subordinated obligations of the Business Services Division and rank pari passu and without priority or preference among themselves.

The obligations of the Business Services Division to the Base Capital Noteholders are contained in the Regulations of the Business Services Division.

pwc

	Economic Entity 2017 $000	2016 $000
11 RETAINED EARNINGS/(ACCUMULATED LOSSES)		
Balance at 1 July	72	(854)
Operating Profit	769	1,712
	841	858
Base Capital Note Dividends	(305)	(786)
Balance at 30 June	536	72
TOTAL RETAINED EARNINGS/(ACCUMULATED LOSSES)	**536**	**72**

The net profit for the years ended 30 June 2017 and 30 June 2016 have been transferred to Retained Earnings/(Accumulated Losses).

	Economic Entity 2017 $000	2016 $000
Member Services Division	343	805
Business Services Division	193	(733)
	536	72

Member Services Division Retained Earnings at 30 June 2017 includes the Retained Earnings of the New Zealand Credit Union Foundation of $104,000 (30 June 2016 : $114,000). Refer note 31.

	2017 $000	2016 $000
12 CASH AND CASH EQUIVALENTS		
Cash at Bank	3,266	4,310
Bank Call Deposits	13,331	16,171
	16,597	20,481

pwc

13 ACCOUNTS RECEIVABLE

	Economic Entity 2017 $000	2016 $000
Trade Receivables	2,040	1,645
Future Funded Premiums	8,155	5,662
	10,195	7,307
Insurance Premiums Due	424	502
Provision for Cancellation	-	(4)
	424	498
Total Carrying Amount	10,619	7,805
Future Funded Premiums are collectable:		
Within 12 months	6,280	3,788
After 1 year	1,875	1,874
	8,155	5,662
Provision for Cancellation		
Collective Provision Against Insurance Premiums Due		
Balance at Beginning of the Year	4	1
Movement in Provision	(4)	3
Balance at End of the Year	-	4
Past Due Receivables Not Impaired		
Trade Receivables	162	172
Total Past Due Receivables Not Impaired	162	172
Aging of Past Due Receivables Not Impaired		
Past Due 1-30 days	22	34
Past Due 31-90 days	23	42
Past Due over 90 days	117	96
Balance at End of the Year	162	172

Trade Receivables are mainly due from Member credit unions. There is no Provision for Bad Debts (2016 : $Nil) and there has been no write off (2016 : $Nil) in respect of bad and doubtful debts.

The average credit period is 30 days. Apart from the above, none of the past due receivables have been provided for because past experience indicates that such amounts are generally recoverable.

In respect of the Economic Entity, there is no provision for cancellation for outstanding insurance premiums relating to policies issued by Co-op Insurance NZ (2016 : $3,564).

Refer also to note 27 for Related Party Disclosures.

14 INVESTMENTS

	Economic Entity 2017 $000	2016 $000
Bank Deposits	44,503	58,872
Advances to Customers	2,252	-
Investment Securities	46,755	58,872
Total Carrying Amount	46,755	58,872

pwc

	Economic Entity 2017 $000	2016 $000
15 PREPAYMENTS		
Deferred Commission Costs	959	284
Commission Costs Paid	2,667	2,443
Commission Costs Released	(2,449)	(1,768)
Closing Deferred Commission Costs	1,177	959
Other Prepayments	586	489
	1,763	**1,448**
Deferred commission costs are to be expensed:		
Within 12 months	706	571
After 1 year	471	388
	1,177	959

Commission costs represent seller and agency commissions paid to third parties to acquire insurance policies. Commissions are paid upon receipt of premium and expensed over the life of the policy.

	Economic Entity 2017 $000	2016 $000
16 INVENTORY		
ATM Machines and Parts	33	64
Promotional and Other Items	41	59
	74	**123**

The cost of inventories recognised as an expense during the year was $482,000 (2016 : $634,000).

	Economic Entity 2017 $000	2016 $000
17 PROPERTY, PLANT AND EQUIPMENT		
Furniture and Fittings, Office Equipment and Vehicles		
Opening Cost at 1 July	692	688
Additions	6	50
Disposals	(1)	(46)
Closing Cost at 30 June	**697**	**692**
Opening Accumulated Depreciation at 1 July	440	412
Depreciation Expense	66	73
Disposals	(1)	(45)
Closing Accumulated Depreciation at 30 June	**505**	**440**
Net Book Value at 30 June	**191**	**252**
Computer Equipment		
Opening Cost at 1 July	1,499	977
Additions	328	523
Disposals	-	(1)
Closing Cost at 30 June	**1,827**	**1,499**
Opening Accumulated Depreciation at 1 July	884	678
Depreciation Expense	323	207
Disposals	-	(1)
Closing Accumulated Depreciation at 30 June	**1,207**	**884**
Net Book Value at 30 June	**620**	**614**
Carrying Amount at 30 June	**811**	**866**

	Economic Entity 2017 $000	2016 $000
18 OTHER INTANGIBLE ASSETS		
Computer Software		
Opening Cost at 1 July	8,421	4,898
Additions	3,575	3,523
Disposals	(74)	-
Closing Cost at 30 June	**11,922**	**8,421**
Opening Accumulated Amortisation at 1 July	4,241	3,607
Amortisation Expense	676	634
Disposals	(74)	-
Closing Accumulated Amortisation at 30 June	**4,843**	**4,241**
Net Book Value at 30 June	**7,079**	**4,180**

There were no material impairment losses in respect of computer software.

	Economic Entity 2017 $000	2016 $000
19 DEPOSITS RECEIVED		
Deposits from Credit Unions	38,098	50,032
Deposits from Other Parties	18,021	18,622
	56,120	**68,654**

Deposits are accepted on an unsecured basis. Average interest rates, repricing terms and duration are as shown in note 25.

	Economic Entity 2017 $000	2016 $000
20 ACCOUNTS PAYABLE		
Trade Payables	2,147	1,928
Credit Union Rebates	404	807
Accrued Expenses	641	860
Reinsurance Accruals	85	61
	3,277	**3,656**

	Economic Entity 2017 $000	2016 $000
21 UNEARNED PREMIUM LIABILITY		
Opening Balance	4,571	2,152
Gross Written Premium	17,257	14,399
Premium Cancelled	(2,944)	(1,364)
Earnings Released	(12,304)	(10,616)
Closing Unearned Premium Liability	**6,580**	**4,571**
Unearned premium liability will be earned:		
Within 12 months	4,218	3,058
After 1 year	2,362	1,513
	6,580	4,571

The Appointed Actuary has assessed the unexpired risk reserve in respect of in-force policies, comprising the expected claim cost for the period up to the next renewal date, and the cost of managing those claims and providing other administration services required to manage the policies over that time. The actuary's view is that the unexpired risk reserve in respect of in-force policies is approximately 4.0% (2016 : 2.0% lower) higher than the unearned premium provision. The conduct of the liability adequacy test identified a shortfall at the level of 75% likelihood of sufficiency (2016 : surplus at the level of 75%).

pwc

	Economic Entity 2017 $000	2016 $000
22 PROVISIONS		
Employee Entitlements	415	407
	415	**407**

	Economic Entity 2017 $000	2016 $000
23 LEASES		
Non Cancellable Operating Lease Payments		
Lease liabilities are payable:		
Not later than 1 year	526	320
Later than 1 year and not later than 2 years	1,058	340
Later than 2 years and not later than 5 years	794	1,884
	2,378	**2,544**

pwc

24 SEGMENTAL ANALYSIS

Business Segment Analysis

For management purposes, the Economic Entity is organised into 4 (2016 : 4) business units:

Co-op Money NZ

The Association provides a full range of financial and bureau services to its Member credit unions and building societies through the Business Services Division and trade association services to its Member credit unions through the Member Services Division.

Co-op Insurance NZ

Co-op Insurance NZ is a controlled entity company which provides insurance underwriting services to Credit Unions and other customers.

Co-op Services NZ

Co-op Services NZ is a controlled entity providing a full range of financial and bureau services to other customers.

CU Group Trust

CU Group Trust is an investment holding entity.

	Co-op Money NZ	Co-op Insurance NZ	Co-op Services NZ	CU Group Trust	Total Economic Entity	Inter Entity Adjustments	Economic Entity 2017
As At 30 June 2017							
Interest Revenue	2,399	148	0	125	2,672	(175)	2,497
Interest Expense	1,712	125	50	125	2,012	(298)	1,714
NET INTEREST REVENUE	**687**	**23**	**(50)**	**0**	**660**	**123**	**783**
Banking Services Revenue	14,615	-	2,561	-	17,176	(2,153)	15,023
Insurance Premium Revenue	-	12,470	-	-	12,470	-	12,470
Other Revenue	2,522	1	0	-	2,523	(1,655)	868
TOTAL REVENUE NET OF INTEREST EXPENSE	**17,824**	**12,494**	**2,511**	**0**	**32,830**	**(3,686)**	**29,144**
Employee Costs	4,643	909	-	-	5,552	-	5,552
Insurance Claims & Commissions	-	9,888	-	-	9,888	-	9,888
Transaction Costs	8,034	-	1,045	-	9,079	(2,154)	6,925
Operating Expenses	4,862	2,162	649	8	7,681	(1,532)	6,149
TOTAL EXPENDITURE	**17,539**	**12,959**	**1,694**	**8**	**32,200**	**(3,686)**	**28,514**
NET PROFIT BEFORE IMPAIRMENT	**285**	**(464)**	**817**	**(8)**	**630**	**(0)**	**630**
Impairment Credit	139	-	-	-	139	-	139
NET PROFIT/(LOSS) BEFORE TAXATION	**424**	**(464)**	**817**	**(8)**	**769**	**(0)**	**769**
Taxation Expense	-	-	-	-	-	-	-
Profit/(Loss) and Total Comprehensive Revenue and Expense for the Year	**424**	**(464)**	**817**	**(8)**	**769**	**(0)**	**769**

	Co-op Money NZ	Co-op Insurance NZ	Co-op Services NZ	CU Group Trust	Total Economic Entity	Inter Entity Adjustments	Economic Entity 2016
As At 30 June 2016							
Interest Revenue	2,775	247	115	125	3,262	(296)	2,966
Interest Expense	2,009	125	146	127	2,407	(421)	1,986
NET INTEREST REVENUE	**766**	**122**	**(31)**	**(2)**	**855**	**125**	**980**
Banking Services Revenue	13,946	-	303	-	14,249	(249)	14,000
Insurance Premium Revenue	-	10,388	-	-	10,388	-	10,388
Other Revenue	2,635	879	24	-	3,538	(1,875)	1,663
TOTAL REVENUE NET OF INTEREST EXPENSE	**17,347**	**11,389**	**296**	**(2)**	**29,030**	**(1,999)**	**27,031**
Employee Costs	4,637	476	-	-	5,113	-	5,113
Insurance Claims & Commissions	-	8,196	-	-	8,196	-	8,196
Transaction Costs	7,331	-	249	-	7,580	(249)	7,331
Operating Expenses	3,982	2,462	75	6	6,525	(1,787)	4,738
TOTAL EXPENDITURE	**15,950**	**11,134**	**324**	**6**	**27,414**	**(2,036)**	**25,378**
NET PROFIT/(LOSS) BEFORE IMPAIRMENT	**1,397**	**255**	**(28)**	**(8)**	**1,616**	**37**	**1,653**
Impairment Credit	59	-	-	-	59	-	59
NET PROFIT/(LOSS) BEFORE TAXATION	**1,456**	**255**	**(28)**	**(8)**	**1,675**	**37**	**1,712**
Taxation Expense	-	-	-	-	-	-	-
Profit/(Loss) and Total Comprehensive Revenue and Expense for the Year	**1,456**	**255**	**(28)**	**(8)**	**1,675**	**37**	**1,712**

	Co-op Money NZ	Co-op Insurance NZ	Co-op Services NZ	CU Group Trust	Total Economic Entity	Inter Entity Adjustments	Economic Entity 2017
As At 30 June 2017							
ASSETS							
Cash and Cash Equivalents	16,157	440	261	(44)	16,814	(218)	16,597
Accounts Receivable	1,670	9,010	147	-	10,827	(208)	10,619
Expected Recoveries	-	158	-	-	158	-	158
Investments	48,245	5,655	15,887	12,000	81,787	(35,032)	46,755
Loans Receivable	-	-	-	-	-	-	0
Taxation Receivable	-	-	-	-	-	-	0
Prepayments	556	1,190	17	6	1,769	(6)	1,763
Inventory	74	-	-	-	74	-	74
Property, Plant and Equipment	790	9	13	-	812	-	811
Other Intangible Assets	6,106	461	512	-	7,079	-	7,079
Non-current Deposit	147	-	-	-	147	-	147
TOTAL ASSETS	**73,745**	**16,923**	**16,837**	**11,962**	**119,447**	**(35,464)**	**84,003**
LIABILITIES							
Deposits Received	57,872	-	15,887	12,110	85,869	(29,749)	56,120
Accounts Payable	2,132	1,227	128	6	3,493	(216)	3,277
Unearned Premium Liability	-	6,580	-	-	6,580	-	6,580
Provisions	385	28	-	-	413	2	415
Outstanding Claims Liability	-	3,380	-	-	3,380	-	3,380
TOTAL LIABILITIES	**60,389**	**11,215**	**16,015**	**12,116**	**99,735**	**(29,963)**	**69,772**
NET ASSETS	**13,356**	**5,708**	**822**	**(154)**	**19,732**	**(5,500)**	**14,231**

	Co-op Money NZ	Co-op Insurance NZ	Co-op Services NZ	CU Group Trust	Total Economic Entity	Inter Entity Adjustments	Economic Entity 2016
As At 30 June 2016							
ASSETS							
Cash and Cash Equivalents	18,449	2,126	(314)	(26)	20,235	246	20,481
Accounts Receivable	1,860	6,289	58	-	8,207	(402)	7,805
Expected Recoveries	-	92	-	-	92	-	92
Investments	59,659	5,372	16,412	12,000	93,443	(34,571)	58,872
Loans Receivable	-	-	-	-	-	-	0
Taxation Receivable	-	-	-	-	-	-	0
Prepayments	460	969	19	-	1,448	-	1,448
Inventory	123	-	-	-	123	-	123
Property, Plant and Equipment	830	9	27	-	866	-	866
Other Intangible Assets	3,388	410	382	-	4,180	-	4,180
Non-current Deposit	147	-	-	-	147	-	147
TOTAL ASSETS	**84,916**	**15,267**	**16,584**	**11,974**	**128,741**	**(34,727)**	**94,014**
LIABILITIES							
Deposits Received	68,957	-	16,412	12,110	97,479	(28,825)	68,654
Accounts Payable	2,344	1,539	164	11	4,058	(402)	3,656
Unearned Premium Liability	-	4,571	-	-	4,571	-	4,571
Provisions	380	27	-	-	407		407
Outstanding Claims Liability	-	2,959	-	-	2,959	-	2,959
TOTAL LIABILITIES	**71,681**	**9,096**	**16,576**	**12,121**	**109,474**	**(29,227)**	**80,247**
NET ASSETS	**13,235**	**6,171**	**8**	**(147)**	**19,267**	**(5,500)**	**13,767**

The presentation of the Statement of Comprehensive Revenue and Expense has been revised to improve the classification between Net Interest Revenue Other Revenue and Operating Expenses.

Comparative figures have been revised to ensure consistency.

25 FINANCIAL INSTRUMENTS

Financial Risk Management Objectives

Co-op Money NZ's Finance and Central Banking departments provide services to the Economic Entity entities, including co-ordinating access to funding, providing banking facilities, and managing external banking relationships. Services also include advice, assistance and reports to the Boards of the Controlling Entity and the Controlled Entities in relation to financial risks relating to the operations of the Economic Entity. These risks include market risk (including interest rate risk and price risk), credit risk and liquidity risk. These services are augmented by specialist advice to the appropriate Boards from within the entity or its external advisors, for example in relation to underwriting risk. Co-op Money NZ reviews the activity of its Central Banking department by an Asset and Liability Management Committee which meets bi-monthly. Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis. The Economic Entity does not enter into or trade financial instruments for speculative purposes.

Capital Risk Management

The Economic Entity manages its capital resources to ensure that entities in the Economic Entity will be able to withstand the assessed business and financial risks appropriate to their operation. In the case of Economic Entity Controlled Entities with an external market focus, the level of capital investment is determined by reference to market norms and the requirements of external agencies such as rating agencies or regulators. In the case of Co-op Money NZ the required level of capital investment is determined by means of a departmental analysis applying a range of methodologies appropriate to the risk profile of the key operations. These include but are not limited to the minimum capital adequacy measures for New Zealand non-bank deposit takers. In the case of Co-op Insurance NZ, the required level of capital investment is determined by adding a margin to the minimum solvency capital amount as measured by the Reserve Bank of New Zealand's life and non-life solvency standards. The Economic Entity meets its objectives for managing capital by formally reviewing its available capital in relation to its risks at least once per annum or more frequently if required.

Foreign Exchange Risk Management

During the year the Economic Entity may commit to foreign exchange contracts to reduce risk involved in the purchasing of goods or services in foreign currencies. At 30 June 2017, the Economic Entity had foreign exchange contracts to cover purchase orders and invoices due of AUD156,943 and USD138,281 (2016: NIL). The Profit/Loss at 30 June 2017 was NZD1,140 (2016: $Nil).

Interest Rate Risk Management

Interest rate risk is the risk of loss to Co-op Money NZ arising from adverse changes in interest rates. This exposure in respect of on-Balance Sheet Assets and Liabilities depends on the degree of mismatch between the value of interest sensitive assets and liabilities that are repricing; where repricing refers to the event when the interest rate attached to an asset or liability is reset. Co-op Money NZ controls its exposure to interest rate risk by actively managing this mismatch within Board approved policy.

Interest Rate Sensitivity Analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non derivative instruments at balance date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at balance date was outstanding for the whole year. A 100 basis point increase or decrease represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Economic Entity's profit after tax and equity for the year ended 30 June 2017 would increase/decrease by $38,242 (2016: increase/decrease by $63,736).

Interest Rate Repricing

The following tables detail the Economic Entity's and Association's interest rate repricing profile:

As at 30 June 2017	Average Interest Rate	Less than 3 months	3 months to 1 year	1-2 years	2-5 years	5+ years	Non Interest Sensitive	Economic Entity Total
		$000	$000	$000	$000	$000	$000	$000
Assets								
Cash and Cash Equivalents	2.36%	16,597	-	-	-	-	-	**16,597**
Accounts Receivable	-	-	-	-	-	-	10,619	**10,619**
Investment Securities	3.27%	29,631	17,124	-	-	-	-	**46,755**
Non-current Deposit	-	-	-	-	-	-	147	**147**
		46,228	17,124	-	-	-	10,766	**74,118**
Liabilities								
Deposits Received	2.38%	42,850	11,697	1,573	-	-	-	**56,120**
Accounts Payable	-	-	-	-	-	-	3,277	**3,277**
		42,850	11,697	1,573	-	-	3,277	**59,397**
On Balance Sheet Interest Sensitivity Gap - 30 June 2017		**3,378**	**5,427**	**(1,573)**	**-**	**-**	**7,489**	**14,721**

pwc

As at 30 June 2016	Average Interest Rate	Less than 3 months	3 months to 1 year	1-2 years	2-5 years	5+ years	Non Interest Sensitive	Economic Entity Total
		$000	$000	$000	$000	$000	$000	$000
Assets								
Cash and Cash Equivalents	2.42%	20,481	-	-	-	-	-	**20,481**
Accounts Receivable	-	-	-	-	-	-	7,805	**7,805**
Investment Securities	3.14%	37,966	20,906	-	-	-	-	**58,872**
Non-current Deposit	-	-	-	-	-	-	147	**147**
		58,447	20,906	-	-	-	7,952	**87,305**
Liabilities								
Deposits Received	2.62%	53,724	14,930	-	-	-	-	**68,654**
Accounts Payable	-	-	-	-	-	-	3,656	**3,656**
		53,724	14,930	-	-	-	3,656	**72,310**
On Balance Sheet Interest Sensitivity Gap - 30 June 2016		**4,723**	**5,976**	-	-	-	**4,296**	**14,995**

Co-op Money NZ offers an interest rate swap facility to Credit Unions. It is Co-op Money NZ's policy to economically hedge this risk as it arises by entering into back to back matching transactions with Bank counterparties. There were no transactions outstanding (2016 : Nil).

Credit Risk Management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Economic Entity.

Risk is minimised by the maintenance of a well diversified investment portfolio with controls over maturity, counterparty and concentration of investments. All investments in the CU GroupTrust are authorised by the Co-op Money NZ Board. Investments undertaken directly by Central Banking, with the exception of those with non rated counterparties and for a smaller sublimit of $5 million for A3 rated New Zealand Banks, must be with counterparties holding a minimum credit rating of A2 (short term) or BBB (long term) from Standard & Poors' or an equivalent rating agency unless otherwise specifically approved by the Board of the Association. A maximum of 15% of the Central Banking controlled investment portfolio may be invested at any time with non rated counterparties.

Accounts receivables are concentrated amongst Credit Unions.

The carrying amounts of financial assets recorded in the financial statements, which are net of impairment losses, represent the Economic Entity's maximum exposure to credit risk.

Liquidity Risk Management

Liquidity Risk is the risk that the Economic Entity will have difficulty in meeting commitments associated with its financial liabilities and future commitments. The Economic Entity manages its exposure to liquidity risk by maintaining sufficient liquid funds to meet its commitments based on historical and forecast cash flow needs. Controlled Entity companies, with the exception of Co-op Insurance NZ, are required to maintain their bank accounts and place all surplus liquidity with Co-op Money NZ's Central Banking department. Co-op Insurance NZ places its surplus liquidity with a range of counterparties including the Association in accordance with its own policy. The Central Banking department is responsible for all external banking and funding relationships. Through this level of centralised control, the Economic Entity monitors its overall liquidity position on a daily basis and forecasts cash flows from operating activities taking account of the cash flow characteristics and expected volatility in the balances of the various classes of recognised assets and liabilities, budgeted and forecast cash flows and seasonal cash cycles. The activity and risk exposure limits of the Central Banking department is detailed in a policy manual which is reviewed annually by the Co-op Money NZ Board. Amongst other matters, the policy manual addresses areas with a specific bearing on liquidity such as Investment Constraints and Lending Constraints. The policy manual requires that at least 30% (2016 : 30%) of investments must be capable of being liquidated within five days.

The following tables detail the Economic Entity's remaining contractual maturity for their financial assets and liabilities. The tables have been drawn up based on the undiscounted cash flows of financial assets and liabilities based on the earliest date on which the Economic Entity can be required to pay. The table includes both interest and principal cash flows.

	Note	Less than 3 months	3 months to 1 year	1-2 years	2-5 years	5+ years	Economic Entity Total
		$000	$000	$000	$000	$000	$000
2017							
Assets							
Cash and Cash Equivalents		16,597	-	-	-	-	**16,597**
Accounts Receivable		4,204	3,462	2,087	866	-	**10,619**
Investment Securities		29,631	17,124	-	-	-	**46,755**
Non-current Deposit		74	-		73	.	**147**
Future Interest Receivable		301	452	-	-	-	**753**
Total Financial Assets		50,807	21,038	2,087	939		**74,871**
Liabilities							
Deposits Received		42,850	11,697	1,573	-	-	**56,120**
Accounts Payable		3,277	-	-	-	-	**3,277**
Future Interest Payable		342	38	-	-	-	**380**
Unearned Premium Liability		1,470	2,748	1,662	700	-	**6,580**
Outstanding Claims Liability		3,380	-	-	-	-	**3,380**
Total Financial Liabilities		51,319	14,483	3,235	700	-	**69,737**
Net Financial Assets		(512)	6,555	(1,148)	239	-	**5,134**
Unrecognised Commitments	28	(6,651)	(2,322)	(1,245)	-	-	**(10,218)**
Net Liquidity Gap at 30 June 2017		**(7,163)**	**4,233**	**(2,393)**	**239**	-	**(5,084)**

	Note	Less than 3 months	3 months to 1 year	1-2 years	2-5 years	5+ years	Economic Entity Total
		$000	$000	$000	$000	$000	$000
2016							
Assets							
Cash and Cash Equivalents		20,481	-	-	-	-	**20,481**
Accounts Receivable		3,490	2,441	1,234	640	-	**7,805**
Investment Securities		37,966	20,906	-	-	-	**58,872**
Non-current Deposit		74	-		-	73	**147**
Future Interest Receivable		429	485	-	-	-	**914**
Total Financial Assets		62,440	23,832	1,234	640	73	**88,219**
Liabilities							
Deposits Received		53,724	14,930	-	-	-	**68,654**
Accounts Payable		3,656	-	-	-	-	**3,656**
Future Interest Payable		375	294	-	-	-	**669**
Unearned Premium Liability		1,165	1,893	996	517	-	**4,571**
Outstanding Claims Liability		2,959	-	-	-	-	**2,959**
Total Financial Liabilities		61,879	17,117	996	517	-	**80,509**
Net Financial Assets		561	6,715	238	123	73	**7,710**
Unrecognised Commitments	28	(5,656)	(1,264)	(1,239)	-	-	**(8,159)**
Net Liquidity Gap at 30 June 2016		**(5,095)**	**5,451**	**(1,001)**	**123**	**73**	**(449)**

The Economic Entity has access to financing facilities of $7,600,000 (2016 : $7,600,000). The facilities are secured by charges over interest bearing investments. Utilisation of credit facilities for unsettled transactions at 30 June 2017 was $35,537 (2016 : $144,000). The Economic Entity expects to meet its obligations from operating cash flows and proceeds of maturing financial assets.

pwc

Fair Value Measurements recognised in the Statement of Financial Position

In accordance with PBE IPSAS 30, the Economic Entity provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Directors consider that the carrying amount of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

Cash and Cash Equivalents are balances held with financial institutions at current interest rates on overnight or call investments and approximate fair value.

Investments with Banks consist of term deposits and advances to customers invested at market rates applicable at the time of investment. The investments bear interest between 2.83% and 3.70%. (2016: 2.46% to 4.00%)

Deposits Received are the short term liabilities of funds placed with the Economic Entity by Member credit unions, building societies, and customers on which the Economic Entity pays interest. The balance reported approximates their fair values.

Financial Instruments by Category	**Economic Entity**	
	2017	**2016**
	$000	**$000**
Cash and Cash equivalents	16,597	20,481
Accounts Receivable	10,619	7,805
Loans Receivable	-	-
Investments	46,755	58,872
Total Loans and Receivables	73,971	87,158
Total Financial Assets	**73,971**	**87,158**
Other Financial Liabilities at Amortised Cost		
Deposits Received	56,120	68,654
Accounts Payable	3,277	3,139
Total Other Financial Liabilities at Amortised Cost	59,397	71,793
Total Financial Liabilities	**59,397**	**71,793**

26 INVESTMENTS IN CONTROLLED ENTITIES

Controlled Entities controlled at 30 June:

Name	Association Percentage Holding at Balance Date		Principal Activities	Balance Date
	2017	2016		
CU Securities Limited as Trustee of the CU Group Trust	100%	100%	Corporate Trustee	30 June
FACTS Limited (trading as Co-op Services NZ)	100%	100%	Provision of services to non Members	30 June
Credit Union Insurance Limited (trading as Co-op Insurance NZ)	100%	100%	Insurance Underwriter	30 June
Credit Union Services Limited	100%	100%	Non Trading	30 June
Credit Union New Zealand Limited	100%	100%	Non Trading	30 June

The Controlling Entity and all its Controlled Entities are incorporated in New Zealand and their place of business is Level 3 25 Teed Street, Newmarket, Auckland.

There are no significant restrictions on any of the Controlled Entities.

27 RELATED PARTY DISCLOSURES

Controlling Entity

The Controlling Entity in the consolidated entity is the New Zealand Association of Credit Unions (Co-op Money NZ).

Equity Interests in Related Parties

Details of the equity interests held in Controlled Entities are disclosed in notes 26. Co-op Money NZ does not hold any other equity interests.

The Directors and staff of the Economic Entity may insure with Co-op Insurance NZ.

Key Management Personnel Compensation

The compensation of the Directors and executives, being the key management personnel of the entity, is set out below:

	2017 $000	2016 $000
Short Term Employee Benefits	1,647	1,588

There were no other payments made to Key Management Personnel.

	2017 $000	2016 $000
28 COMMITMENTS		
Undrawn advances under credit facilities	6,606	5,106
Capital expenditure	2,416	3,053
	9,022	8,159

29 CONTINGENT LIABILITIES

There are no material contingent liabilities for year ended 30 June 2017 (2016 : Nil).

	2017 $000	2016 $000
30 NOTES TO THE STATEMENT OF CASH FLOWS		
Reconciliation of Net Profit After Tax to Net Operating Cash Flows		
Profit after Tax	769	1,712
Adjustments to reconcile operating profit to net cash flow from operating activities		
Add/(less) non cash items:		
Depreciation	389	280
Amortisation	676	634
Gain on Disposal of Property, Plant & Equipment	-	(7)
	1,065	907
Add/(less) movement in Working Capital:		
Decrease/(Increase) in Inventory	49	(40)
Increase in Accounts Receivable and Expected Recoveries	(2,594)	(3,773)
Increase in Prepayments	(316)	(802)
Decrease in Accounts Payable	(824)	(47)
Increase in Unearned Premium Liability	2,009	2,419
Increase/(Decrease) in Provisions	5	(2)
Increase in Outstanding Claims Liability	355	517
Increase/(decrease) in Income Rec'd in Advance	229	-
	(1,087)	(1,728)
Add/(less) items classified as Investing Activities		
Non Cash movement in Investments	(67)	157
Add items included within Financing Activities:		
Non Cash movement in Deposits Received	67	(176)
Net Cash Flow from Operating Activities	747	872

Treatment of Deposits Received

Cash receipts and payments from Deposits Received have been netted in the Statement of Cash Flows as the cash flows reflect the activities of the Economic Entity's customer, rather than those of the Economic Entity.

31 NEW ZEALAND CREDIT UNION FOUNDATION

Included in the financial statements are the following assets of the New Zealand Credit Union Foundation. The Foundation is a self-administered fund within the Member Services Division of the Association, established pursuant to the Rules of the Association with the objective of promoting and assisting in the development of Credit Unions both in New Zealand and overseas. It is administered by a Board of up to five Foundation Managers appointed by the Board of Co-op Money NZ.

	2017 $000	2016 $000
Current Assets		
Cash	104	114
NET ASSETS	104	114

Included in the financial statements are the following income and expenses relating to the New Zealand Credit Union Foundation:

	2017 $000	2016 $000
Donations, Interest and Grants received	-	8
Grants paid	(10)	(1)
OPERATING SURPLUS/(LOSS)	(10)	7

32 MEMBER SERVICES DIVISION OPERATING LOSS

	2017 $000	2016 $000
New Zealand Credit Union Foundation	(10)	7
MSD Operations	(452)	(259)
TOTAL	(462)	(252)

33 EVENTS AFTER THE BALANCE SHEET DATE

There were no events subsequent to balance date that would require disclosure in the Financial Statements.

34 PENDING LEGAL CASE

In 2016, Westforce Credit Union and First Credit Union complained to the Registrar of Friendly Societies and Credit Unions (the Registrar) that they believed that Co-op Money NZ's Rules were ultra vires the Friendly Societies and Credit Unions Act 1982 (FSCU Act). The complaints have highlighted the wording of the FSCU Act is not clear and is outdated. In November 2016, the Registrar advised Co-op Money NZ of her decision that Rules 20.3 (c) and 30.2 of the Co-op Money NZ Rules were invalid to the extent that they allowed Co-op Money NZ to provide services to Associates. The Registrar's decision has serious short term and long term implications as it seriously limits Co-op Money NZ's ability to maintain and develop the scale necessary in order to provide the products and services required by its Member credit unions at competitive pricing for Members.

In December 2016, Co-op Money NZ appealed this ruling with the High Court. The hearing is due to be heard in the High Court on 16th and 17th October 2017.

Co-op Money NZ is confident it has strong grounds for the appeal, however in addition it is working on two alternative strategies which will overcome the implications noted above. These are:

- Advancing legislative change to the FSCU Act designed amongst other matters to provide legislative clarity about Co-op Money NZ's ability to provide services to Associates and third parties. A Private Member's Bill has been introduced into Parliament containing provisions which will give this legislative clarity. This bill called The Friendly Societies and Credit Unions (Regulatory Improvements) Amendment Bill was read in the House on 7 June 2017 and passed its First Reading and has been referred to the Finance and Expenditure Select Committee. Submissions are expected to be heard in October 2017.

- Restructuring its business by transferring the business services assets of Co-op Money NZ into a limited liability company which would fall under the jurisdiction of the Companies Act. Details of this potential re-structure are expected to be voted on at a meeting of Member Credit Unions to be called before December 2017.

pwc

pwc

Independent auditor's report

To the members of New Zealand Association of Credit Unions

The financial statements comprise:

- the consolidated statement of financial position as at 30 June 2017;
- the consolidated statement of comprehensive revenue and expenses for the year then ended;
- the consolidated statement of changes in net assets/equity (members' fund) for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of accounting policies.

Our opinion

In our opinion, the financial statements of New Zealand Association of Credit Unions (the Association) trading as Co-op Money NZ, including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 30 June 2017, its financial performance and its cash flows for the year then ended in accordance with Public Benefit Entity Standards (PBE Standards).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) 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.

Our firm carries out other services for the Group in the areas of tax compliance, assurance on internal controls and solvency return for insurance business. The provision of these other services has not impaired our independence as auditor of the Group.

Responsibilities of the directors for the financial statements

The Directors are responsible, on behalf of the Association, for the preparation and fair presentation of the financial statements in accordance with PBE Standards, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

pwc

Auditors' responsibility 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 and ISAs 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.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:
https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-7/

This description forms part of our auditor's report.

Who we report to

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

The engagement partner on the audit resulting in this independent auditor's report is Sam Shuttleworth.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
20 September 2017

Auckland