Annual Report 2018

OUR WINNING ASPIRATION

To drive substantive benefit back to our **Member credit unions** by being the leading banking and payments services provider in the New Zealand market.

OUR VALUES

Visionary | Collaborative | Accountability | Excellence

OUR PROFILE

Co-op Money NZ is proud to be the industry voice for our Member credit unions and mutual building societies in New Zealand. Our **Members** play an important role in the New Zealand financial services market and have been providing a valued service to Kiwi communities across the country for more than 150 years.

CO-OP MONEY NZ DIRECTORY

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Newmarket, Auckland, 1023

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Auckland 1149
New Zealand

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P: +64 9 520 0451

Websites:
www.coopmoneynz.org.nz
www.coopservicesnz.co.nz

Solicitors: Bell Gully

External Auditors: PricewaterhouseCoopers

Internal Auditors: Deloitte

Bankers: Westpac Institutional Bank

Insurers: Crombie Lockwood Insurance Brokers

Executive Team:

Jonathan Lee
Chief Executive Officer

Geoff Goodwin
Chief Financial Officer

Monica Mathis
Chief Operating Officer

Dean Johns
Chief Information Officer

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Our History

Our History and Ownership

Co-op Money NZ started life in 1961 as the New Zealand Credit Union League (NZCUL) with five original Member credit unions. As the New Zealand credit union movement continued to grow, so did we, and in 1989 we changed our name to the New Zealand Association of Credit Unions (NZACU).

In 2014, we rebranded to Co-op Money NZ to better reflect the modern, friendly nature of our Members which included credit unions and mutual building societies. The rebrand also brought a modern and fresh look and feel to the organisation.

Today, Co-op Money NZ has 10 Member credit unions and 3 mutual building societies throughout New Zealand, with total assets of more than $2 billion.

Our Members

Co-op Money NZ exists to represent its Member credit unions and mutual building societies that in return meet the financial services needs of 170,000 everyday New Zealanders.

With a focus on members, not shareholders profits, satisfaction levels for our Members are among the highest in the market. Our Members work tirelessly to serve communities throughout New Zealand, both in main centres and in small towns.

Co-op Money NZ and the International Credit Union Movement

Co-op Money NZ is a proud member of the World Council of Credit Unions (WOCCU), a global trade association and development agency for credit unions which represents over 235 million people in 109 countries across the globe.

Our membership with WOCCU ensures that we have up-to-date information and cooperation from credit union organisations worldwide. Co-op Money NZ is also committed to operating according to WOCCU's International Credit Union Operating Principles; founded on the philosophy of cooperation, democracy and social responsibility.

Cooperatives in New Zealand

Through our membership with Cooperative Business New Zealand, Co-op Money NZ continues to support the wide cooperative sector.

The cooperative sector in New Zealand employs over 48,000 people directly and collectively turns over NZ$42 billion annually—that's almost 15% of New Zealand's Gross Domestic Product (GDP).

Our Products and Services

CO-OP MONEY NZ IS PROUD TO PROVIDE ITS MEMBERS AND OTHER ORGANISATIONS WITH COST-EFFICIENT, INDUSTRY-LEADING BANKING AND PAYMENTS PRODUCTS AND SERVICES.

With over 50 years of commercial experience in providing robust products and services, you could say we are well equipped to help our Members and other financial institutions with their daily business and IT challenges. In addition, we have:

- Established strong relationships with industry regulators
- Bilateral agreements in place with all major banks for ATMs and card services
- A principal licence with Mastercard
- Annual audits by PwC and Deloitte
- Annual network security audits
- Robust security and compliance on all network services and entry points
- Dual mirrored data sites providing secure disaster recovery systems
- Been admitted to Payments NZ's system as a direct payments provider

Our core products include:

Core Banking and Bureau Services

A 24/7 real-time bureau service and tier 1 core banking system that provides access to the full range of products, services and channels expected of a banking platform, including transactional banking, savings and lending, card processing, and internet, telephone, mobile and text banking.

ATM Services

AccessCash is a nationwide network of over 60 ATMs that we manage for our Members and other financial institutions in New Zealand and the Pacific Islands. We also have agreements to provide ATM switching services for a further 900 ATMs throughout New Zealand which makes us one of the largest ATM service providers in the country.

Card Services

AccessDebit is a Mastercard® scheme Debit card which features contactless technology and can be used online, at ATMs and EFTPOS terminals throughout NZ, and at millions of locations overseas wherever Mastercard is accepted. In addition, Accesscard is an EFTPOS card which can be used at all ATMs and EFTPOS terminals throughout New Zealand.

Infrastructure Solutions

Together with a number of key partners, our dedicated team of highly skilled IT professionals provide robust leading-edge hosting solutions and services to effectively become the in-house 'IT department' for Members and organisations.

MEMBER LOCATIONS
2018

Northland Region:

ACU
Whangarei
NZCU Steelsands
Marsden Point

Auckland Region:

ACU
Clendon
Glen Innes
Mangere
Otara
Papakura
Papatoetoe
Fisher & Paykel Credit Union
Appliances, East Tamaki
Healthcare, East Tamaki
NZCU Auckland
Auckland Airport
Highbrook
Penrose
Manukau City
Mt Wellington
NZCU Employees
Penrose
NZCU Steelsands
Auckland City
Glenbrook
Waiuku

Waikato Region:

ACU
Hamilton
Hamilton-Te Kohao Health
First Credit Union
Hamilton City
Ngaruawahia
Te Aroha

Bay of Plenty Region:

NZCU Central
Caxton
Kawerau
Kopeopeo
Murupara
Opotiki
Rotorua
Te Puke
First Credit Union
Kawerau
Rotorua
Tauranga
Taupo
Whakatane

Taranaki Region:

NZCU Baywide
New Plymouth

Gisborne Region:

NZCU Baywide
Gisborne

Hawkes Bay Region:

Heretaunga Building Society
Hastings
NZCU Baywide
Dannevirke
Hastings
Napier
Taradale
Waipukurau
Wairoa

Manawatu/ Wanganui Region:

ACU
Whanganui
NZCU Baywide
Palmerston North
Whanganui

Wellington Region:

NZCU Baywide
Lower Hutt
Masterton
Porirua
Wainuiomata
NZ Fire Fighters Credit Union
Petone
Wairarapa Building Society
Masterton

Nelson Region:

Nelson Building Society
Nelson
Motueka
Richmond
Takaka
NZCU South
Richmond

West Coast Region:

Nelson Building Society
Greymouth
Murchison
Westport

Canterbury Region:

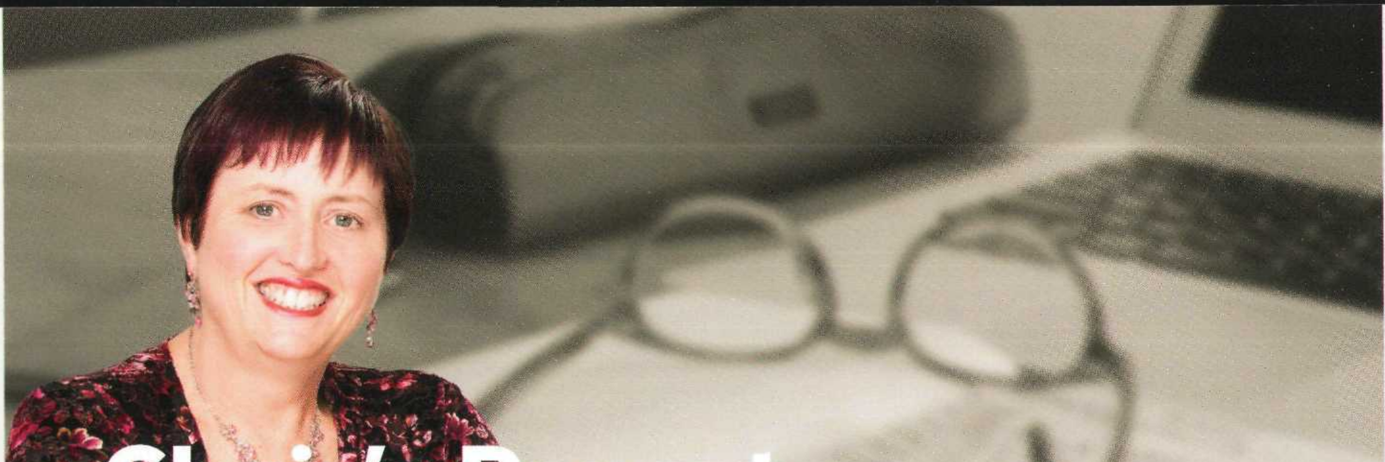
Nelson Building Society
Ashburton
NZCU South
Christchurch

Otago Region:

NZCU South
Dunedin

Southland Region:

NZCU Steelsands
Invercargill
NZCU South
Invercargill



Chair's Report
CLAIRE MATTHEWS

I AM PLEASED TO PRESENT THIS REPORT ON BEHALF OF THE CO-OP MONEY NZ BOARD FOR THE YEAR ENDED 30 JUNE 2018. THIS YEAR HAS CERTAINLY BEEN ONE OF THE MORE MOMENTOUS YEARS OF BOTH ACHIEVEMENT AND CHALLENGE!

Reshaping the business

The role of the Board is to set the direction for the organisation, and during the year the Co-op Money NZ Board spent considerable time with Members to refresh our strategic plan. This process included a strong Member consultation process, including written feedback and two workshops. The result is a clearly articulated view of the strategic choices the Board thinks is appropriate for this organisation to drive substantive benefit back to our Member credit unions, together with a series of strategic initiatives for the organisation to execute. We are confident that the strategic plan adopted is the right plan for the organisation and will deliver to the needs of our Member credit unions.

The strategic plan reflects the changing nature of Co-op Money NZ from being an organisation focused predominantly on providing products and services to Members, to an organisation that is completely focused on delivering value back to Members through providing products and services to Members and other non-credit union customers.

To this end, this year saw the sale of the insurance business to Provident Insurance Corporation Limited in December 2017. The decision to sell the insurance business allows Co-op Money NZ to better serve its Members by focusing on the banking and payments sector where we believe we can better utilise our resources and capital to achieve greater scale economies to improve value to Members.

The year has also seen the first three Member migrations to Oracle Flexcube (with another in July 2018). Flexcube is a modern tier one core banking system to replace the aged FACTS system Members were on. This exciting transformational programme of work is about a "step change" to help set Members up for the future to be able to better leverage the core banking system and other technology to serve their members.

Leadership change

This year also saw a change in the leadership of Co-op Money NZ. After almost eight years as Chief Executive, Henry Lynch has left the organisation and has been replaced by an internal appointment in Jonathan Lee, who was previously Chief Operating Officer with Co-op Money NZ. Henry has made many significant contributions over his time with us and I would like to thank him for his contribution during his tenure.

At the same time, the Board is pleased to have been able to promote Jonathan from within for this key leadership role to lead the organisation at this pivotal time for the organisation.

Since year end, in July, the Board also appointed Richard Westlake as Co-op Money NZ Independent Director. Richard had been advising to the Board for the previous twelve months and it is pleasing to be able to strengthen the board by bringing Richard on in this new capacity.

Member Unity

Member unity is a fundamental necessity for Co-op Money NZ to be able to effectively support the needs of our Members. This year has been difficult with First Credit Union having chosen to move to alternative suppliers for the products and services they had procured from Co-op Money NZ. Whilst it is disappointing that collectively we were not able to work through our differences we respect their decision and wish them well to be successful for their members.

"This year has certainly been one of the more momentous years for Co-op Money NZ in terms of both achievement and challenge!

Co-op Money NZ has also been challenged by the complaint to the Registrar of Friendly Societies and Credit Unions by Westforce Credit Union and First Credit Union regarding our Rules to do with our ability to provide services to Associates and third party customers. This was ultimately decided in the High Court with the Court finding in our favour. However, the acrimony this caused together with the financial cost of appealing the Registrar's decision and the loss of momentum for Co-op Money NZ was disappointing.

Proposed changes to the Friendly Societies and Credit Unions Act 1982 to improve this out-of-date, not fit-for-purpose legislation also caused a strong divergence in credit union views on the proposed changes. The changes were ultimately passed by Parliament in the Friendly Societies and Credit Unions (Regulatory Improvements) Amendment Act 2018 and represent a very significant achievement for the movement after many, many years of advocating for these changes. I would like to thank the MP for Kaikōura, Stuart Smith, for all his efforts in presenting and championing this legislation through the House for us.

Looking ahead, Member Unity is critical for Co-op Money NZ to be able to live up to the expectations of our Members. Rebuilding Member relationships and trust is a fundamental deliverable for all of us to work on, and everyone at Co-op Money NZ from the Board to management and staff are all 100% focused on achieving this.

Together we are stronger

Looking back on the achievements over the year, it is clear to me that together we are stronger - credit unions working together to ultimately provide compelling value propositions to their members all across the country. Co-op Money NZ plays a very valuable role in the credit union eco-system in generating this value for Members in a wider dynamic and competitive financial services environment where scale is increasingly becoming necessary to provide the products and services expected from the New Zealand consumer today.

Claire Matthews
Chair

CEO's Report
JONATHAN LEE

I AM PLEASED TO PRESENT THE CHIEF EXECUTIVE'S REPORT ON BEHALF OF CO-OP MONEY NZ FOR THE YEAR ENDED 30 JUNE 2018.

This year has marked an inflection point in Co-op Money NZ's history as we begin to reshape our business to be fit-for-purpose to meet our Members' needs for the future. During the year we have had a number of challenges which have not been easy for our Members or for Co-op Money NZ. However, through this we have also delivered a number of significant achievements that we can all be very proud of.

Financials

From a group perspective, Co-op Money NZ and its subsidiaries incurred a group loss for the year ended 30 June 2018 of $2,391,000, compared to a restated 2016/7 surplus of $3,000. The accounts in 2016/7 were restated to reflect an issue in our Co-op Insurance NZ results which saw premiums (and debtors) overstated due to an accounting reconciliation issue. KPMG was brought in to review this issue which resulted in a $1.2m downward adjustment to the Co-op Insurance NZ result for that year.

This Group reflects increased costs associated with our High Court appeal and in advocating for the changes to the Friendly Societies and Credit Union Act, as well as the loss of revenue from a Member during the year whilst at the same time a delay in acquiring new business due to the challenge to our Rules. The loss also reflects a timing difference as, under accounting standards, the recognition of profit from the sale of the insurance business will be recognised in the coming financial year.

Challenge to Our Rules

Following a complaint to the Registrar of Friendly Societies and Credit Unions by two Members (one of which is no longer a Member), in November 2016 the Registrar formed the view that Co-op Money NZ could not provide products and Services to Associates. This decision would have severely limited the ability of Co-op Money NZ to replace revenue lost by these Members going elsewhere for products and services previously provided by Co-op Money NZ.

Co-op Money NZ successfully appealed this decision in the High Court with the decision being announced in November 2017, almost a year from the Registrar's original ruling. In her decision in the High Court, Justice Thomas noted that the evidence demonstrated that "Co-op Money NZ's members derive significant benefit from services delivered to Associates and third parties." The length of time and effort to resolve this matter, however, came at a financial cost and slowed down our ability to generate new business revenue both of which have affected the 2017/8 financial result.

Modernisation

The year has also seen the rollout of a new tier one core banking platform, Oracle Flexcube, for three of our Member credit unions during the year with another credit union going live mid-July and a fifth in the beginning of September. This is a phenomenal result and I would like to acknowledge the tremendous level of cooperation and effort invested by our Member credit unions, the Co-op Money NZ team and the Oracle team (onshore and offshore) to achieve this result.

Oracle Flexcube replaces our old core banking system, FACTS, which we had been running for over 30 years prior to this, and is a transformational leap forwards to provide a foundation for our Members to continue to innovate and enhance value to their members. Our focus in this coming year is to migrate the rest of our Members across to the platform and to then work with our Members so they can leverage this greater capability into specific member benefits and value.

Fit-for-purpose legislation

Since its first reading in the House on 7 June 2017 we have continued to support the passage of the Friendly Societies and Credit Unions (Regulatory Improvements)

"

I look forward to working with you all to achieve greater success for our sector. Once again, thank you for your continued support."

Amendment Bill through Parliament. The Bill was referred to the Finance and Expenditure Select Committee. The Committee received twenty submissions both for and against the Bill and/or provisions within the Bill, including from Co-op Money NZ and a number of credit unions and supporters. Co-op Money NZ and some of these credit unions and supporters also presented at the Select Committee hearings held across three sessions in December 2017. Changes were made during this Committee stage for the betterment of the Bill and it was introduced back into the House on 4 May 2018. The Bill was passed unanimously at its second reading on 16 May 2018 and again unanimously at its third reading on 27 June with Royal assent received on 4 July 2018.

This achievement marks many years of advocacy for changes to the Act for our Members and modernises this out-of-date, not-fit-for-purpose legislation. Among other things, the amendments to the Act remove unnecessary operating and compliance costs and promote greater efficiency, innovation, and accountability. The changes when implemented will also mean credit unions will be able to more easily expand their services to include lending to small and medium sized enterprises related to their members. The Act changes also remove ambiguity, and allow Co-op Money NZ to evolve in a manner so it can continue to support the needs of Member credit unions.

I would like to thank Stuart Smith, the MP for Kaikōura, for introducing the Bill and for his skill and passion at navigating this Bill through Parliament with cross party support and over a change in Government.

Greater focus

After many years of operating in the insurance space, in 2017 Co-op Money NZ made the strategic decision to exit the insurance market to focus on banking and payments services where capital may be more effectively deployed and leveraged.

We had established a great working relationship with our business partner, Provident Insurance, over recent years and the insurance book was subsequently sold to them in December 2017. We have been working with Provident (and their underwriter for the life business, Pinnacle Life) since then to obtain approval from the Reserve Bank to transfer our insurance books (Carminder, Loanminder and Funeral Plan policies, together with motor vehicle policies generated through the Provident channel) across to these insurers. Reserve Bank approval has taken longer than we would have liked but both applications to them were approved post-balance date and we have since transferred these insurance books to Provident and Pinnacle.

I would like to take this opportunity to thank those Members that supported this sale through signing Insurance Distribution agreements with Co-op Insurance NZ to establish the value in the business that was sold. I would also like to acknowledge and thank the Co-op Insurance NZ team for all their efforts working with Members over the years, and for their professionalism during the transfer process.

Looking ahead

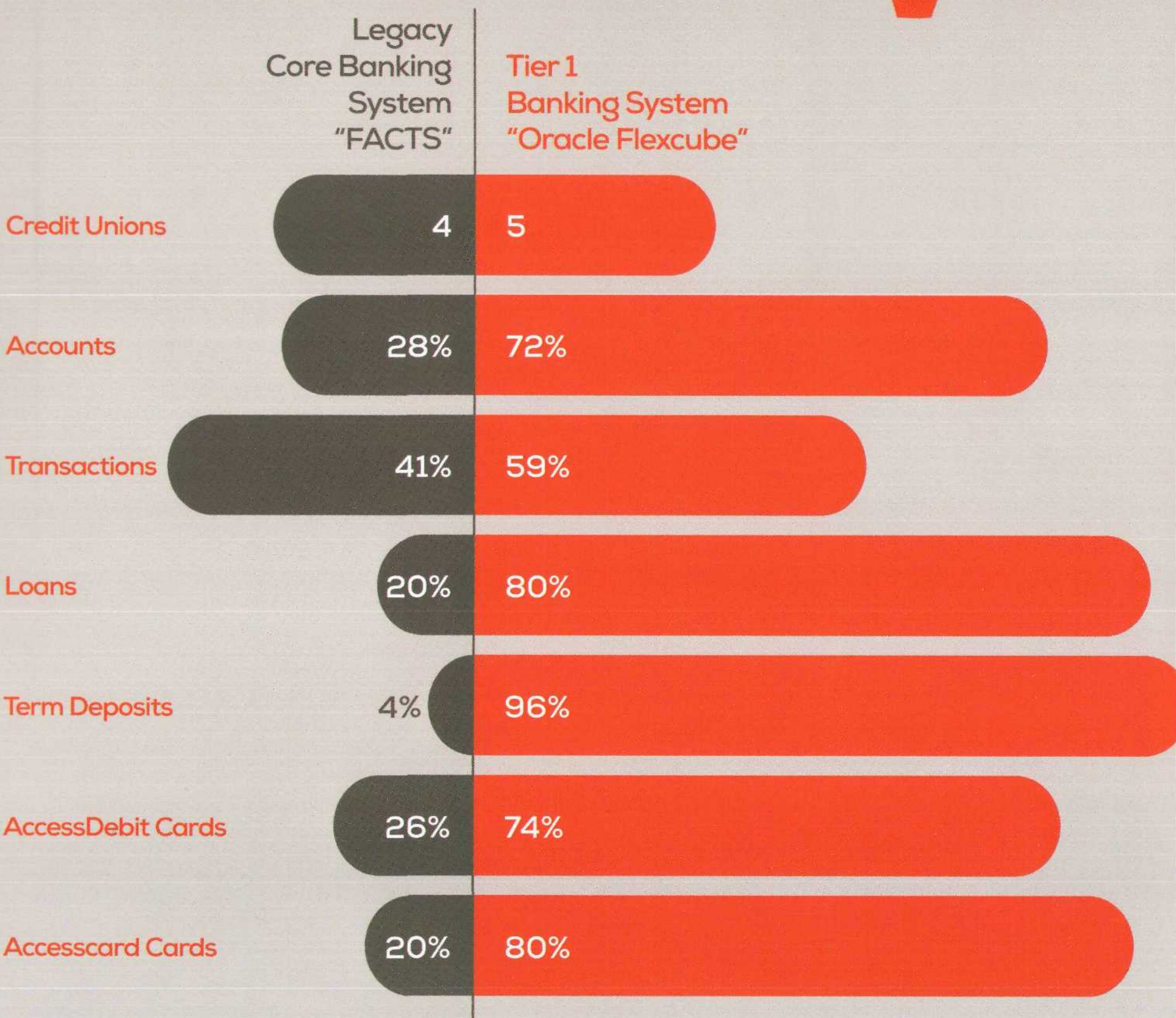
While there is still a lot of work ahead with Members to agree and shape Co-op Money NZ into the business that Members need to support their own credit unions, it is still an exciting time. We have empowering legislation in place that can create strong growth opportunities into SME lending for those credit unions that wish to, a new core banking system in the process of being rolled out to support Members' needs into the future, clarity over Co-op Money NZ's ability to provide services to non-Members and a clear focus on where Co-op Money NZ can best leverage scale to the benefit of its Members.

I would like to thank the fantastic team at Co-op Money NZ for all their hard work and dedication this year in delivering the results they have for Members, to our Board for their support, trust, and direction, and to our Members for their commitment to Co-op Money NZ and the philosophy that underpins Co-op Money NZ– that by cooperating together our Member credit unions can achieve so much more.

Jonathan Lee
Chief Executive Officer

Project Gear3
A business and technology transformational programme

TRANSITION PROGRESS



Board & Governance

CO-OP MONEY NZ HAS ADOPTED THE CORPORATE GUIDELINES PUBLICATION ENDORSED BY THE FINANCIAL MARKETS AUTHORITY TO REVIEW AND REPORT ON OUR GOVERNANCE PRACTICES. DETAILS OF THE DIRECTORS ARE SET OUT ON PAGE 57 OF THIS REPORT.

Unless apparent from the context or otherwise noted, references to Co-op Money NZ refer to the Co-op Money NZ Group, including its subsidiaries.

1. Ensuring solid foundations for management and oversight

There are procedures designed by Co-op Money NZ to:

- Ensure that strategic guidance and effective oversight of management is provided by the Board
- Clarify the respective roles and responsibilities of Board members and senior executives in order to facilitate Board and management accountability to both Co-op Money NZ and its Member credit unions
- Ensure that no single individual has unfettered powers and there is balanced authority

The value of Co-op Money NZ's assets and interests are protected and enhanced through the approval of appropriate organisational strategy and processes, with particular regard to investment portfolio composition and return expectations.

To achieve Board and management accountability, Co-op Money NZ uses terms of reference (policies), and a formal delegation of authority to the Chief Executive. Day-to-day leadership and management of Co-op Money NZ is managed by the Chief Executive.

2. Structuring the Board to add value

In order for the Board to be effective and to add value to Co-op Money NZ, the Directors believe that it needs to facilitate the efficient discharge of the duties imposed by law.

To achieve this, the Board is organised in such a way that it:

- Obtains a proper understanding of, and competence to deal with, the current and emerging issues of the business
- Can effectively review and challenge the performance of management and exercise independent judgment.

Board composition

The constitution (rules) governing Co-op Money NZ allows for a maximum of seven directors, one of whom may be appointed by the Board as an Independent Director for one or more fixed terms not exceeding three years each.

On 11 July 2017 the Co-op Money NZ Board appointed Richard Westlake to be an independent adviser for a period of 12 months. Richard has subsequently been appointed Interdependent Director

Committees of the Board

The Co-op Money NZ Board has two committees: the Audit and Risk Committee and Director Nomination Committee. In addition, the Board may create ad hoc committees from time to time.

Board process

Member credit unions elect a majority of directors to help bring special expertise or perspectives to Board deliberations. Decisions of the Board are made as a whole after taking each perspective into account. The decisions are made in the best interests of Co-op Money NZ.

Before each meeting, Directors receive comprehensive information on Co-op Money NZ's operations and have unrestricted access to any other information or records they require. The Board can also utilise the help of senior management to attend relevant sections of Board meetings to address queries and to assist in developing the Board's understanding of the issues facing Co-op Money NZ and the performance of the business, which might not have otherwise been known.

In addition to regular Board meetings an annual strategic planning process occurs.

The Strategic Plan for 1 January 2018 to 31 December 2020 has been approved by the Co-op Money NZ Board and presented to Members. Management reports regularly to Members on progress toward achievement of the plan.

3. Promoting ethical and responsible decision-making

To deal appropriately with conflicts and/or interests Co-op Money NZ has written procedures in place to clarify the standards of ethical behaviour required of directors and management. Co-op Money NZ has an employee handbook, which embodies its values and supplements the code of conduct practices that are incorporated into all employees' terms of employment. An Ethics Committee can be formed when requested by the Board, or a Member credit union, for the purposes of reviewing any complaint received in accordance with the Code of Ethics.

Directors are required to make an annual affirmation to the Director Code of Conduct. This Code defines standards of professional conduct which the Board expects of its Directors.

4. Safeguarding the integrity of financial reporting

While the integrity of Co-op Money NZ's financial reporting is the sole responsibility of the Board, Co-op Money NZ has in place a structure of review and authorisation designed to ensure truthful and factual presentation of its financial position.

This includes:

- An Audit & Risk Committee that is appropriately resourced and operating under a written charter
- Review and consideration by the Audit & Risk Committee of the accounts and appropriate policies
- A process to oversee and ensure the independence and competence of Co-op Money NZ's external auditors
- Responsibility for appointment of the external auditors resides with the Audit & Risk Committee subject to approval by the Board
- Establishment of an independent external party that conducts the internal audit function with reporting responsibility to the Audit & Risk Committee

The Audit & Risk Committee meet on a regular basis throughout the year and report directly to the Board.

5. Making timely and balanced disclosure

Accountability for compliance with disclosure obligations is with Co-op Money NZ's Secretary. The Chief Executive has been delegated the position of Secretary by the Board.

The Chief Executive and Chief Financial Officer must seek prior approval from the Audit & Risk Committee and the Board before making significant announcements, which include the *interim half year and final full year results* and dividend, the financial statements for those periods, and any advice on a change of earnings forecast.

6. Respecting the right of Members

Co-op Money NZ seeks to ensure that its Members understand its activities by:

- Maintaining effective and regular communications with them
- Giving Members ready access to balanced and clear information about Co-op Money NZ and any key organisational proposals

To allow Member credit unions to easily and efficiently participate in general meetings and forums. To assist with this, Co-op Money NZ has developed an intranet, which is maintained with relevant information including copies of presentations, reports and media or Member communiqué releases. The annual report is available in electronic format from Co-op Money NZ.

7. Recognising and managing risk

A formalised system by Co-op Money NZ is in place for identifying, overseeing, managing and controlling risk. The Board is ultimately responsible for the oversight of risk management and setting Co-op Money NZ's risk appetite and tolerances. The Board is assisted by the Audit & Risk Committee in discharging its responsibilities with regards to the oversight of risk management. The processes involved requires the maintenance of a governance level Risk Management Framework and a Risk Register that identifies key operational risks facing the business and the status of various initiatives employed to reduce them. A Risk Appetite Dashboard is maintained which shows performance against Board approved risk tolerances and highlights any deviation from compliance with the risk tolerance.

The Audit & Risk Committee is responsible for designing an internal audit programme addressing the adequacy of internal controls related to Co-op Money NZ's credit, liquidity, market, operational and insurance risks. The committee is also responsible for overseeing the audit programme designed to test the adequacy of internal controls related to the Information Services delivered by Co-op Money NZ including the security of the FACTS and Flexcube system.

8. Encouraging enhanced performance

Directors and senior executives need to be equipped with the appropriate knowledge and information to discharge their responsibilities effectively and be assured that individual and collective performance is regularly and fairly reviewed.

Under the Board policy, Directors are provided with financial resources for ongoing training and education with a formal appraisal process that includes the Chairman. An education and development allowance is granted to directors on appointment for their term. A Co-op Money NZ Director can only use this resource for professional development, education and training that will be of direct benefit to their role. As part of the annual review of its governance processes, the Board is also responsible for annually evaluating the performance of the Chief Executive.

The criteria the evaluation is based on includes the performance of the business and the accomplishment of key strategic objectives and other non-quantitative objectives established at the beginning of each financial year. In addition to these annual performance reviews, the significant policy issues, annual budget and capital expenditure decisions of management are put through a formal Board review process.

9. Remunerating fairly and responsibly

Remuneration philosophy

Co-op Money NZ employs a remuneration strategy that aims to attract, retain and motivate high calibre employees at all levels of the organisation. This is aimed to drive performance and continue sustained growth of Member value.

A key philosophy underpinning this strategy is that all employees should be appropriately and competitively rewarded. Total remuneration for senior executives comprises of a base salary including the value of any benefits and may include a short term variable incentive. This may be in the form of an annual performance related payment that requires achievement of a mix of financial and business targets.

Non-executive Directors' remuneration

The fees paid to non-executive Directors for services in their capacity as Directors of Co-op Money NZ during the year ended 30 June 2018 are as per the table on page 57. Co-op Money NZ's policy is to align directors' remuneration to the market measured against organisations of similar total asset value and similar annual revenues. Directors' fees are normally reviewed annually and any changes recommended to Members biennially, unless a significant market movement has occurred. The last review was in 2015 and at that AGM the pool of directors' fees payable in any one year was increased to $272,000. A further sum of $26,000 per annum was confirmed at the 2016 AGM for a new Independent Director for Co-op Insurance NZ, taking the total pool to $298,000.

In acknowledgment of the varying workloads of the Board's Audit & Risk Committee, an additional 25% of the ordinary Director Fee Is set aside for the Chair of the Audit & Risk Committee

Travel expenses

The Directors are entitled to receive reimbursements for their travel, accommodation and out of pocket expenses whilst attending Board meetings. Co-op Money NZ also pays the travel and costs for Directors and accompanying partners to attend Co-op Money NZ's Annual General Meeting, conferences and forums. When Directors travel overseas to international meetings and conferences, their travel, registration and accommodation expenses are paid. The costs of registration and attending official functions are also paid for a partner of official representatives of Co-op Money NZ attending such international meetings.

Directors' development allowance

Directors are allocated a $6,000 development allowance per term. This allowance is to be used with prior Board approval. This allowance is used by Directors to help them to gain/achieve personal development relevant to the Director's identified needs to enhance their performance as a Co-op Money NZ Group Director.

Directors' insurance protection

Co-op Money NZ maintains appropriate Personal Accident cover as well as Directors' Liability Insurance for its Directors. The Directors' Liability Insurance ensures that the Directors will suffer no financial loss as a result of actions taken by them as Directors, provided that they operate with due diligence and within the law. In the event of a claim being made, the Personal Accident cover provides for full proceeds being paid to the insured director or their estate.

Chief Executive Officer's remuneration

Executive managers do not receive any further remuneration where they are appointed as a director of Co-op Money NZ or its subsidiaries.

10. Recognising the legitimate interest of stakeholders

Co-op Money NZ recognises that it has a number of legal and other obligations to non-member stakeholders such as employees, regulatory authorities, suppliers and the community as a whole. Its commitment to these obligations is captured in our Code of Ethics and various policies and procedures for ethical conduct, the responsibility to employees and relationships with suppliers and customers. These are incorporated into the employment terms of all employees.

Holding securities or other interests

No Director or executive of Co-op Money NZ holds any notes or any personal beneficial interest in Co-op Money NZ.

Compliance with corporate governance best practice

Co-op Money NZ seeks to meet the principles of best practice for New Zealand Directors as promulgated by the Four Pillars of Effective Board Governance as published by the Institute of Directors in New Zealand Inc.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Financial Statements

The directors are pleased to present the financial statements of Co-op Money NZ for the year ended 30 June 2018.

For and on behalf of the board of directors.

Claire Matthews
Chair
21 August 2018

Wyn Osbourne
Deputy Chair
21 August 2018

Report of the Audit & Risk Committee

We confirm to the Members of Co-op Money NZ that we have attended to the requirements of the Rules as follows:

PwC have completed the annual Audit in accordance with the Friendly Societies and Credit Unions Act 1982.

A written Auditors' Report has been received and the Committee has reviewed the Auditors' Report on behalf of the Members.

We have reviewed Co-op Money NZ financial statements for the year to 30 June 2018 and determined that actions taken are in accordance with the Friendly Societies and Credit Unions Act 1982, Co-op Money NZ Policy and Rules.

Louise Edwards
Chair of the Audit & Risk Committee
21 August 2017

pwc

Independent auditor's report

To the members of New Zealand Association of Credit Union

The consolidated financial statements comprise:

- The consolidated statement of financial position as at 30 June 2018;
- the statement of comprehensive revenue and expense for the year then ended;
- the statement of changes in net assets/equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements of New Zealand Associated of Credit Union (the Association) trading name 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 2018, its financial performance and its cash flows for the year then ended in accordance with Public Benefit Entity 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 consolidated 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.

Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the consolidated financial statements does not cover the other information included in the annual report and we do not express any form of assurance conclusion on the other information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material

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misstatement of this other information, we are required to report that fact. We have nothing to report in this regard, except that the other information has not yet been approved by the Board.

Responsibilities of the Directors for the consolidated financial statements

The Directors are responsible, on behalf of the Association, for the preparation and fair presentation of the consolidated financial statements in accordance with Public Benefit Entity Standards, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated 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.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 Directors, 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 Directors, 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 Karl Deutschle.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
25 September 2018

Auckland

CONSOLIDATED STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018 $000	2017 (RESTATED) $000
Interest Revenue	2	1,090	2,349
Interest Expense	3	855	1,714
NET INTEREST REVENUE		**235**	**635**
Banking Services Revenue		12,026	15,023
Other Revenue	4	1,089	867
TOTAL REVENUE NET OF INTEREST EXPENSE		**13,350**	**16,525**
Employee Costs	5	4,678	4,643
Transaction Costs		4,997	6,925
Operating Expenses	6	6,196	5,200
TOTAL EXPENDITURE		**15,871**	**16,768**
NET LOSS BEFORE IMPAIRMENT		**(2,521)**	**(243)**
Impairment Credit	8	9	139
NET PROFIT BEFORE TAXATION		**(2,512)**	**(104)**
Taxation Expense	9	-	-
NET LOSS FROM CONTINUING OPERATIONS		**(2,512)**	**(104)**
NET PROFIT FROM DISCONTINUED OPERATIONS	7	**121**	**107**
TOTAL COMPREHENSIVE REVENUE AND EXPENSE FOR THE YEAR		**(2,391)**	**3**

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

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS/ EQUITY (MEMBERS' FUNDS)

FOR THE YEAR ENDED 30 JUNE 2018

	Note	Base Capital Notes	Accumulated Losses / Retained Earnings	Total
		$000	$000	$000
Opening Balance - 1 July 2016 (as previously reported)		13,695	72	13,767
Correction of error		-	252	252
Balance at 1 July 2016 (Restated)		13,695	(180)	13,515
Base Capital Notes Dividends Paid	11	-	(305)	(305)
Total Comprehensive Revenue and Expense for the Year		-	3	3
Balance at 30 June 2017	11	**13,695**	**(482)**	**13,213**
Balance at 1 July 2017(Restated)		13,695	(482)	13,213
Base Capital Notes Dividends Paid		-	-	-
Total Comprehensive Revenue and Expense for the Year		-	(2,391)	(2,391)
Balance at 30 June 2018	11	**13,695**	**(2,873)**	**10,822**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018

	Note	2018 $000	2017 (RESTATED) $000	2016 (RESTATED) $000
NET ASSETS / EQUITY (MEMBERS' FUNDS)				
Base Capital Notes	10	13,695	13,695	13,695
Retained Earnings/(Accumulated Losses)	11	(2,873)	(482)	(180)
TOTAL EQUITY (MEMBERS' FUNDS)		**10,822**	**13,213**	**13,515**
ASSETS				
Cash and Cash Equivalents	12	-	16,597	20,481
Accounts Receivable	13	1,606	9,600	7,552
Expected Recoveries	33	-	158	92
Investments	14	15,583	46,755	58,872
Prepayments	15	507	1,763	1,448
Inventory	16	83	74	123
Property, Plant and Equipment	17	571	812	866
Other Intangible Assets	18	8,595	7,079	4,180
Non-current Deposit		147	147	147
Assets classified as held for sale	7	10,194	-	-
TOTAL ASSETS		**37,286**	**82,985**	**93,761**
LIABILITIES				
Bank Overdraft	12	1,152	-	-
Deposits Received	19	14,502	56,120	68,654
Accounts Payable	20	1,951	3,277	3,656
Provisions	22	297	415	407
Outstanding Claims Liability	33	-	3,380	2,958
Unearned Premium Liability	33	-	6,580	4,571
Liabilities directly associated with assets classified as held for sale	7	8,562	-	-
TOTAL LIABILITIES		**26,464**	**69,772**	**80,246**
NET ASSETS		**10,822**	**13,213**	**13,515**

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

These financial statements were authorised for issue by the Board of Directors on 25 September 2018 and were signed for on its behalf.

Chair Co-op Money NZ

Chair Audit and Risk Committee

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018 $000	2017 $000
Cash Flows from operating activities			
Cash was provided from			
Membership Contributions Received		587	608
Insurance Premiums Received		10,402	11,894
Premium Funding Income Received		514	467
Other Receipts from Customers		10,703	16,447
Loan Repayments from Customers		9	139
Investment Interest Received		3,592	2,339
Motor Vehicle Claims Recoveries		678	479
		26,485	**32,373**
Cash was applied to			
Payments to Suppliers and Employees		17,431	21,737
Insurance Claims, Acquisition Costs and Rebates Paid		8,437	8,367
Interest Paid		719	1,511
Credit Union Foundation Grants and Donations		-	11
		26,587	**31,626**
NET CASH FLOWS FROM OPERATING ACTIVITIES	29	**(102)**	**747**
Cash Flows from investing activities			
Cash was provided from			
Sale of Fixed Assets and Intangibles		12	-
Proceeds from Sales and Maturities of Investment Securities		244,720	481,091
		244,732	**481,091**
Cash was applied to			
Purchase of Property, Plant and Equipment		168	429
Purchase of Intangible Assets		2,703	3,575
Purchase of Investment Securities		214,564	468,974
		217,435	**472,978**
NET CASH FLOWS FROM INVESTING ACTIVITIES		**27,297**	**8,113**
Cash Flows from financing activities			
Cash was provided from		-	-
Cash was applied to			
Base Capital Note Dividend Paid		-	305
Net decrease in Deposits		41,700	12,538
		41,700	**12,843**
NET CASH FLOWS FROM FINANCING ACTIVITIES		**(41,700)**	**(12,843)**
Net (decrease)/increase in Cash and Cash Equivalents		(14,505)	(3,884)
Cash and Cash Equivalents at the Beginning of the Year		16,597	20,481
Cash and Cash Equivalents at the End of the Year	12, 7	**2,092**	**16,597**
Cash flows of discontinued operations	7		

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

STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2018

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. 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.

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 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.

Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

	2018 $000	2017 $000
2 INTEREST REVENUE		
Bank, Money Market Securities, Local Authority and Floating Rate Note Interest	912	2,010
Other Interest	178	339
TOTAL INTEREST REVENUE	**1,090**	**2,349**
3 INTEREST EXPENSE		
Interest on Deposits	855	1,712
Other Interest	-	2
TOTAL INTEREST EXPENSE	**855**	**1,714**
NET INTEREST REVENUE	235	635
4 OTHER REVENUE		
Membership Contributions	592	593
Other Revenue	497	274
TOTAL OTHER REVENUE	**1,089**	**867**
5 EMPLOYEE COSTS		
Salaries and Wages	4,672	4,631
Other Staff Costs	6	12
TOTAL EMPLOYEE COSTS	**4,678**	**4,643**
6 OPERATING EXPENSES		
Auditors' Remuneration:		
- Audit fees to PricewaterhouseCoopers	57	52
- Other fees to PricewaterhouseCoopers	-	-
Information System Review	75	26
Total Auditors' Remuneration	**132**	**78**
Depreciation:		
- Furniture, Fittings, Office Equipment & Vehicles	64	65
- Computer Equipment	328	321
Amortisation of Intangible Assets	726	532
Directors' Fees	283	250
Directors' and Governance Expenses	56	91
Leasing Charges	301	275
Loss/(Gain) on Disposal of Property, Plant & Equipment	(4)	-
Other Operating Expenses	4,310	3,588
TOTAL OPERATING EXPENSES	**6,196**	**5,200**

7 DISCONTINUED OPERATIONS

Description

On 31 August 2017 Co-op Insurance NZ Board accepted an offer for the sale of the Co-op Insurance NZ insurance business to Provident Insurance Corporation Limited, a fellow insurance company with whom Co-op Insurance NZ has had a strategic alliance for over three years.

The sale of the Co-op Insurance NZ insurance business to Provident Insurance Corporation Limited was agreed on 15 December 2017 and is reported in the current period as discontinued operations for Motor Vehicle and Other Non Life Business. As part of this transaction the Life Business has been transferred to Pinnacle Life Limited and is also a discontinued operation. The current year's reported underwriting and statement of comprehensive income, statement of financial position, statement of cashflows, statement changes in equity relates to the discontinued operations. Co-op Insurance NZ has transferred Underwriting Profit to Provident Insurance Corporation Limited during the period 1 December 2017 to 30 June 2018 in accordance with the sale and purchase agreement.

FINANCIAL PERFORMANCE AND CASH FLOW INFORMATION

	2018 $000	2017 $000
Net Interest Revenue	136	148
Insurance Premium Revenue	9,787	11,704
Other Revenue	609	1
TOTAL REVENUE NET OF INTEREST EXPENSE	**10,532**	**11,853**
Employee Cost	1,018	909
Insurance Claims & Commissions	8,460	9,888
Operating Expenses		
- Audit fees to PricewaterhouseCoopers	47	45
- Other fees to PricewaterhouseCoopers	-	-
Taxation Compliance	11	15
Other Statutory Returns	6	6
Depreciation:		
- Furniture, Fittings, Office Equipment & Vehicles	1	1
- Computer Equipment	1	2
Amortisation of Intangible Assets	172	144
Directors' Fees	-	24
Other Operating Expenses	695	712
Total Expenditure	**10,411**	**11,746**
NET PROFIT BEFORE TAXATION	**121**	**107**
Reinsurance Premiums	-	-
TOTAL COMPREHENSIVE REVENUE AND EXPENSE FOR THE YEAR	**121**	**107**

	2018 $000
Net Cash Flows from Operating Activities	(1,029)
Net Cash Flows from Investing Activities	4,121
Net Cash Flows from Financing Activities	-
Net increase in Cash	3,092
Internal funding adjustment	(288)
Cash at the beginning of the period	440
CASH AT THE END OF THE PERIOD	**3,244**

ASSETS AND LIABILITIES OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

	2018 $000
ASSETS CLASSIFIED AS HELD FOR SALE	
Cash and Cash Equivalent	3,244
Accounts Receivables	6,159
Expected Recoveries	216
Investments	-
Prepayments	303
Property, Plant and Equipment	7
Other Intangible Assets	265
Total Assets Classified as held for Sale	**10,194**
LIABILITIES DIRECTLY ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE	
Outstanding Claims Liability	2,240
Unearned Premium Liability	4,591
Accounts Payable	261
Income Received in advance	1,465
Provisions	5
Total Liabilities Directly associated with assets classified as held for sale	**8,562**

UNDERWRITING RESULTS

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

	2018 $000	2017 $000
LIFE INSURANCE		
Gross Earned Premium	1,445	2,353
Reinsurance Premiums	-	-
Net Earned Premium prior to Rebates	**1,445**	**2,353**
Gross Claims	770	1,022
Reinsurance Received	-	-
Net Claims	**770**	**1,022**
Commission	193	268
Underwriting Result	**482**	**1,063**
Credit Union Rebates	-	190
Underwriting Income Transferred to Provident	155	-
	327	**873**
OTHER NON-LIFE INSURANCE		
Gross Earned Premium	2,474	4,107
Reinsurance Premiums	-	-
Net Earned Premium prior to Rebates	**2,474**	**4,107**
Gross Claims	326	1,456
Reinsurance Received	-	-
Net Claims	**326**	**1,456**
Commission	598	905
Underwriting Result	**1,550**	**1,746**
Credit Union Rebates	-	214
Underwriting Income Transferred to Provident	527	-
	1,023	**1,532**

	2018 $000	2017 $000
MOTOR VEHICLE INSURANCE		
Gross Earned Premium	6,005	5,461
Premium Funding Income	514	467
Reinsurance Premiums	(338)	(350)
Net Earned Premium prior to Rebates	**6,181**	**5,578**
Gross Claims	5,095	5,029
Reinsurance Received	-	-
Net Claims	**5,095**	**5,029**
Commission & Acquisition Costs	1,478	1,208
Underwriting Result	**(392)**	**(659)**
Credit Union Rebates	-	(71)
Underwriting Income Transferred to Provident	(369)	-
	(23)	**(588)**
TOTAL INSURANCE		
Net Earned Premium prior to Rebates	**10,100**	**12,038**
Net Claims	6,191	7,507
Commissions	2,269	2,381
Underwriting Result	**1,640**	**2,150**
Credit Union Rebates	-	333
Underwriting Income Transferred to Provident	313	-
Insurance Claims, Commission and Rebates	**8,772**	**10,222**
Total Underwriting Result after Commission and Rebates	**1,328**	**1,816**

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 2018. 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) is 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 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 1.80% per annum.

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% , which provides a likelihood of sufficiency of 75% and it has been accepted by the Board.

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%. The discounts are applied based on the past experience of the business.

	2018 $000
OUTSTANDING CLAIMS LIABILITY	
LIFE INSURANCE	
Opening Claims Liability	65
Claims Expense	770
Claims Paid	(776)
Closing Claims Liability	59
OTHER NON-LIFE INSURANCE	
Opening Claims Liability	1,499
Claims Expense	326
Claims Paid	(1,200)
Closing Claims Liability	625
MOTOR VEHICLE INSURANCE	
Opening Claims Liability	1,816
Claims Expense	5,797
Claims Paid	(6,057)
Closing Gross Claims Liability	1,556
TOTAL GROSS OUTSTANDING CLAIMS LIABILITY	**2,240**

	2018 $000
MOTOR VEHICLE EXPECTED RECOVERIES RECEIVABLE	
Opening Expected Recoveries	158
Increase In Expected Recoveries	710
Actual Third Party Recoveries Received	(652)
Closing Expected Recoveries	**216**
Motor Vehicle Net Claims Liability	**1,340**
TOTAL NET OUTSTANDING CLAIMS LIABILITY (CURRENT)	**2,024**

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

	2018 $000
Composition of Outstanding Claims Liability	
Life Insurance	
IBNR	59
Closing Claims Liability	**59**
Other Non-life Insurance	
Outstanding Claims	436
Indirect Claims Management Allowance - 8.5%	49
Risk Margin - Nil	-
IBNR	140
Closing Claims Liability	**625**
Motor Vehicle Insurance	
Outstanding Claims	1,099
Risk Margin - 10%	110
Indirect Claims Management Allowance - 12.5%	151
IBNR	196
Closing Gross Claims Liability	1,556
Closing Expected Recoveries	(216)
Closing Claims Liability	**1,340**
Total Net Outstanding Claims Liability (Current)	**2,024**

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

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 Calculated Minimum Solvency Capital of the Company as at 30 June 2018 was $3,685,625. Actual solvency capital is less than the Fixed Minimum Solvency Capital amount as at 30 June 2018. This has occurred as result of the prior period adjustment which is detailed elsewhere in these accounts.

The shortfall in Calculated Minimum Solvency Capital was rectified at the end of July 2018 with the ability for the company to recognise the profit on sale of the of the insurance book of business $2.465m. This recognition was triggered by the Reserve Bank approving the sale the sale of the Company's life and non-life insurance books. With the sale of the Company's life and non life insurance books as described in Note 26, and the cancellation of a handful of remaining policies, the Fixed Minimum Solvency Capital amount required under the RBNZ solvency started will shortly lapse."

(b) Capital Composition

The Company manages its capital by considering both regulatory and economic capital as defined in the respective Life and Non-Life solvency standards . 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	2018 $
Actual Solvency Capital	3,448,524
Fixed Minimum Solvency Capital	5,000,000
Solvency Margin	**(1,551,476)**
Solvency Ratio	**69.0%**

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 Company'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 motor vehicle insurance provider is 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 is $300,000 excess of $50,000 for individual vehicle losses and $2.9m excess of $100,000 for catastrophe losses.

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 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 credit risk exposure on Life and Other insurance contracts relates exclusively to the Co-op Money NZ's Member credit unions. The credit risk relating to the Company's 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 creates 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:

	2018	
	$000	$000
SENSITIVITY CALCULATIONS	**Balance**	**Sensitivity**
Outstanding Claims Liability	1,844	
Reopening allowance 10% higher		3
Reopening allowance 10% lower		(3)
Claim estimates 10% higher		184
Claim estimates 10% lower		(184)
Administration costs 10% higher		20
Administration costs 10% lower		(20)
IBNR	396	
Claim reporting 10% longer		138
Claim reporting 10% quicker		(127)
	2,240	

Insurance Rating

The Company has a Financial Strength rating of 'BB' issued by Fitch Ratings on 27 March 2018. 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.

8 IMPAIRMENT

	2018 $000	2017 $000
Movement in Provisions in respect of:		
Bad Debts Recovered	9	139
Impairment Credit	**9**	**139**

Refer to notes 15 and 16 for further information.

9 TAXATION

	2018 $000	2017 $000
Profit before Taxation	**(2,391)**	**3**
Income Tax at current rate of 28%	-669	1
Exempt Income	631	-119
Non Deductible Expenses	-	-
Movement in Temporary Differences (not recognised)	-	-
Prior Period Adjustments	-	-
Tax Losses not recognised (Utilisation of Tax Losses)	39	118
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 $5,006,414 ($1,401,796 at the tax rate of 28%) (2017 : $5,306,149 ($1,485,722 at the tax rate of 28%)).

2018		Charged to	
	Opening Balance $000	Charged to Income $000	Closing Balance $000
Deferred Tax Assets:			
Tax Losses Recognised	360	(245)	115
Provisions	8	(7)	1
	368	**(252)**	**116**
Deferred Tax Liabilities:			
Intangible Assets	-	-	-
Deferred Acquisition Costs	-	-	-
	-	**252**	**-**

2017		Charged to	
	Opening Balance $000	Charged to Income $000	Closing Balance $000
Deferred Tax Assets:			
Tax Losses Recognised	291	69	360
Provisions	8	(0)	8
	299	69	368
Deferred Tax Liabilities:			
Intangible Assets	**(31)**	**(8)**	**(39)**
Deferred Acquisition Costs	(268)	(61)	(329)
	(299)	**(69)**	**(368)**
	-	**-**	**-**

10 BASE CAPITAL NOTES

	Economic Entity and Association			
	2018	2017	2018	2017
	'000 Units	'000 Units	$000	$000
Issue I	11	11	110	110
Issue II	13,585	13,585	13,585	13,585
	13,596	**13,596**	**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			
	2018	2017	2018	2017
	'000 Units	'000 Units	$000	$000
Issue I				
Balance at 1 July	11	13	110	130
Notes redeemed by transfer to Base Capital Notes II	-	(2)	-	(20)
Balance at 30 June	**11**	**11**	**110**	**110**

	Economic Entity and Association			
	2018	2017	2018	2017
	'000 Units	'000 Units	$000	$000
Issue II				
Balance at 1 July	13,585	13,565	13,585	13,565
Notes Issued:				
By transfer from Base Capital Notes I	-	20	-	20
Notes Redeemed	-	-	-	-
Balance at 30 June	**13,585**	**13,585**	**13,585**	**13,585**

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.

11 ACCUMULATED LOSSES

	2018	2017 (Restated)
	$000	$000
Balance at 1 July	(482)	(180)
Operating Profit	(2,391)	3
	(2,873)	(177)
Base Capital Note Dividends	-	(305)
Balance at 30 June	(2,873)	(482)
TOTAL ACCUMULATED LOSSES	**(2,873)**	**(482)**

The net (loss)/profit for the years ended 30 June 2018 and 30 June 2017 have been transferred to Retained Earnings/(Accumulated Losses

	2018 $000	2017 $000
Member Services Division	32	343
Business Services Division	(2,905)	(825)
	(2,873)	**(482)**

Member Services Division Retained Earnings at 30 June 2018 includes the Retained Earnings of the New Zealand Credit Union Foundation of $105,000 (30 June 2017 : $104,000). Refer note 31.

12 CASH AND CASH EQUIVALENTS

	2018 $000	2017 $000
Cash at Bank	-	3,266
Bank Call Deposits	-	13,331
	-	**16,597**
Bank Overdraft	**(1,152)**	**-**
	(1,152)	**-**

13 ACCOUNTS RECEIVABLE

	2018 $000	2017 $000
Trade Receivables	-	424
Future Funded Premiums	1,606	9,600
Insurance Premiums Due	-	424
Provision for Cancellation	-	-
	-	**424**
Total Carrying Amount	**1,606**	**9,600**

Trade Receivables are mainly due from Member credit unions. There is no Provision for Bad Debts (2017 : $Nil) and there has been no write off (2017 : $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 (2017 : $Nil).

14 INVESTMENTS

	Economic Entity	
	2018 $000	2017 $000
Bank Deposits	11,349	44,503
Advances to Customer	4,234	2,252
Investment Securities	**15,583**	**46,755**

15 PREPAYMENTS

	2018 $000	2017 $000
Deferred Commission Costs	-	959
Commission Costs Paid	-	2,667
Commission Costs Released	-	(2,449)
Closing Deferred Commission Costs	-	1,177
Other Prepayments	507	586
	507	**1,763**

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.

16 INVENTORY

	2018 $000	2017 $000
ATM Machines and Parts	33	33
Promotional and Other Items	50	41
	83	**74**

The cost of inventories recognised as an expense during the year was $342,000 (2017 : $482,000).

17 PROPERTY, PLANT AND EQUIPMENT

	2018 $000	2017 $000
Furniture and Fittings, Office Equipment and Vehicles		
Opening Cost at 1 July	685	692
Additions	26	6
Disposals	(23)	(1)
Closing Cost at 30 June	**688**	**697**
Opening Accumulated Depreciation at 1 July	501	440
Depreciation Expense	64	66
Disposals	(16)	(1)
Closing Accumulated Depreciation at 30 June	**549**	**505**
Net Book Value at 30 June	**139**	**192**
Computer Equipment		
Opening Cost at 1 July	1,811	1,499
Additions	142	328
Disposals	-	-
Closing Cost at 30 June	**1,953**	**1,827**
Opening Accumulated Depreciation at 1 July	1,193	884
Depreciation Expense	328	323
Disposals	-	-
Closing Accumulated Depreciation at 30 June	**1,521**	**1,207**
Net Book Value at 30 June	**432**	**620**
Carrying Amount at 30 June	**571**	**812**

18 OTHER INTANGIBLE ASSETS

	2018 $000	2017 $000
Computer Software		
Opening Cost at 1 July	10,668	8,421
Additions	2,703	3,575
Disposals	-	(74)
Closing Cost at 30 June	**13,371**	**11,922**
Opening Accumulated Amortisation at 1 July	4,050	4,241
Amortisation Expense	726	676
Disposals	-	(74)
Closing Accumulated Amortisation at 30 June	**4,776**	**4,843**
Net Book Value at 30 June	**8,595**	**7,079**

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

19 DEPOSITS RECEIVED

	2018 $000	2017 $000
Deposits from Credit Unions	12,481	38,099
Deposits from Other Parties	2,021	18,021
	14,502	**56,120**

Deposits are accepted on an unsecured basis. Average interest rates, repricing terms and duration are as shown in note 27.

20 ACCOUNTS PAYABLE

	2018 $000	2017 $000
Trade Payables	1,729	2,147
Credit Union Rebates	-	404
Accrued Expenses	222	641
Reinsurance Accruals	-	85
GST Payable	1,951	3,277
	3,277	**3,656**

21 PROVISIONS

	2018 $000	2017 $000
Employee Entitlements	297	415
	297	**415**

22 LEASES

	2018 $000	2017 $000
Non Cancellable Operating Lease Payments		
Lease liabilities are payable:		
Not later than 1 year	433	526
Later than 1 year and not later than 2 years	350	1,058
Later than 2 years and not later than 5 years	1,137	794
	1,920	**2,378**

24 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 2018, the Economic Entity had foreign exchange contracts to cover purchase orders and invoices due of Nil (2017: AUD156,943 and USD138,281). The Profit/Loss at 30 June 2018 was Nil (2017: NZD1,140).

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.

Interest Rate Repricing

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

	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
At 30 June 2018		$000	$000	$000	$000	$000	$000	$000
Assets								
Cash and Cash Equivalents	-1.07%	2,092	-	-	-	-	-	**2,092**
Accounts Receivable	-	-	-	-	-	-	7,765	**7,765**
Investment Securities	2.66%	14,916	667	-	-	-	-	**15,583**
Non-current Deposit	-	-	-	-	-	-	147	**147**
		17,008	667	-	-	-	7,912	**25,587**
Liabilities								
Deposits Received	2.54%	11,602	2,900	-	-	-	-	**14,502**
Accounts Payable	-	-	-	-	-	-	3,674	**3,674**
	-	11,602	2,900	-	-	-	3,674	**18,176**
On Balance Sheet Interest Sensitivity Gap - 30 June 2018	**-**	**5,406**	**(2,233)**	**-**	**-**	**-**	**4,238**	**7,411**

	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
At 30 June 2017		$000	$000	$000	$000	$000	$000	$000
Assets								
Cash and Cash Equivalents	2.36%	16,597	-	-	-	-	-	**16,597**
Accounts Receivable	-	-	-	-	-	-	9,600	**9,600**
Investment Securities	3.27%	29,631	17,124	-	-	-	-	**46,755**
Non-current Deposit	-	-	-	-	-	-	147	**147**
		46,228	17,124	-	-	-	9,747	**73,099**
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)**	**-**	**-**	**6,470**	**13,702**

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 (2017 : 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% (2017 : 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
2018		**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
Assets							
Cash and Cash Equivalents		2,092	-	-	-	-	**2,092**
Accounts Receivable		4,279	2,214	1,136	136	-	**7,765**
Investment Securities		14,916	667	-	-	-	**15,583**
Loans Receivable		-	-	-	-	-	**-**
Non-current Deposit		-	-	-	-	147	**147**
Future Interest Receivable		108	33	-	-	-	**141**
Total Financial Assets		21,395	2,914	1,136	136	147	**25,728**
Liabilities							
Deposits Received		11,602	2,900	-	-	-	**14,502**
Accounts Payable		3,674	-	-	-	-	**3,674**
Future Interest Payable		12	54	-	-	-	**66**
Unearned Premium Liability		1,223	2,000	1,056	127	-	**4,406**
Outstanding Claims Liability		2,240	-	-	-	-	**2,240**
Total Financial Liabilities		18,751	4,954	1,056	127	-	**24,888**
Net Financial Assets		2,644	(2,041)	80	10	147	**840**
Unrecognised Commitments	28	(14)	(63)	-	-	-	**(77)**
Net Liquidity Gap at 30 June 2018		**2,631**	**(2,104)**	**80**	**10**	**147**	**763**
2017							
Assets							
Cash and Cash Equivalents		16,597	-	-	-	-	**16,597**
Accounts Receivable		4,204	3,462	1,934	-	-	**9,600**
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	1,934	73		**73,852**
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	(1,301)	(627)	-	**4,115**
Unrecognised Commitments	28	(6,651)	(2,322)	(1,245)	-	-	**(10,218)**
Net Liquidity Gap at 30 June 2017		**(7,163)**	**4,233**	**(2,546)**	**(627)**	**-**	**(6,103)**

The Economic Entity has access to financing facilities of $7,600,000 (2017 : $7,600,000). The facilities are secured by charges over interest bearing Investments. The Economic Entity expects to meet its obligations from operating cash flows and proceeds of maturing financial assets.

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 2.75% and 3.40%. (2017: 2.83% to 3.70%).

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**	
	2018	**2017**
	$000	**$000**
Cash and Cash equivalents	-	16,597
Accounts Receivable	7,765	9,600
Loans Receivable	-	-
Investments	15,583	46,755
Total Loans and Receivables	23,348	72,952
Total Financial Assets	**23,348**	**72,952**
Other Financial Liabilities at Amortised Cost	-	-
Deposits Received	14,502	56,120
Accounts Payable	1,951	3,277
Total Other Financial Liabilities at Amortised Cost	16,453	59,397
Total Financial Liabilities	**16,453**	**59,397**

25 INVESTMENTS IN CONTROLLED ENTITIES

Controlled Entities controlled at 30 June

Name	Association Percentage Holding at Balance Date		Principal Activities	Balance Date
	2018	2017		
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.

26 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:

	2018 $000	2017 $000
Short Term Employee Benefits	2,042	1,647

There were no other payments made to Key Management Personnel.

27 COMMITMENTS

	2018 $000	2017 $000
Undrawn advances under credit facilities	4,041	6,606
Capital expenditure	77	2,416
	4,118	**9,022**

28 CONTINGENT LIABILITIES

Co-op Insurance NZ as vendor and Co-op Money NZ as guarantor have received a warranty claim from Provident in relation to the Sale of Co-op Insurance's book of business, the level of claim has not been quantified. This claim is based upon the impact of the prior period adjustment on sale price paid by Provident. Provident have also raised issues around the robustness and accuracy of Co-op insurance's systems. Co-op Insurance NZ has refuted the warranty claim and would intend to vigorously defend itself should any further action arise. Legal advice received supports the Director's belief that the claim is without merit.

29 NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of Net Profit After Tax to Net Operating Cash Flows

	2018 $000	2017 $000
(Loss)/Profit after Tax	(2,391)	3
Adjustments to reconcile operating profit to net cash flow from operating activities		
Add/(less) non cash items:		
Depreciation	395	507
Amortisation	898	559
Gain on Disposal of Property, Plant & Equipment	(4)	-
	1,289	1,066
Add/(less) movement in Working Capital:		
Decrease/(Increase) in Inventory	(9)	49
Increase in Accounts Receivable and Expected Recoveries	1,834	(1,599)
Increase in Prepayments	954	(316)
Decrease in Accounts Payable	396	(824)
Increase in Unearned Premium Liability	(1,967)	2,009
Increase/(Decrease) in Provisions	(113)	5
Increase in Outstanding Claims Liability	(1,198)	355
	(103)	(322)
Add/(less) items classified as Investing Activities		
Non Cash movement in Investments	1,353	(67)
Add items included within Financing Activities:		
Non Cash movement in Deposits Received	(250)	67
Net Cash Flow from Operating Activities	**(102)**	**747**

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.

30 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.

	2018 $000	2017 $000
Current Assets		
Cash	105	104
NET ASSETS	**105**	**104**

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

Grants paid	1	(10)
OPERATING SURPLUS/(LOSS)	**1**	**(10)**

31 MEMBER SERVICES DIVISION OPERATING PROFIT

	2018 $000	2017 $000
New Zealand Credit Union Foundation	1	(10)
MSD Operations	32	(452)
TOTAL	**33**	**(462)**

32 CORRECTION OF ERROR IN ACCOUNTING FOR FUTURE FUNDED PREMIUMS

Correction of error in accounting for Future Funded Premiums

"In November 2017 the Company undertook a detailed review of its premium collection system and discovered an error in the policy cancellation process. As a consequence, it was determined that insurance premiums of certain cancelled policies had been incorrectly recognised. The error has been corrected by restating each of the affected financial statement lines for the prior period as per the table below. The Company has also presented an opening Statement of Financial Position in accordance with NZ IAS 1."

Statement of Financial Position	**30 June 2017**	**Increase/ (Decrease)**	**30 June 2017 (Restated)**	**1 July 2016**	**Increase/ (Decrease)**	**1 July 2016 (Restated)**
	$	$	$	$	$	$
Future Funded Premium	8,155,343	(1,018,876)	7,136,467	5,661,573	(252,577)	5,408,996
Accumulated Deficit	(12,791,527)	(1,018,876)	(13,810,403)	(12,327,667)	(252,577)	(12,580,244)
Net Assets/Total Equity	5,708,473	(1,018,876)	4,689,597	6,172,333	(252,577)	5,919,756

Underwriting Income Statement	**FY 2017**	**Increase/ (Decrease)**	**FY 2017 (Restated)**
Gross Written Premium	14,313,068	(766,299)	13,546,769

Underwriting and Statement of Comprehensive Income	**FY 2017**	**Increase/ (Decrease)**	**FY 2017 (Restated)**
Motor Vehicle	177,830	(766,299)	(588,469)
Total Comprehensive loss for the year	**(338,860)**	**(766,299)**	**(1,105,159)**

33 INSURANCE PRODUCTS RELATING TO 2017

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) is 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 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%.

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%, which provides a likelihood of sufficiency of 75% and it has been accepted by the Board.

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%. The discounts are applied based on the past experience of the business.

		2017 $000
Outstanding Claims Liability		
Life Insurance		
Opening Claims Liability		117
Claims Expense		1,022
Claims Paid		(1,074)
Closing Claims Liability		**65**
Other Non-life Insurance		
Opening Claims Liability		1,810
Claims Expense		1,456
Claims Paid		(1,767)
Closing Claims Liability		**1,499**
Motor Vehicle Insurance		
Opening Claims Liability		1,032
Claims Expense		5,573
Claims Paid		(4,789)
Closing Gross Claims Liability		**1,816**
Total Gross Outstanding Claims Liability	7c	**3,380**
Motor Vehicle Expected Recoveries Receivable		
Opening Expected Recoveries		92
Increase In Expected Recoveries		548
Actual Third Party Recoveries Received		(482)
Closing Expected Recoveries	7d	**158**
Motor Vehicle Net Claims Liability		**1,658**
Total Net Outstanding Claims Liability (Current)		**3,222**

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

	2017 $000
Composition of Outstanding Claims Liability	
Life Insurance	
IBNR	65
Closing Claims Liability	**65**
Other Non-life Insurance	
Outstanding Claims	1,241
Indirect Claims Management Allowance - 8.5%	118
Risk Margin - Nil	-
IBNR	140
Closing Claims Liability	**1,499**
Motor Vehicle Insurance	
Outstanding Claims	1,322
Risk Margin - 10%	132
Indirect Claims Management Allowance - 12.5%	182
IBNR	180
Closing Gross Claims Liability	1,816
Closing Expected Recoveries	(158)
Closing Claims Liability	**1,658**
Total Net Outstanding Claims Liability (Current)	**3,222**

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

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 Recalculated Minimum Solvency Capital of the Company as at 30 June 2017 $4,554,704. Actual solvency capital appeared to be less than the Fixed Minimum Solvency Capital amount as at 30 June 2017. This has occurred as result of the prior period adjustment which is detailed elsewhere in these accounts.

The shortfall in Calculated Minimum Solvency Capital was rectified at the end of July 2018 with the ability for the company to recognise the profit on sale of the of the insurance book of business $2.465m. This recognition was triggered by the Reserve Bank approving the sale the sale of the Company's life and non-life insurance books. With the sale of the Company's life and non life insurance books as described in Note 26, and the cancellation of a handful of remaining policies, the Fixed Minimum Solvency Capital amount required under the RBNZ solvency started will shortly lapse."

(b) Capital Composition

The Company manages its capital by considering both regulatory and economic capital as defined in the respective Life and Non-Life solvency standards . 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
	$
Actual Solvency Capital	4,228,745
Fixed Minimum Solvency Capital	5,000,000
Solvency Margin	(771,255)
Solvency Ratio	84.6%

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 Company'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 motor vehicle insurance provider is 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 is $300,000 excess of $50,000 for individual vehicle losses and $2.9m excess of $100,000 for catastrophe losses. "

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* 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 credit risk exposure on Life and Other insurance contracts relates exclusively to the Co-op Money NZ's Member credit unions. The credit risk relating to the Company's 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 creates 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:

30 June	2017	
	$000	$000
	Balance	Sensitivity
Outstanding Claims Liability	2,995	
Reopening allowance 10% higher		3
Reopening allowance 10% lower		(3)
Claim estimates 10% higher		299
Claim estimates 10% lower		(299)
Administration costs 10% higher		20
Administration costs 10% lower		(20)
IBNR	385	
Claim reporting 10% longer		135
Claim reporting 10% quicker		(123)
	3,380	

Insurance Rating

The Company has a Financial Strength rating of 'BBB-' issued by Fitch Ratings on 17 December 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.

34 EVENTS AFTER THE BALANCE SHEET DATE

The Reserve Bank granted approval to transfer the Non-Life Business to Provident Insurance Corporation Limited on 23 July 2018 and the transfer was completed. Subsequently the Reserve bank also granted approval to transfer the Life Insurance Business (funeral plan policies) to Pinnacle Life Limited on 9 August 2018. Co-op Insurance NZ had made an application to RBNZ to cancel its Life insurance license and is now awaiting RBNZ's consideration. An application to cancel the Non Life Insurance license to RBNZ will be made soon.

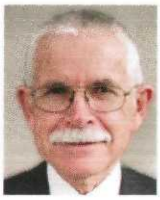
CO-OP MONEY NZ BOARD OF DIRECTORS

CLAIRE MATTHEWS
CHAIR
Elected to the Board in September 2013
Also: Chair, Co-op Insurance NZ and Co-op Services NZ
Chair, CU Securities Limited

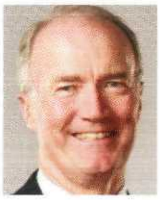
BHIKHU BHANA
DIRECTOR
Elected to the Board in September 2015
Also: Director, Co-op Services NZ
Director, CU Securities Ltd. Trustee
Member of the Audit and Risk Committee

CRAIG GOLD
DIRECTOR
Appointed to the Board in January 2017
Also: Director, Co-op Insurance NZ
Director, Co-op Services NZ
Director, CU Securities Ltd. Trustee

WYN OSBORNE
DEPUTY CHAIR
Elected to the Board in September 2016
Also: Deputy Chair, Co-op Services NZ from September 2017
Director, CU Securities Ltd. Trustee



GRAHAM CLOUSTON
DIRECTOR
Elected to the Board in September 2017
Also: Director, Co-op Insurance NZ
Director, Co-op Services NZ
Member of the Audit and Risk Committee



RICHARD WESTLAKE- INDEPENDENT DIRECTOR
Appointed to the Board in July 2018
Also: Independent Director, Co-op Services NZ

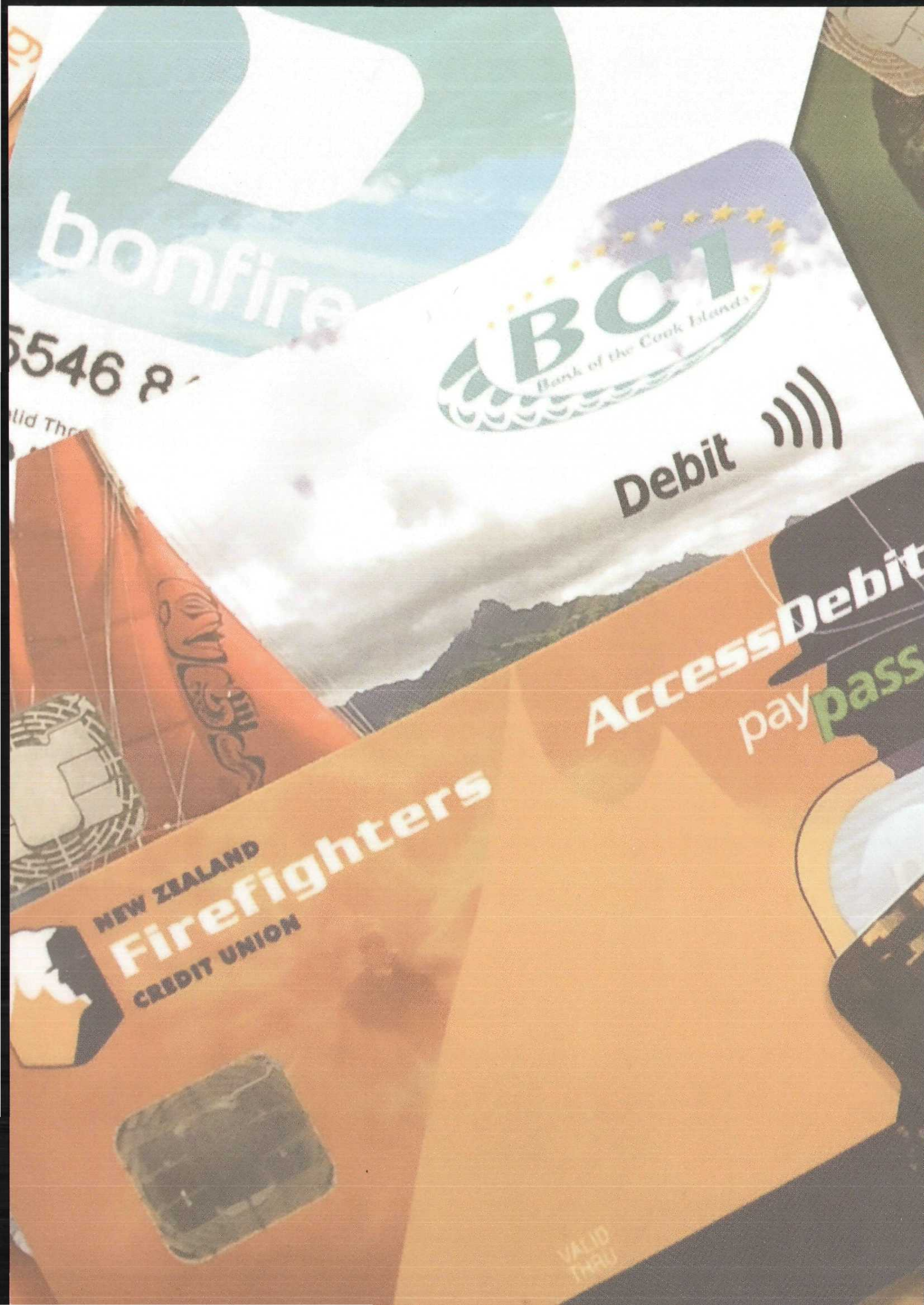
LOUISE EDWARDS
DIRECTOR
Elected to the Board in September 2017
Also: Chair of the Audit and Risk Committee
Director, Co-op Services NZ

DIRECTORS FEES - FOR THE YEAR ENDED 2018

	Role	As at 30 June 2018	Director Fees
C Matthews	Chair	Current	77,090
W Osborne	Deputy Chair A & R Comm	Current	34,713
C Gold	Director	Current	33,978
L Edwards	Director Chair-A & R Comm	Current	24,940
G Clouston	Director A & R Comm	Current	24,504
B Bhana	Director A & R Comm	Current	28,011
R Westlake	Independent Advisor	Current	41,906
P Taylor	Deputy Chair	Resigned	10,000
B Bleakley	Director A & R Comm	Resigned	8,000
Total			**283,142**

CO-OP MONEY NZ & CO-OP INSURANCE NZ BOARD MEETINGS AND AUDIT & RISK COMMITTEE MEETINGS

	C Matthews	P Taylor	B Bhana	B Bleakley	G Clouston	L Edwards	W Osborne	C Gold	H. Lynch
Co-op Money NZ Board Meetings	11/11	2/3	10/11	3/3	8/9	9/9	11/11	11/11	-
Co-op Insurance NZ Board Meetings	11/11	2/3		3/3	7/8			8/8	8/9
Co-op Services NZ Board Meetings	7/7	1/2	6/7	2/2	5/6	6/6	5/7	7/7	8/9
Audit and Risk Committee Meetings			6/7	1/1	6/6	6/6	1/1		-


bonfire
5546
BCI
Bank of the Cook Islands
Debit
AccessDebit
paypass
NEW ZEALAND
Firefighters
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AccessDebit
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