Cook Islands Investment Corporation

Financial Statements under IPSAS

For the year ended 30 June 2018

Report Contents

Directory

Directors

Cook Islands Investment Corporation

Michael Henry	Chairman	
Malcolm Sword		
Caren Rangi		
Tamarii Tutangata		
Petero Okotai	Chief Executive Officer	

Directors of Subsidiaries

Airport Authority

George Taoro Brown	Chairman	appointed 19/09/18
Tuainekore Marlene Manuela		
Ianis Boaza		
Tamatoa Tinirau		
Antony Balfour Will		
John Hosking		
Joseph Ngamata	Chief Executive Officer	

Ports Authority

Sam Crocombe	Chairman	
William Kauvai		
Teariki George		
Eleanor Goodwin-Roi		
Geoffrey Vazey		
Nooroa (Bim) Tou	General Manager	

Te Aponga Uira o Tumu-te-Varovaro

Mata Nooroa	Chairman	
Jessie Sword		appointed 10/12/18
Lesley Katoa		appointed 10/12/18
Steve Anderson		warrant revoked 10/12/18
Randolf George		warrant revoked 10/12/18
Elizabeth Wright Koteka		warrant revoked 10/12/18
Apii Timoti	Chief Executive Officer	

Cook Islands Broadcasting Corporation

Caren Rangi
Tamarii Tutangata

Suwarrow Development Corporation Limited

Michael John Henry
Tamarii Tutangata

Cook Islands Government Property Corporation

The Honourable Henry Puna	Chairman	
The Honourable Mark Brown		
The Honourable Vaine Makiroa Mokoroa		
The Honourable George Maggie Angene		
The Honourable Robert Tapaitau		
The Honourable Vainetutai Rose Toki-Brown		

(The Directors/Members are the Cabinet of the Cook Islands Government)

Banana Court Company Limited

Ian Karika Wilmot	Chairman	
Mary Ann Pirake		
Vasie Poila		

Bank of the Cook Islands Holdings Corporation

Jessie Sword	Chairperson	
Kerry Burridge		
Olivia Heather		appointed 30/08/18
Jeanne Matenga		
Garth Henderson		
Unakea Kauvai		
Vaine Arioka	Managing Director	

Cook Islands Property Corporation (NZ) Limited

Caren Rangi
Malcolm Sword

Cook Islands Telecommuncation Holdings Limited

Harmon Pou Arere
George Lindsay Turia

To Tatou Vai Limited

Brian Mason	Chairperson	
Sam Napa		
Lesley Katoa		
Tamarii Tutangata		
Petero Okotai		

Aitutaki Power Supply Limited

John Baxter	Chairman	
Michael Henry		
Malcolm Sword		

Avaroa Cables Limited

Tatiana Burn	Chairperson	appointed 02/11/18
Richard Williams		appointed 10/07/18
Miimetua Nimerota		appointed 16/10/18
Teu Teulilo		appointed 16/10/18
Petero Okotai		appointed 10/07/18
Tamarii Tutangata		resigned 01/10/18

Address
Level One
Ministry of Finance and Economic Management Building
PO Box 51
Avarua
Rarotonga
Cook Islands
Telephone: (682) 29 391
Fax: (682) 29 381

Auditors
KPMG

Solicitors
Crown Law Office
Tim Arnold

Bankers
Australia and New Zealand Banking Group Limited
Bank of the South Pacific Limited
Bank of Cook Islands Limited
National Australia Bank
Westpac Banking Corporation
Kiwibank
Capital Security Bank Limited

Other Institutions
Co-op Money New Zealand Limited

Annual Report of the Members of the Corporation

The Board of Directors take pleasure in presenting their Annual Report including the Financial Statements of the Corporation for the year ended 30 June 2018.

Activities

During the year the Group continued to provide services to the Cook Islands community on behalf of the Government, including the operations of the ports and airports on the islands of Aitutaki and Rarotonga, the electricity supply to Aitutaki and Rarotonga, and the operations of the Bank of Cook Islands.

The Corporation managed all Government land and buildings throughout the Cook Islands including commercial properties, residential properties, Government Ministries, Government Funded Agencies, public schools and public hospitals.

Objectives

The Corporation was established by an Act of Parliament, the Cook Islands Investment Corporation Act (1998). The Act provides for the control and management of Government Assets and undertakings. Specific objectives of the Corporation are outlined in the Act, and include:

Efficient Management of Assets

This involves the management of Government lands and buildings, and the statutory management of subsidiaries and state owned enterprises.

Privatisation

The Act ensures that the Corporation does not compete in trading activities where the private sector is willing and able to carry out those activities, unless in the opinion of the Board it is in the public interest that the Corporation becomes involved to ensure that a particular trading activity is provided on a reliable, sustainable and equitable basis.

To be socially Responsible

This objective of the Corporation provides a balance between the maximisation of profits, and the recognition of the Government's social responsibility in the performance of the Corporation's functions.

Results

	Group		Parent	
In thousands of New Zealand Dollars	30 June 2018	30 June 2017	30 June 2018	30 June 2017
Surplus/(Deficit) after tax	9,933	8,671	495	458
Total assets	352,542	345,222	4,951	14,599
Owners' equity	230,902	206,369	1,503	849

STATUTORY CORPORATIONS

Airport Authority

The Airport Authority is governed under the Airports and Airport Authorities Act (1968-1969). The Authority is responsible for the management of the international airport on Rarotonga and the domestic airport on Aitutaki.

The Authority has total assets of $74,745,000 and equity of $70,942,000 at 30 June 2018. It made a tax paid profit of $1,073,000 this year.

Bank of the Cook Islands Holdings Corporation

The Bank of the Cook Islands Holdings Corporation was established in November 2003, under the Bank of the Cook Islands Act 2003, following the committee review under the Minister of Bank of the Cook Islands to ensure the agencies charter remained in line with the Government's commitment to financial reform.

The Bank of the Cook Islands Holdings Corporation has total assets of $116,237,000 and equity of $18,531,000 at 30 June 2018. It made a tax paid surplus of $1,216,000 this year.

Cook Islands Government Property Corporation

The Corporation was established by the Cook Islands Government Property Corporation Act (1969) to manage Government assets with its governing body being the Ministers of the Government. The major assets owned by Cook Islands Government Property Corporation are Government land and buildings, and equity investments.

The Corporation generated rental revenues on its buildings portfolio. These revenues are transferred to Cook Islands Investment Corporation in accordance with Section 31 (2) of the Cook Islands Investment Corporation Act (1998). All administration and management expenses relating to assets owned by the Corporation are incurred by Cook Islands Investment Corporation.

The Corporation's other major revenue item is the 2018 dividend from Cook Islands Telecommunication Holdings Limited of $2,558,000.

The Corporation has total assets of $61,069,000 and equity of $60,494,000 at 30 June 2018. It made a profit of $2,146,000 this year. The Corporation is tax exempt.

Ports Authority

The management of the commercial ports at Avatiu, Rarotonga and Arutanga, Aitutaki rests with the Ports Authority, under the Ports Authority Act (1994-1995).

The Authority has total assets of $36,471,000 and equity of $14,582,000 at 30 June 2018. It made a loss of $336,000 for this year.

Cook Islands Broadcasting Corporation

The Cook Islands Broadcasting Corporation is governed by the Broadcasting Corporation Act (1989). With the functions of providing radio and television service privatised, Cook Islands Broadcasting Corporation became an asset manager.

Cook Islands Broadcasting Corporation has nil total assets and nil equity at 30 June 2018. It did not trade during the year.

Te Aponga Uira O Tumu-te-Varovaro

Te Aponga Uira generates and distributes electricity to Rarotonga in accordance with its mandate under the Te Aponga Uira O tumu-te-Varovaro Act (1991).

Te Aponga has total assets of $60,251,000 and equity of $57,533,000 at 30 June 2018. It made a tax paid surplus of $5,224,000 this year.

COMPANIES

Cook Islands Property Corporation (NZ) Limited

Cook Islands Property Corporation (NZ) Limited is incorporated under the New Zealand Companies Act (1993). The Company owns the Consulate premises in Wellington.

Cook Islands Property Corporation (NZ) Limited has total assets of $724,000 and equity of $71,000 at 30 June 2018. It made a tax paid surplus of $71,000 this year.

Suwarrow Development Corporation Limited

Suwarrow Development Corporation Limited was set up to act as a manager / licensor for industry in Suwarrow. The Company is dormant.

Cook Islands Telecommunication Holdings Limited

Cook Islands Government Property Corporation is the owner of all shares in Cook Islands Telecommunication Holdings Limited. That entity is a holding company for Government's 40% interest in Telecom Cook Islands Limited. Control of Cook Islands Telecommunication Holdings Limited rests with the governing body of Cook Islands Government Property Corporation.

Cook Islands Telecommunication Holdings Limited has total assets of $11,529,000 and equity of $11,402,000 at 30 June 2018. It made a tax paid surplus before dividends payable of $3,822,000 this year.

Banana Court Company Limited

The Company manages the Banana Court commercial retail complex in Avarua.

The Banana Court Company Limited has total assets of $250,000 and equity of $227,000 at 30 June 2018. It made a tax paid surplus of $26,000 for this year.

To Tatou Vai Limited

The principal activity of To Tatou Vai Limited is to ensure the availability of an adequate supply of drinkable water and to establish and manage the treatment, collection and disposal of sewage on the Island of Rarotonga

To Tatou Vai Limited has total assets of $84,000 and equity of $70,000 at 30 June 2018. It made a tax paid loss of $30,000 for this year.

Aitutaki Power Supply Limited

The Company generates and distributes electricity on the outer island of Aitutaki.

Aitutaki Power Supply Limited has total assets of $3,959,000 and equity of $3,840,000 at 30 June 2018. It made a tax paid loss of $3,000 for this year.

Avaroa Cables Limited

The principal activity of Avaroa Cables Limited is management of telecommunication networks and services.

Avaroa Cables Limited has total assets of $1,000 and equity of $1,000 at 30 June 2018. The Company was non-trading during the year.

Accounting Policies

Accounting policies are applied according to generally accepted accounting practice as applied in International Public Sector Accounting Standards (IPSAS).

Remuneration of CIIC Directors

Mr Michael Henry received fees of $29,000 as Chairman of Directors and $25,000 as a member of the Infrastructure Committee during the year. Mr Malcolm Sword received $19,000 as a Director and $15,000 as a member of the Infrastructure Committee. Ms Caren Rangi received $36,500 for her role as a Director of the Cook Islands Investment Corporation.

Appointment of Auditors

In compliance with Section 17 of the Cook Islands Investment Corporation Act 1998, KPMG were reappointed as auditor for the 2019 financial year.

For and on behalf of the Members of the Corporation

Director	Director
16th July 2019	16th July 2019
Date	Date

KPMG

Independent Auditor's Report

To the shareholder of Cook Islands Investment Corporation

Report on the audit of the Corporation and Group financial statements

Qualified opinion

In our opinion, the accompanying Corporation and Group financial statements of Cook Islands Investment Corporation (the Corporation) and its subsidiaries (the Group) on pages 12 to 63, except for the possible effects of the matters described in the basis for qualified opinion:

i. present fairly in all material respects the Corporation's and Group's financial position as at 30 June 2018 and its financial performance and cash flows for the year ended on that date; and

ii. comply with International Public Sector Accounting Standards (IPSAS).

We have audited the accompanying Corporation and Group financial statements which comprise:

— the Corporation and Group statement of financial position as at 30 June 2018;

— the Corporation and Group statements of comprehensive revenue and expenses, changes in equity and cash flows for the year then ended; and

— notes, including a summary of significant accounting policies and other explanatory information.

Basis for qualified opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified opinion on the Corporation and Group cash flows and qualified opinion on the Corporation and Group financial position and comprehensive revenue and expenses for the year ending 30 June 2018.

Ownership, completeness and valuation of property, plant and equipment

The Group's property, plant and equipment, is carried at $178,455,000 on the Statement of Financial Position as at 30 June 2018. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of the property, plant and equipment as at 30 June 2018 due to loss of historical accounting records. Refer to Note 14 for further details. Consequently, we were unable to determine whether any adjustments to the amounts shown in the Group financial statements for property, plant and equipment and depreciation were necessary.

Our audit opinion on the Corporation and Group financial statements for the year ended 30 June 2017 was also modified in respect of this matter.

Completeness and existence of inventory

Included within inventory in the Group financial statements is $238,490 relating to inventory held by Aitutaki Power Supply Ltd. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of this inventory as at 30 June 2018 due to loss of historical accounting records. Refer to Note 13 for further details. Consequently, we were unable to determine whether any adjustments to the amounts shown in the Corporation and Group financial statements for inventory were necessary.

Our audit opinion on the Corporation and Group financial statements for the year ended 30 June 2017 was not modified in respect of this matter as Aitutaki Power Supply Ltd was only established on 1 July 2017.

Future lease commitments

The Corporation and Group's operating lease expense and lease commitments are recorded in the Statement of Comprehensive Revenue and Expenses, and notes to the Corporation and Group financial statements as at 30 June 2018. We have obtained sufficient appropriate audit evidence about the carrying amount of the lease provision and lease commitments as at 30 June 2018.

However, we were unable to obtain sufficient appropriate audit evidence about the carrying amount of the lease provision and lease commitments as at 30 June 2017 due to a loss of historical accounting records. Refer to Note 24 for further details. Consequently, we were unable to determine whether any adjustments to the lease provision and lease commitments at 30 June 2017 were necessary.

Auditor Independence

We are independent of the Corporation and Group in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the Corporation and Group financial statements section of our report.

Our firm has also provided other services to the Corporation and Group in relation to taxation and general accounting services relating to IFRS and IPSAS transition. Subject to certain restrictions, partners and employees of our firm may also deal with the Corporation and Group on normal terms within the ordinary course of trading activities of the business of the company. These matters have not impaired our independence as auditor of the company. The firm has no other relationship with, or interest in, the Corporation and Group.

Other information

The Directors, on behalf of the Corporation and Group, are responsible for the other information included in the entity's Annual Report. Our opinion on the Corporation and Group financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Corporation and Group financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Corporation and Group financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Use of this independent auditor's report

This independent auditor's report is made solely to the shareholder as a body. Our audit work has been undertaken so that we might state to the shareholder those matters we are required to state to them in the independent 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 shareholder as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

Responsibilities of the Directors for the Corporation and Group financial statements

The Directors, on behalf of the Corporation and Group, are responsible for:

- the preparation and fair presentation of the Corporation and Group financial statements in accordance with IPSAS;
- implementing necessary internal control to enable the preparation of a Corporation and Group set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Corporation and Group financial statements

Our objective is:

- to obtain reasonable assurance about whether the Corporation and Group financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They 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 Corporation and Group financial statements.

As part of an audit in accordance with ISAs (NZ), the auditor exercises professional judgement and maintains professional scepticism throughout the audit. The auditor also:

- Identifies and assesses the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence that is sufficient and appropriate to provide a basis for the auditor's opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concludes on the appropriateness of the use of the going concern basis of accounting by those charged with governance and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If the auditor concludes that a material uncertainty exists, the auditor is required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. The auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluates the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtains sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. The auditor is responsible for the direction, supervision and performance of the Group audit. The auditor remains solely responsible for the audit opinion.

The auditor communicates with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit.

KPMG

Rarotonga

17 July 2019

Statement of Comprehensive Revenue and Expenses
For the year ended 30 June 2018

		Group		Parent	
In thousands of New Zealand Dollars	*Note*	2018	2017	2018	2017
Revenue from exchange transactions					
Airport landing fees		6,707	5,468	-	-
Electricity services		21,805	19,418	-	-
Fees on banking portfolio assets		1,344	1,191	-	-
Interest on banking portfolio assets		8,230	7,956	-	-
Port services		3,423	3,064	-	-
Rental income		3,198	2,961	548	527
Total revenue from exchange transactions		44,707	40,058	548	527
Other revenue					
Aid funding		4,665	6,125	4,665	6,125
Crown appropriation	2(f)	7,750	6,602	5,702	4,554
Grant revenue		-	107	-	-
Dividends received	2(j)	-	-	763	548
Interest income		1,704	1,524	60	123
POBOC		146	172	146	172
Sundry income	5	1,307	1,069	508	399
Total other revenue		15,572	15,599	11,844	11,921
Total Revenue		60,279	55,657	12,392	12,448

The notes on pages 20 to 63 are an integral part of these financial statements

KPMG RAROTONGA
Marked for Identification Purpose

Statement of Comprehensive Revenue and Expenses
For the year ended 30 June 2018

In thousands of New Zealand Dollars	*Note*	Group 2018	Group 2017	Parent 2018	Parent 2017
Expenditure					
Personnel costs		11,031	9,816	922	700
Depreciation and amortisation	14,15,16	9,065	8,325	38	35
Directors fees and expenses		601	513	168	126
Increase / (decrease) in provision for doubtful debts		318	1,455	6	(2)
Finance costs		2,993	3,929	-	-
Legal and professional fees		1,162	1,007	201	5
Rental and operating lease costs		48	114	868	838
Office communication		579	452	30	12
Repairs and maintenance		11,360	10,915	8,554	9,520
Insurance		1,272	1,191	194	210
Fuel		8,169	6,026	-	-
Other expenses	6	4,412	4,697	765	432
Total expenditure		51,010	48,440	11,746	11,876
Other gains/(losses)					
Gain / (loss) on disposal of assets		1	4	(2)	-
Unrealised foreign exchange (loss) / gain		(687)	200	-	-
Realised foreign exchange gain / (loss)		-	198	-	-
Revaluation gains		-	-	-	-
Share of profit of equity accounted investees	20	4,439	3,587	(25)	-
Impairment loss		-	-	-	-
Total other gains/(losses)		3,753	3,989	(27)	-
Surplus / (deficit) before income tax		13,022	11,206	619	572
Income tax expense	18	(3,089)	(2,535)	(124)	(114)
Surplus / (deficit) for the year		9,933	8,671	495	458
Other comprehensive revenue and expenses for the year, net of income tax		-	-	-	-
Total comprehensive revenue and expenses for the year		9,933	8,671	495	458

The notes on pages 20 to 63 are an integral part of these financial statements

Statement of Financial Position
As at 30 June 2018

		Group		Parent	
In thousands of New Zealand Dollars	Note	2018	2017	2018	2017
Assets					
Current assets					
Cash and cash equivalents	8	14,960	24,520	444	791
Term deposits	9	42,334	42,056	686	3,880
Trade receivables	10	5,072	3,321	17	172
Dividends receivable	11	-	-	-	319
Inventories	13	5,897	6,110	1	2
Work in progress receivable	11(g)	1,393	8,069	1,393	8,069
Other receivables		553	933	-	355
Sundry debtors and prepayments		1,986	2,113	327	17
Related party receivables	11	1,755	786	1,152	366
Banking portfolio investments	12	10,064	9,132	-	-
Derivative financial instrument		-	-	-	-
Taxation receivable	18	1,172	685	718	569
Total current assets		85,186	**97,725**	4,738	**14,540**
Non current assets					
Property, plant and equipment	14	178,455	163,635	109	58
Investment properties	16	5,300	5,499	-	-
Banking portfolio investments	12	67,876	65,249	-	-
Future income tax benefit	18	-	8	-	-
Deferred tax assets	18	1,119	1,064	2	1
Intangible assets	15	2,495	639	-	-
Investment in associate	20(a)	10,983	9,719	-	-
Investment in subsidiaries	20(b)	-	-	102	-
Investment in shares	19	128	128	-	-
Term deposits	9	1,000	1,556	-	-
Total non-current assets		267,356	**247,497**	213	**59**
Total assets		352,542	**345,222**	4,951	**14,599**

The notes on pages 20 to 63 are an integral part of these financial statements

KPMG RAROTONGA
Marked for Identification Purpose

Statement of Financial Position
As at 30 June 2018

		Group		Parent	
In thousands of New Zealand Dollars	Note	2018	2017	2018	2017
Equity					
Capital contribution and retained earnings		230,902	206,369	1,503	849
Total Equity		230,902	206,369	1,503	849
Liabilities					
Current liabilities					
Trade and other payables	17	4,671	6,816	387	1,343
Banking customer deposits	21	88,673	90,094	-	-
Customer bonds		959	924	32	30
Bank loan	22	771	703	-	-
Deferred revenue liability		20	2,366	20	2,366
Employee entitlements	7	633	1,092	65	67
Income in advance		585	397	-	-
Related party payables	11	872	757	1,878	1,756
Capital project liability	11(g)	1,019	7,882	1,019	7,882
Dividends payable	11	-	255	-	255
Income tax payable	18	192	477	-	-
Total current liabilities		**98,395**	**111,763**	**3,401**	**13,699**
Non current liabilities					
Banking customer deposits	21	1,802	4,217	-	-
Deferred taxation liability	18	764	769	-	-
Deferred revenue liability		47	51	47	51
Employee entitlements	7	84	14	-	-
Bank loan	22	20,548	22,039	-	-
Total non current liabilities		**23,245**	**27,090**	**47**	**51**
Total liabilities		**121,640**	**138,853**	**3,448**	**13,750**
Total equity and liabilities		**352,542**	**345,222**	**4,951**	**14,599**

The notes on pages 20 to 63 are an integral part of these financial statements

KPMG RAROTONGA Marked for Identification Purpose

Statement of Changes in Equity
For the year ended 30 June 2018

Group

In thousands of New Zealand Dollars		Capital contributions & retained earnings	Total equity
Balance at 1 July 2016		198,591	**198,591**
Changes in net assets/equity for 2017			
Tax benefit on dividends paid		110	**110**
Surplus/(Deficit) for the year		8,671	**8,671**
Total recognised revenue and expenses for the year		8,781	**8,781**
Transactions with owners of the Parent:			
Equity injection by owners	**11 i)**	1,334	**1,334**
Dividends		(2,337)	**(2,337)**
Total contributions by and distributions to owners of the Parent		(1,003)	**(1,003)**
Restated Balance at 30 June 2017		206,369	**206,369**
Balance at 1 July 2017		**206,369**	**206,369**
Changes in net assets/equity for 2018			
Tax benefit on dividends paid		**153**	**153**
Surplus/(Deficit) for the year		**9,933**	**9,933**
Total recognised revenue and expenses for the year		**10,086**	**10,086**
Transactions with owners of the Parent:			
Equity injection by owners	**11 i)**	**17,005**	**17,005**
Dividends		**(2,558)**	**(2,558)**
Total contributions by and distributions to owners of the Parent		**14,447**	**14,447**
Balance at 30 June 2018		**230,902**	**230,902**

The notes on pages 20 to 63 are an integral part of these financial statements

Statement of Changes in Equity
For the year ended 30 June 2018

Parent

In thousands of New Zealand Dollars		Capital contributions & retained earnings	Total equity
Balance at 1 July 2016		830	**830**
Changes in net assets/equity for 2017			
Surplus/(Deficit) for the year		458	**458**
Total recognised revenue and expenses for the year		458	**458**
Transactions with owners of the Parent:			
Dividends		(439)	**(439)**
Total contributions by and distributions to owners of the Parent		(439)	**(439)**
Balance at 30 June 2017		849	**849**
Balance at 1 July 2017		**849**	**849**
Changes in net assets/equity for 2018			
Surplus/(Deficit) for the year		**495**	**495**
Total recognised revenue and expenses for the year		**495**	**495**
Transactions with owners of the Parent:			
Equity injection by owners	**11 i)**	**159**	**159**
Dividends		**-**	**-**
Total contributions by and distributions to owners of the Parent		**159**	**159**
Balance at 30 June 2018		**1,503**	**1,503**

The notes on pages 20 to 63 are an integral part of these financial statements

KPMG RAROTONGA
Marked for Identification Purpose

Statement of Cashflows
For the year ended 30 June 2018

In thousands of New Zealand Dollars	Note	Group 2018	Group 2017	Parent 2018	Parent 2017
Cash flows from operating activities					
Cash receipts from customers		36,347	32,701	820	643
Crown appropriation		7,055	8,317	4,650	3,905
POBOC		146	172	146	172
Dividends received		3,200	2,400	1,082	1,562
Interest received		9,950	9,027	60	123
Aid funding		2,565	6,232	2,565	8,050
Other funding		-	-	187	377
Net increase in client deposits		(3,887)	17,989	-	-
Bond deposits		35	48	2	2
Net investment in banking portfolio		(3,877)	(10,663)	-	-
Cash paid to suppliers and employees		(40,514)	(33,514)	(12,630)	(11,437)
Interest paid		(3,099)	(3,722)	-	-
Income tax paid		(3,760)	(3,533)	(274)	(312)
Net cash from operating activities		4,161	25,454	(3,392)	3,085
Cash flows from investing activities					
Net acquisition/disposal of property, plant and equipment		(6,291)	(3,842)	(89)	(10)
Net acquisition/sale of intangibles		(2,244)	(167)	-	-
Proceeds from / (acquistion of) term deposits		329	(6,562)	3,194	(1,420)
Loans to related parties		(706)	(70)	-	-
Net cash from investing activities		(8,912)	(10,641)	3,105	(1,430)
Cash flows from financing activities					
Repayment of bank loans		(1,424)	(959)	-	-
Proceeds from related parties		115	1	36	(85)
Equity introduced		-	-	159	-
Dividends paid		(2,813)	(3,148)	(255)	(1,250)
Net cash from financing activities		(4,122)	(4,106)	(60)	(1,335)
Net (decrease)/increase in cash and cash equivalents		(8,873)	10,707	(347)	320
Effect of exchange rate fluctuation		(687)	200	-	-
Cash and cash equivalents at the beginning of the year		24,520	13,613	791	471
Cash and cash equivalents at the end of the year		14,960	24,520	444	791
Made up of:					
Bank balances and on-call deposits	8	14,960	24,520	444	791
Total cash and cash equivalents		14,960	**24,520**	444	791

The notes on pages 20 to 63 are an integral part of these financial statements

Statement of Cashflows
For the year ended 30 June 2018

In thousands of New Zealand Dollars	Group		Parent	
	2018	2017	2018	2017
Surplus for the year after tax	9,933	8,671	495	458
Depreciation & amortisation	9,065	8,325	38	35
Doubtful debts	-	(52)	6	(2)
(Gains)/losses on asset disposal	(1)	(4)	-	-
Foreign exchange losses/(gains)	-	(200)	-	-
Net increase in future income tax benefit	8	11	-	-
Net increase in deferred tax assets	(55)	(119)	(1)	2
Net increase in deferred tax liabilities	(5)	(420)	-	-
Working capital adjustments				
(Increase) / decrease in receivables & prepayments	(1,249)	(374)	(41)	(9)
Increase / (decrease) in payables & other accruals	(2,498)	1,649	(482)	552
(Increase) / decrease in work in progress	6,676	(6,854)	6,439	(6,854)
(Increase) / decrease in bank loan portfolios	(3,559)	(9,208)	-	-
(Increase) / decrease in inventories	213	(433)	1	3
(Increase) / decrease in related party receivables	(259)	(259)	(805)	(260)
(Increase) / decrease in project liabilities	(6,863)	6,705	(6,863)	6,705
Increase / (decrease) in deferred income liability	(2,350)	1,641	(2,349)	1,641
Increase / (decrease) in income in advance	188	44	-	-
Increase / (decrease) in net tax payable	(619)	(471)	(149)	(200)
Increase / (decrease) in customer deposits	(3,887)	17,989	-	-
Increase / (decrease) in bank loan	687	-	-	-
Increase / (decrease) in related party payables	-	-	-	-
(Increase) / decrease in dividends receivables	-	-	319	1,014
Increase / (decrease) in dividend payables	-	-	-	-
Increase / (decrease) in derivative liability	-	-	-	-
(Increase) / decrease in Investment in Associate	(1,264)	(1,187)	-	-
Net cash flows from operating activities	4,161	25,454	(3,392)	3,085

The notes on pages 20 to 63 are an integral part of these financial statements

Notes to the financial statements

Notes to the financial statements

Note 1 Reporting entity

Cook Islands Investment Corporation is domiciled in the Cook Islands and incorporated under the Cook Islands Investment Act 1998. Its financial statements comply with the Act.

Financial statements for Cook Islands Investment Corporation (the "Corporation") and consolidated financial statements are presented. The consolidated financial statements comprise the Corporation and its subsidiaries (the "Group") and the Group's interests in associates. The Corporation is an in-substance subsidiary of the Cook Islands Government.

Note 2 Basis of preparation

a) Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). Some entities within the group apply IFRS, NZIFRS and PBE standards in their individual financial statements. The policies adopted by the Group are inline with IPSAS or where IPSAS does not have a relevant standard, other authoritative support has been used such as IFRS.

The accounting policies have been consistently applied to all the years presented.

b) Basis of measurement

The financial statements have been prepared on the historical cost basis modified for the revaluation of certain assets.

The statement of cash flows is prepared using the direct method. The consolidated financial statements are prepared on an accrual basis.

c) Functional and presentation currency

The consolidated financial statements are presented in New Zealand dollars, which is the functional and reporting currency of the Group and all values are rounded to the nearest thousand ($000) except where indicated otherwise.

Note 3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by Group entities.

Notes to the financial statements (continued)

Note 3 **Significant accounting policies (continued)**

a) Consolidation

Controlled entities

The controlled entities are all those entities (including special purpose entities) over which the controlling entity has the power to govern the financial and operating policies. Controlled entities are fully consolidated from the date on which control is transferred to the controlling entity. They are de-consolidated from the date that control ceases. Inter-group transactions, balances and unrealized gains and losses on transactions between members of the group are eliminated in full. The accounting policies of the controlled entities are consistent with the policies adopted by the controlling entity.

b) Investment in associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

Investments in associates and jointly controlled entities are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group's share of the surplus or deficit, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of the investment, including any long-term investments that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

c) Revenue recognition

Goods and services

Revenue comprises the amounts received and receivable for goods and services supplied to customers in the ordinary course of business. Revenue is stated exclusive of Value Added Tax. Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, and the revenue and associated costs can be estimated and measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

Interest income

Interest income is accrued using the effective interest rate method. The effective interest rate discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

Fee and commission

Fees and commission income and expense that are integral to the effective interest rate of a financial asset or financial liability are included in the measurement of the effective interest. For example, loan establishment fees, together with related direct costs, are deferred and recognised as an adjustment to the effective interest rate on a loan once drawn.

Fees and commissions that relate to the execution of a significant act are recognised when the significant act has been completed.

Fees charged for providing ongoing services (for example, maintaining and administering existing facilities) are recognised as income over the period the service is provided.

Dormant account fees are charged on accounts which have been dormant greater than two years at a rate of fifteen dollars per quarter.

Rental income

Rental income from investment property is recognised in the Statement of Comprehensive Revenue and Expenses on a straight-line basis over the term of the lease.

Notes to the financial statements (continued)

Note 3 **Significant accounting policies (continued)**

c) **Revenue recognition (continued)**

Government grants and funding

Revenues from non-exchange transactions with Government and other agencies is recognised when the Group obtains control of the transferred assets (cash, goods, services, or property), and:

- It is probable that the economic benefits or service potential related to the asset will flow to the Group and can be measured reliably; and

- The transfer is free from conditions that require the asset to be refunded or returned to the Government if the conditions are not fulfilled.

Revenue from government grants and funding is measured at the fair value of the assets (cash, goods, services or property) transferred over to the Group at the time of transfer.

To the extent that there is a condition attached that would give rise to a liability to repay the grant amount or to return the granted asset, a deferred revenue liability is recognised instead of the revenue. Revenue is then recognised instead only once the Group has satisfied these conditions.

Crown appropriation

Crown Appropriation revenue is provided by the Cook Islands Government through the Budget Estimates and approved by the Appropriation Bill. Revenue is intended to be spent within the same financial year. Revenue received but not spent at balance date is recorded as deferred revenue liability in the Statement of Financial Position.

Aid funding

Aid Funding revenue relates to funding received from aid donors for specified projects. Funding received in advance is recorded as deferred revenue liability and recognised as revenue when allowable costs are incurred and any conditions are met. Where allowable costs have been incurred but funding not received, the Corporation recognises a receivable up to the amount of approved funding.

Concessionary Loans

When the Group receives a loan at an interest rate that is lower than market terms (concessionary loan), the difference between the loan proceeds and the fair value of the loan (calculated using market terms) is recognised as revenue if there are no conditions attached to the loan. To the extent that there are conditions attached to the loan that would result in early repayment of the loan if these conditions are satisfied, a deferred revenue liability for the amount of the difference between the loan proceeds and the fair value of the loan is recognised. Revenue is then recognised as the Group satisfies its conditions.

Insurance proceeds

Proceeds from insurance claims are recognised as revenue when claims have been assessed and approved. This revenue is measured at the fair value of the amount received or receivable.

d) **Expense recognition**

Expenses are recognised in surplus or deficit on an accrual basis.

Notes to the financial statements (continued)

Note 3 Significant accounting policies (continued)

d) Expense recognition (continued)

Salaries & wages

Salaries & wages are recognised on an accrual basis and include employer contributions for the government superannuation scheme.

Interest expense

Interest expense on financial liabilities measured at amortised cost is recognised in the Statement of Comprehensive Revenue & Expenses as it accrues using the effective interest method.

Lease payments

Leases entered into by the Group as lessee are operating leases, and the operating lease payments are recognised as an expense in the Statement of Comprehensive Revenue & Expenses on a straight-line basis over the lease term.

e) Taxes

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in surplus or deficit except to the extent that it relates to a business combination, or items recognised directly in equity or in changes in net assets/equity.

Current tax is the expected tax payable or receivable on the taxable surplus or deficit for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

A tax benefit is recognised in equity for dividends paid by Cook Islands tax paying entities to another Cook Islands tax payer.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable surplus or deficits; and
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Notes to the financial statements (continued)

Note 3 **Significant accounting policies (continued)**

NON FINANCIAL ASSETS

f) Investment Property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at cost less accumulated depreciation.

Residential buildings held for the primary purpose of providing low income housing have been classified as property, plant, and equipment.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing costs.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in the Statement of Comprehensive Revenue and Expenses.

g) Property, plant and equipment

All property, plant and equipment is held at cost. Cost of buildings has been determined from historical cost or deemed cost based on previous valuations performed as follows:

i Buildings transferred to the Group by the Cook Islands Government are included at their deemed cost, being the valuation initially recorded in the 1996/7 statutory accounts of the Government of the Cook Islands less accumulated depreciation. Other assets donated by the Cook Islands Government (ultimate parent) or transferred from Ministries of the Cook Islands Government are recognised at deemed cost being the value nominated by the Ministry of Finance and Economic Management for the Cook Islands or relevant Ministry and are recognised directly in equity as a contribution from owner.

ii For all other items of property, plant and equipment the cost is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the following:

- the cost of materials and direct labour;
- any other costs directly attributable to bringing the assets to a working condition for their intended use;
- when the group has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located; and
- capitalised borrowing costs.

Depreciation

Depreciation is charged on a straight line basis so as to write off the cost of the fixed assets to their expected residual value over their estimated useful lives. Freehold land is not depreciated. The estimated useful lives are as follows:

Leased land and leasehold improvements	term of the lease
Buildings	5-50 years
Furniture and fittings	4-10 years
Plant and equipment	5-20 years
Motor vehicles	3-10 years
Rescue fire vehicles	3-20 years
Office equipment	2-10 years
Marine equipment	5 years
Wharf structure	40 years
Wharf fixtures	5-20 years
Runways	5-99 years
Electricity distribution network	5-20 years

Notes to the financial statements (continued)

Note 3 Significant accounting policies (continued)

NON FINANCIAL ASSETS (continued)

g) Property, plant and equipment (continued)

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

An asset's carrying amount is written down immediately to its recoverable amount, or recoverable service amount, if the asset's carrying amount is greater than its estimated recoverable amount or recoverable service amount.

The Group derecognises items of property, plant and equipment and/or any significant part of an asset upon disposal or when no future economic benefits or service potential is expected from its continuing use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the surplus or deficit when the asset is derecognised.

When an asset is acquired in a non-exchange transaction for nil or nominal consideration it is initially measured at fair value. For new assets, fair value is usually determined by reference to the retail price of the same or similar assets at the time the asset was received. For used assets, fair value is usually determined by reference to market inflation for assets of a similar type condition and age. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in surplus or deficit.

Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance is expensed as incurred.

h) Leases

Group as a lessee

Operating leases are those leases that do not transfer substantially all the risks and benefits relating to ownership of the leased item to the group. Operating lease payments are recognised as an expense in surplus or deficit on a straight-line basis over the lease term.

The group does not hold any finance leases.

Group as a lessor

Leases in which the group does not transfer substantially all the risks and benefits of ownership of an asset are classified as operating leases. Initial direct costs that are incurred in determining an operating lease are added to the carrying amount of the leased asset and recognised over the lease term.

Rent received from an operating lease is recognised as revenue on a straight-line basis over the lease term.

i) Intangible assets

Intangible assets include costs incurred in acquiring and building software and computer systems (software). Software is amortised using the straight-line method over its expected useful life.

At each reporting date, the intangible assets are reviewed for indicators of impairment if any such indication exists, the recoverable amount of the assets are estimated and compared against the existing carry value. The recoverable amount is the higher of an assets fair value less costs to sell and its value in use. Where the existing carrying value exceeds the recoverable amount, the difference is charged to the Statement of Comprehensive Revenue & Expenses.

Costs incurred in planning or evaluating software proposals, or in maintaining systems after implementation are not capitalised.

Notes to the financial statements (continued)

Note 3 Significant accounting policies (continued)

NON FINANCIAL ASSETS (continued)

j) Impairment of non-financial assets

At each reporting date, the group reviews the carrying amounts of its non-financial assets (other than deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the assets recoverable amount is estimated.

The Group's assets that do not generate separate cash inflows are tested for impairment as part of testing the overall group's assets.

Impairment losses are recognised in the Statement of Comprehensive Revenue and Expenses.

For assets an impairment loss is reversed only to the extent that the assets carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognised.

FINANCIAL ASSETS

The Group does not have any financial assets classified as financial assets at fair value through surplus or deficit, held-to-maturity investments or available-for-sale financial assets. The Group only holds financial assets classified as loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognised in the surplus or deficit.

Recognition

Financial assets are measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

k) Cash and cash equivalents

Cash and cash equivalents include cash holdings, foreign currency cash holdings, short term cash investments and are carried at amortised cost in the Statement of Financial Position.

l) Loans

Within the Group, Bank of the Cook Islands ("the Bank") issues loans. These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the group does not intend to sell immediately or in the near term. They arise when the Bank provides money to a debtor with no intention of trading the loans and advances. After initial recognition they are measured at amortised cost using the effective interest method less any impairment loss.

Loans include direct finance provided to customers such as current accounts and term loans.

m) Term deposits

This comprises interest-bearing deposits held with other banks and are measured at amortised cost in the Statement of Financial Position.

n) Income tax receivable

This comprises income tax receivable as income tax payments made exceed the current tax due. This will be settled by receipt of refund or used to meet future income tax payments and is measured at amortised cost in the Statement of Financial Position.

Notes to the financial statements (continued)

Note 3 Significant accounting policies (continued)

FINANCIAL ASSETS (continued)

o) Derivative Financial Instruments

Derivative financial instruments are used to manage foreign exchange risk exposure arising from the Group's end of period valuations of its Loan 2473 denominated in SDR (Special Drawing Rights - Unit of account used by the International Monetary Fund and other international organizations. Its value is based on a basket of key international currencies that currently consists of the euro, yen, pound sterling and the US dollar).

The Group does not hold or issue derivative financial instruments for trading purposes. The Group has not adopted hedge accounting.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at each balance date with the resulting gain or loss

The full fair value of a forward foreign exchange derivative is classified as current as the contract is due for settlement within 12 months of balance date.

The Group does not hold any derivative financial instruments at 30 June 2018 (2017: nil).

p) Other receivables

Other receivables includes accrued interest on term deposits and welfare receivables but excludes prepayments These are carried at amortised cost in the Statement of Financial Position.

Identification and measurement of impairment

Financial assets are regularly reviewed for impairment. Credit impairment provisions are raised for exposures that are known to be impaired. Exposures are impaired and impairment losses are recorded if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the reporting date, and that loss event, or events, has had an impact on the estimated future cash flows of the individual loan or the collective portfolio of loans that can be reliably estimated.

Objective evidence that financial assets are impaired includes:

-Significant financial difficulty of the borrower or issuer;
-default on payments by borrower;
-restructuring of a loan
-decline in economic conditions

Impairment is assessed for loans at an individual level.

The estimated individual impairment losses are measured as the difference between the asset's carrying amount and the estimated future cash flows discounted to their present value. As this discount unwinds during the period between recognition of impairment and recovery of the cash flow, it is recognised in interest income. The process of estimating the amount and timing of cash flows involves considerable management judgement. These judgements are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The provision for loan impairment is deducted from loans in the Statement of Financial Position and the movement for the reporting period is reflected in the Statement of Comprehensive Revenue and Expenses.

When a loan is uncollectible, either partially or in full, it is written off against the related provision for loan impairment. Subsequent recoveries of amounts previously written off are taken to the Statement of Comprehensive Revenue and Expenses.

Where impairment losses recognised in previous periods have subsequently decreased or no longer exist, such impairment losses are reversed in the Statement of Comprehensive Revenue and Expenses.

Notes to the financial statements (continued)

Note 3 **Significant accounting policies (continued)**

FINANCIAL ASSETS (continued)

p) Other receivables (continued)

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

FINANCIAL LIABILITIES

Recognition

Financial liabilities are measured initially at fair value plus, for an item not at fair value through surplus or deficit, transaction costs that are directly attributable to its acquisition or issue.

Classification & measurement

All financial liabilities are classified as other financial liabilities and are measured at amortised cost using the effective interest rate and include: trade and other payables, banking customer deposits, related party payables, dividend payable, and income tax payable.

q) Employee benefits

Long-term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognised in the Statement of Comprehensive Revenue and Expenses in the period in which they arise.

Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

r) Provisions

The Group recognises provisions when there is a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognised is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation at the reporting date. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

s) Dividends

Dividends or similar distributions are recognised only when the shareholder's or the Group's right to receive payments is established.

Derecognition

Financial liabilities are derecognised when the obligation specified in the contract is discharged cancelled or expires.

Notes to the financial statements (continued)

Note 3 **Significant accounting policies (continued)**

PRESENTATION

t) Offsetting of income and expenses

Income and expenses are not offset unless required or permitted by an accounting standard. This generally arises in the following circumstances:

- where gains and losses arise from a Group of similar transactions such as foreign exchange gains and losses.
- where amounts are collected on behalf or third parties where the Group is, in substance, acting as an agent only, or
- where costs are incurred on behalf of customers from whom the Group is reimbursed.

u) Offsetting of financial assets and liabilities

Assets and liabilities are offset and the net amount reported in the Statement of Financial Position only where there is:

- a current enforceable legal right to offset the asset and liability, and
- an intention and ability to settle on a net basis or to realise the asset and settle the liability

v) Statement of cash flows

For cash flow statement presentation purposes, cash and cash equivalent includes cash on hand, deposits held at call with other financial institutions, and other short term, highly liquid, investments that are readily convertible to cash and which are subject to an insignificant risk of changes in value.

Certain cash flows have been netted in order to provide more meaningful disclosure as many of the cash flows are received and disbursed on behalf of customers and reflect the activities of the customer rather than those of the Group. These include customer loans and advances, customer deposits, and related party balances.

w) Value added tax

Income, expenses and assets are recognised net of the amount of value added tax (VAT) except where the amount of VAT incurred is not recoverable from the Revenue Management Division (RMD). In these circumstances, the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of VAT included. The net amount of VAT recoverable from, or payable to the RMD is included as, other assets or other liabilities in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flow on a net basis. The VAT components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the RMD are classified as operating cash flows.

x) Contingent liabilities

A contingent liability is a liability of sufficient uncertainty that it does not qualify for recognition as a provision, but there is a possible obligation that is higher than remote.

y) Related parties

The Group regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Group, or vice versa. Members of key management are regarded as related parties and comprise the directors and senior management of the Cook Islands Investment Corporation and Group.

Notes to the financial statements (continued)

Note 3 Significant accounting policies (continued)

CRITICAL ESTIMATES AND JUDGEMENTS USED IN APPLYING ACCOUNTING POLICIES

These financial statements are prepared in accordance with IPSAS. However, there are a number of critical accounting treatments which include complex or subjective judgments and estimates that may affect the reported amounts of assets and liabilities in the financial statements. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

An explanation of the judgements and estimates made by the Group in the process of applying its accounting policies, that have the most significant effect on the amounts recognised in the financial statements are set out below.

Credit provisioning

The accounting policy relating to measuring the impairment of loans and advances requires the Bank to assess impairment at least at each reporting date. The credit provisions raised represent management's best estimate of the losses incurred in the loan portfolio at balance date based on their experienced judgement.

There is no general provision against loans due to the fact that historically specific provisions provided under FSC guidelines have over provided provisions materially equivalent to what the general provision would be under the accounting standards.

The use of such judgements and reasonable estimates is considered by management to be an essential part of the process and does not impact on reliability.

Management regularly reviews and adjusts the estimates and methodologies as improved analysis becomes available. Changes in these assumptions and methodologies could have a direct impact on the level of provision and impairment charge recorded in the financial statements.

Refer to Note 12 for details of credit impairment provisions.

OTHER JUDGEMENTS

Deferred tax assets

The Bank has judged, based on current and recent past performance and budget/business plans in place, that there will be sufficient taxable income in the future to utilise taxable differences that are expected to reverse in the foreseeable future and has therefore recognised a deferred tax asset. Refer to Note 18.

Yield related fees

The Group has reviewed all fees and has judged that loan establishment fees are integral to the yield of the product. These fees have been included as part of the calculation of the effective interest rate.

Member's valuation of selected fixed assets

Certain fixed assets have been included in the Statement of Financial Position based on valuations performed by the Members. This is due to difficulties experienced in obtaining information relating to these assets. This treatment is a departure from IPSAS 17 Property, Plant, and Equipment. The audit report of these financial statements is qualified in this regard. Refer to Note 14.

Note 4 New standards and interpretations not yet adopted

There are currently no IPSAS issued but not yet effective that would require disclosure under IPSAS 3 Accounting policies, changes in accounting estimates and errors.

Notes to the financial statements (continued)

Note 5 Sundry Income

In thousands of New Zealand Dollars	Group 30 June 2018	Group 30 June 2017	Parent 30 June 2018	Parent 30 June 2017
Sundry revenue	890	586	508	399
Social responsibility cost recoveries	417	483	-	-
	1,307	1,069	508	399

Note 6 Other expenses

	Group 30 June 2018	Group 30 June 2017	Parent 30 June 2018	Parent 30 June 2017
Advertising	215	191	7	10
Electricity	998	998	7	5
Fees paid to group auditor - audit services	370	321	96	122
Fees paid to group auditor - non audit services	19	40	1	21
Fees paid to other auditors - audit services	15	15	-	-
Motor vehicle expenses	215	148	14	11
Payment on behalf of Crown	517	172	517	172
Staff training expenses	306	244	10	4
Travel expenses	113	80	33	14
Inventory write offs	206	599	-	-
Other operating expenses	1,438	1,889	80	73
Total Other expenses	4,412	4,697	765	432

Non-audit services include financial statements compilation and tax compliance services.

Note 7 Employee entitlements

	Group 30 June 2018	Group 30 June 2017	Parent 30 June 2018	Parent 30 June 2017
Current				
Accrued salaries and wages	125	86	29	43
Annual leave	508	1,006	36	24
Current employee entitlements	633	1,092	65	67
Non-current				
Long service leave accrual	84	14	-	-
Non-current employee entitlements	84	14	-	-
Total employee entitlements	717	1,106	65	67

Notes to the financial statements (continued)

Note 8 Cash and cash equivalents

	Group		Parent	
In thousands of New Zealand Dollars	30 June 2018	30 June 2017	30 June 2018	30 June 2017
Cash on hand	1,345	1,173	-	-
Cash at bank	13,615	23,347	444	791
Total cash and cash equivalents	14,960	24,520	444	791

Note 9 Term Deposits

	Group		Parent	
In thousands of New Zealand Dollars	30 June 2018	30 June 2017	30 June 2018	30 June 2017
Less than 12 months	42,334	42,056	686	3,880
Over 12 months	1,000	1,556	-	-
Total term deposits	43,334	43,612	686	3,880

Short term deposits are made for varying periods, depending on the immediate cash requirements of the Group and earn interest at the respective short term deposit rate.

Note 10 Receivables from exchange transactions

	Group		Parent	
In thousands of New Zealand Dollars	30 June 2018	30 June 2017	30 June 2018	30 June 2017
Current receivables	5,700	4,685	29	207
Less: impairment allowance	(628)	(1,364)	(12)	(35)
Total receivables from exchange transactions	5,072	3,321	17	172

As at 30 June 2018, the ageing analysis of current exchange receivables is as follows:

Group

In thousands of New Zealand Dollars	Total	Neither past due or impaired	<30 days	30-60 days	>60 days
As at 30 June 2017					
Total receivables from exchange transactions	3,321	2,878	279	26	138

In thousands of New Zealand Dollars	Total	Neither past due or impaired	<30 days	30-60 days	>60 days
As at 30 June 2018					
Total receivables from exchange transactions	5,700	4,117	557	355	671

Notes to the financial statements (continued)

Note 11 Related parties

In thousands of New Zealand Dollars	Group 30 June 2018	Group 30 June 2017	Parent 30 June 2018	Parent 30 June 2017
Related party receivables				
Government of the Cook Islands	-	346	-	346
Cook Island Property Corporation NZ	-	-	-	20
Ministry of Foreign Affairs And Immigration	57	57	-	-
Ministry of Finance and Economic Management	1,696	383	1,150	-
CIIC Seabed Resources Limited	2	-	2	-
Total related party receivables	1,755	786	1,152	366

The balances are repayable on demand, are unsecured and do not bear interest.

In thousands of New Zealand Dollars	Group 30 June 2018	Group 30 June 2017	Parent 30 June 2018	Parent 30 June 2017
Dividends receivable				
Te Aponga Uira O Tumu-te-Varovaro	-	-	-	319
Total dividends receivable	-	-	-	319

In accordance with the requirements of the Cook Islands Government Property Corporation Act 1969, the dividend receivable from Telecom Cook Islands Limited is paid directly to the ultimate shareholder, the Cook Islands Government, and therefore the dividend cashflow does not flow through Cook Islands Investment Corporation.

Notes to the financial statements (continued)

Note **11** **Related parties (continued)**

In thousands of New Zealand Dollars	Group 30 June 2018	Group 30 June 2017	Parent 30 June 2018	Parent 30 June 2017
Related party payables - Current				
Government of the Cook Islands	637	637	-	-
Telecom Cook Islands	120	119	-	-
Ministry of Finance and Economic Management	6	-	-	-
Banana Court Company Limited	-	-	3	-
Avaroa Cables Limited	-	-	1	-
Aitutaki Power Supply Limited	-	-	1	-
CIIC Seabed Resources Limited	109	-	109	-
Cook Islands Property Corporation (NZ) Limited	-	-	8	-
Cook Islands Government Property Corporation	-	-	1,756	1,756
Total related party payables - current	872	756	1,878	1,756

In thousands of New Zealand Dollars	Group 30 June 2018	Group 30 June 2017	Parent 30 June 2018	Parent 30 June 2017
Dividends payable				
Government of the Cook Islands	-	255	-	255
Total dividends payable	-	255	-	255

The related party balances do not have fixed repayment terms, are unsecured and no interest is payable.

Key Management Personnel

Key management personnel of the Corporation include the Board of Directors and the senior management team being the Chief Executive Officer, General Manager (part year), Chief Financial Officer (part year), Property Manager, SPU Team Leader, Land/Legal Manager and Corporate Relationship Manager-(part year).

	30 June 2018 Total remuneration (000's)	30 June 2018 Number of persons	30 June 2017 Total remuneration (000's)	30 June 2017 Number of persons
Board of Directors	125	3	115	3
Senior Management	602	7	391	5

KPMG RAROTONGA Marked for Identification Purpose

Notes to the financial statements (continued)

Note 11 Related parties (continued)

Material related party income and expenditure:

a) The Group entities undertake numerous transactions with other Government entities in the normal course of their business. These transactions are not material, are conducted at commercial rates and have therefore not been disclosed separately.

b) The Group provides electricity to various Government entities outside of the Group through its wholly owned subsidiary, Te Aponga Uira O Tumu-te-Varovaro (Te Aponga). Entities within the Group paid $662,000 (2017: $660,000) to Te Aponga for electricity services which has been eliminated on consolidation.

c) The Group provides telecommunication services to various Government entities outside of the Group through its associate, Telecom Cook Islands Limited. Entities within the group paid $579,000 (2017: $452,000) to Telecom Cook Islands for telecommunication services.

d) Many of the properties owned by Cook Islands Government Property Corporation are tenanted by Ministries of the Government of the Cook Islands. In general, rental income is not received for the use of these assets, as Government Ministries are not appropriated for this cost.

e) The properties owned by Cook Islands Property Corporation (NZ) Limited and tenanted by the Ministry of Foreign Affairs and Immigration are also not generating revenue.

f) Government appropriation income was received by the Airport Authority of $2,048,000 (2017: $2,048,000) and also by the parent entity of $5,702,000 (2017: $4,554,000)

g) Capital project liability relates to project funding received by CIIC from Cook Islands Government and other funding agencies for which the completed asset is to be returned to Crown. The asset is recognised as Work in progress receivable in the Statement of Financial Position up until completion when it is returned to Crown.

h) Cook Islands Government Property Corporation made a revenue transfer of $541,000 (2017: $520,000) to the Corporation in accordance with Section 31 (2) of the Cook Islands Investment Corporation Act 1998. The transfer has been recognised as revenue within the Statement of Comprehensive Revenue and Expenses of the Corporation.

i) Equity injections for the Group in 2018 was $17,005,000 (2017: $1,334,000) being assets consisting of land, completed buildings and extensions transferred to the Cook Islands Government Property Corporation during the year. The above equity injection includes assets transferred from the Government of the Cook Islands to Aitutaki Power Supply Limited of $3,843,000.

j) The parent received dividends of $763,000 (2017: $548,000) from subsidiaries. The Group received a tax benefit of $153,000 (2017: $110,000) in relation to dividends paid to the parent, Cook Islands Investment Corporation, a tax paying entity.

Notes to the financial statements (continued)

Note 12 Banking portfolio investments

The following is a summary of the loans portfolio by industry sector as at 30 June 2018

Group	Total 2018	Total 2017	Due within One Year 2018	Due within One Year 2017	Over One Year 2018	Over One Year 2017
In thousands of New Zealand Dollars						
Agriculture	3	14	3	9	-	4
Fishing	40	-	30	-	10	-
Pearls	-	6	-	4	-	2
Consumer	10,601	10,374	4,174	4,062	6,427	6,312
Business	20,104	19,762	2,605	2,359	17,499	17,403
Housing	38,648	36,282	2,893	2,571	35,755	33,710
Staff	3,350	2,844	406	391	2,944	2,453
Tourism	11,730	11,336	523	496	11,207	10,841
Hire purchase loans	-	6	-	6	-	-
	84,476	80,624	10,634	9,898	73,842	70,725

	2018	2017
LESS:		
Provision for Doubtful loans	3,155	3,191
Provision for non-performing interest	2,540	2,250
Deferred income	841	802
Net Portfolio as at 30 June	77,940	74,381
Split by:		
Current	10,064	9,132
Non - current	67,876	65,249
	77,940	74,381

All loans have been made at varying interest rates, terms and securities. Loans attract the following interest rates:

Housing 5.4% to 16.5% (2017: 5.4% to 15.49%)
Development (including Business) - 7.75% to 20.5% (2017: 7.75% to 20.5%)
Consumer - 10.5% to 16.50% (2017: 10.5% to 16.5%)

The following significant individual counter-party exposures existed at balance date:

Group	30 June 2018			30 June 2017		
In thousands of New Zealand Dollars						
Percent of Equity Range	# Counter Parties	Loan Balance	Percentage of Bank's Equity	# Counter Parties	Loan Balance	Percentage of Bank's Equity
5 - 10%	6	8,687	46.88%	6	8,584	48.68%
+10%	2	6,151	33.19%	2	5,785	32.81%

KPMG RAROTONGA Marked for Identification Purpose

Notes to the financial statements (continued)

Note 12 Banking portfolio investments (continued)

Provision for Losses on Banking Portfolio Investments

Group

In thousands of New Zealand Dollars	30 June 2018	30 June 2017
The total charge of provisions was made up as follows:		
PROVISIONS FOR DOUBTFUL LOANS		
Opening balance	3,191	3,043
Bad debts written out of provisions	(188)	(27)
Allowance for hardship	-	-
Provisions for doubtful loans	152	175
Balance at end	3,155	3,191
Net increase/(decrease) in provision for doubtful loans	(36)	148
PROVISIONS FOR NON-PERFORMING INTEREST		
Opening balance	2,250	1,793
Write off of non-performing loan interest	(257)	(11)
Write back of non-performing loan interest	(111)	(236)
Interest accrued on non-performing loans	658	704
Balance at end	2,540	2,250

Note 13 Inventories

	Group		Parent	
In thousands of New Zealand Dollars	30 June 2018	30 June 2017	30 June 2018	30 June 2017
Trading stock	4,098	4,460	1	2
Spare parts	24	58	-	-
Fuels	1,513	1,314	-	-
Other	262	277	-	-
Total inventories	5,897	6,110	1	2

Historical Inventories
Included in Aitutaki Power Supply Limited inventories is $238,490 for which the Group has been unable to substantiate the carrying value due to the loss of historical accounting records.

Notes to the financial statements (continued)

Note 14 **Property, plant and equipment**
In thousands of New Zealand Dollars

GROUP

In thousands of New Zealand Dollars	Airport freehold land	Leased land	Buildings	Leasehold improve-ments	Motor Vehicles	Furniture and equipment	Office equipment	Plant & equipment	Capital WIP	Power network	Airport facilities	Port facilities	TOTAL
<u>Cost</u>													
At 1 July 2016	10,985	2,238	73,052	64	5,965	970	3,189	33,196	1,751	21,449	52,056	33,886	238,801
Additions	-	797	903	-	239	19	198	1,882	1,062	187	72	309	5,668
Disposals	-	-	(92)	-	(250)	(5)	(23)	(5,020)	-	(1,120)	-	-	(6,510)
Transfers/adjustments	-	-	-	-	-	-	(2)	-	488	-	-	-	486
At 30 June 2017	10,985	3,035	73,863	64	5,954	984	3,362	30,058	3,301	20,516	52,128	34,195	238,445
Additions	-	-	13,448	766	457	7	355	6,438	4,655	1,698	276	107	28,207
Disposals	-	-	19	-	(37)	-	(6)	10	(23)	-	67	(18)	12
Transfers/adjustments	-	-	-	-	-	-	1	415	(2,361)	-	-	8	(1,937)
At 30 June 2018	10,985	3,035	87,330	830	6,374	991	3,712	36,921	5,572	22,214	52,471	34,292	264,727

Notes to the financial statements (continued)

Note 14 Property, plant and equipment (continued)

In thousands of New Zealand Dollars

	Airport freehold land	Leased land	Buildings	Leasehold improve-ments	Motor Vehicles	Furniture and equipment	Office equipment	Plant & equipment	Capital WIP	Power network	Airport facilities	Port facilities	TOTAL
Depreciation and impairment													
At 1 July 2016	-	133	24,792	49	4,018	650	2,170	17,776	-	11,793	7,896	3,347	72,624
Disposals	-	-	(28)	-	(192)	(5)	(23)	(4,760)	-	(530)	-	-	(5,538)
Transfers	-	-	-	-	(1)	-	1	-	-	-	-	-	-
Depreciation	-	18	2,045	4	448	94	373	1,596	-	663	1,593	890	7,724
At 30 June 2017	-	151	26,809	53	4,273	739	2,521	14,612	-	11,926	9,489	4,237	74,810
Disposals	-	-	-	-	(35)	-	(6)	(13)	-	-	-	(18)	(72)
Impairment	-	-	-	-	-	-	-	-	-	109	-	-	109
Transfers	-	-	-	-	1	-	(1)	3,021	-	-	-	-	3,021
Depreciation	-	6	2,411	32	410	35	405	1,892	-	698	1,612	903	8,404
At 30 June 2018	-	157	29,220	85	4,649	774	2,919	19,512	-	12,733	11,101	5,122	86,272

	Airport freehold land	Leased land	Buildings	Leasehold improve-ments	Motor Vehicles	Furniture and equipment	Office equipment	Plant & equipment	Capital WIP	Power network	Airport facilities	Port facilities	TOTAL
In thousands of New Zealand Dollars													
Net Book Values													
At 1 July 2016	10,985	2,105	48,260	15	1,947	320	1,019	15,420	1,751	9,656	44,160	30,539	166,177
At 30 June 2017	10,985	2,884	47,054	11	1,681	245	841	15,446	3,301	8,590	42,639	29,958	163,635
At 30 June 2018	10,985	2,878	58,110	745	1,725	217	793	17,409	5,572	9,481	41,370	29,170	178,455

Notes to the financial statements (continued)

Note 14 **Property, plant and equipment (continued)**

In thousands of New Zealand Dollars

PARENT

	Plant and equipment	Motor vehicles	TOTAL
Cost			
At 1 July 2016	236	135	371
Additions	7	3	10
Disposals	-	-	-
Transfers/adjustments	-	-	-
At 30 June 2017	243	138	381
Additions	**31**	**58**	**89**
Disposals	-	-	-
Transfers/adjustments	-	-	-
At 30 June 2018	**274**	**196**	**470**
Depreciation and impairment			
At 1 July 2016	(186)	(102)	(288)
Disposals	-	-	-
Depreciation	(21)	(14)	(35)
Impairment	-	-	-
Transfers/adjustments	-	-	-
At 30 June 2017	(207)	(116)	(323)
Disposals	-	-	-
Depreciation	**(21)**	**(17)**	**(38)**
Impairment	-	-	-
Transfers/adjustments	-	-	-
At 30 June 2018	**(228)**	**(133)**	**(361)**
Net Book Values			
At 1 July 2016	**50**	**33**	**83**
At 30 June 2017	**36**	**22**	**58**
At 30 June 2018	**46**	**63**	**109**

Notes to the financial statements (continued)

Note 14 Property, plant and equipment (continued)

Determination of Cost:

Buildings are measured at cost. Cost is based on historical costs or deemed cost based on previous valuations as detailed below:

- Rental houses were valued at $1.8 million (2017: $1.8miilion) by John McElhinney of Rarotonga, a registered valuer, in May 1999. The valuation includes buildings only and no attempt has been made to place a valuation on the land. This May 1999 valuation is the deemed cost applied for these rental houses.
- The Rarotonga Hospital Administration Block is measured at cost less accumulated depreciation.
- The Court House, Police Headquarters and Multi Sports Complex are recorded at the value nominated by the Ministry of Finance and Economic Management for the Cook Islands being the cost of construction.
- All other Cook Islands Government Property Corporation buildings are stated at deemed cost being valuations performed by members and initially recorded in the 1996/97 statutory accounts for the Government of the Cook Islands less accumulated depreciation.
- The Mulgrave Street property in Wellington owned by Cook Islands Property Corporation (NZ) Limited was valued by Darroch Limited in August 2010, for insurance purposes providing depreciated replacement cost of $602,000. An earlier valuation by DTZ New Zealand in October 2008 placed a market value of $1,500,000 for land and buildings in Mulgrave Street. This property is held at cost in the financial statements.
- The building owned by Bank of the Cook Islands Limited is valued at cost less accumulated depreciation. This building was valued at $1,900,000 by Jones Lang LaSelle Hotels Limited in May 2014. The remaining term of the BCI House lease is 9 years.

Leased Land
Cook Islands Government Property Corporation leased land is stated at deemed cost being the initial value recorded in the 1996/97 statutory accounts for the Government of the Cook Islands less depreciation where applicable.

Restrictions on Disposals
Fixed assets held by Cook Islands Government Property Corporation and its subsidiaries cannot be disposed of without prior consent of Cabinet.

Ownership and completeness of assets
These assets disclosed in these financial statements may not be a complete presentation of all assets falling under the ownership and /or control of the Corporation and Group. The assets presented are included on the basis of the current understanding of the Members at the time the financial statements were prepared.

Transfer of assets from Ministries
These assets are recorded at the value nominated by the Ministry of Finance and Economic Management for the Cook Islands or relevant Ministry based on the cost of construction and are recognised directly in equity as a contribution from owner.

Members' valuation of selected fixed assets
As in prior years, certain historical fixed assets obtained by the Corporation have been included in the Statement of Financial Position based on valuations performed by the Members or have been recorded in the financial statements at nil value. This is due to the loss of historical accounting records.

This treatment is a departure from IPSAS 17 Property, plant and equipment which notes an appraisal of an asset is normally undertaken by a member of the valuation profession, who holds a recognised and relevant professional qualification. The audit report of these financial statements is qualified in this regard.

Notes to the financial statements (continued)

Note 15 Intangible Assets

GROUP
In thousands of New Zealand Dollars

Cost	Carrying Amount
At 1 July 2016	3,029
Additions	166
At 30 June 2017	3,195
Additions	2,304
At 30 June 2018	5,499
Amortisation and impairment	
At 1 July 2016	2,167
Amortisation for the year	389
At 30 June 2017	2,556
Amortisation for the year	448
At 30 June 2018	3,004
Net book values	
At 1 July 2016	862
At 30 June 2017	639
At 30 June 2018	2,495

Intangible assets include costs incurred in acquiring and building software and computer systems (software). Software is amortised using the straight line method over its expected useful life.

Note 16 Investment property

Group *In thousands of New Zealand Dollars*	30 June 2018	30 June 2017
Opening balance 1 July	5,499	5,711
Additions / (Disposals)	14	-
Depreciation	(213)	(212)
Closing balance at 30 June	5,300	5,499

Investment property includes buildings and premises owned by the Airport Authority, Ports Authority, and Cook Islands Property Corporation (NZ) Limited for which rental income is earned.

Notes to the financial statements (continued)

Note 17 Trade and other payables

In thousands of New Zealand Dollars	Group 30 June 2018	30 June 2017	Parent 30 June 2018	30 June 2017
Trade and other payables from exchange transactions				
Trade creditors	1,544	3,739	226	1,311
Interest accrual	910	985	-	-
Provisions	19	923	-	-
Other payables and accruals	1,890	1,052	161	32
Total trade and other payables from exchange transactions	4,363	6,699	387	1,343

Trade creditors and other accruals are non-interest bearing and are normally settled on 30-day terms.

Trade and other payables from non- exchange transactions				
Value added tax	308	117	-	-
Total trade and other payables from non-exchange transactions	308	117	-	-
Total trade and other payables	**4,671**	**6,816**	**387**	**1,343**

Provisions

In thousands of New Zealand Dollars	Group 30 June 2018	30 June 2017	Parent 30 June 2018	30 June 2017
Opening land lease provision	923	1,770	-	-
Additional provision made in the period	220	84	-	-
Provision utlised in the period	(1,124)	(931)	-	-
Closing land lease provision	19	923	-	-
Opening other provision	-	-	-	-
Additional provision made in the period	-	-	-	-
Closing other provision	-	-	-	-
Total Provision	19	923	-	-

Included in Provisions is land lease provision related to outstanding rent reviews and lease payments to landowners that are expected to be settled within the next 12 months. The Group has estimated the provision based on the current status of negotiations with landowners and other available information.

Notes to the financial statements (continued)

Note 18 Taxes

In thousands of New Zealand Dollars	Group 2018	Group 2017	Parent 2018	Parent 2017
Income tax receivable				
Income tax receivable (payable) c/f 1 July	685	831	569	369
Reclassified from tax payable	(498)	(153)	-	-
Reclassified from future income tax benefit	8	-	-	-
Income tax on current year surplus	(1,749)	(624)	(125)	(112)
Income tax paid	2,573	631	274	312
Income tax benefit on dividends paid	153	-	-	-
Income tax receivable 30 June	1,172	685	718	569
Future income tax benefit				
Future income tax benefit 1 July	8	19	-	-
Current year movement	(8)	(11)	-	-
Future income tax benefit 30 June	-	8	-	-
Deferred tax asset				
Deferred tax asset c/f 1 July	1,064	945	1	3
Deferred tax on current year surplus	55	119	1	(2)
Deferred tax asset 30 June	1,119	1,064	2	1
Income tax payable				
Income tax payable c/f 1 July	477	1,203	-	-
Reclassified to tax receivable	(498)	(153)	-	-
Income tax on current year surplus	1,400	2,409	-	-
Income tax paid	(1,187)	(2,902)	-	-
Tax benefit on dividends paid	-	(110)	-	-
Tax penalties	-	30	-	-
Income tax payable 30 June	192	477	-	-
Deferred tax liability				
Deferred tax liability c/f 1 July	769	1,189	-	-
Deferred tax on current year surplus	(5)	(420)	-	-
Other adjustment	-	-	-	-
Deferred tax liability 30 June	764	769	-	-

Notes to the financial statements (continued)

Note 18 Taxes (continued)

Reconciliation of effective tax rate

	Group		Parent	
In thousands of New Zealand Dollars	2018	2017	2018	2017
Surplus before taxation for the year	13,022	11,206	619	572
(Surplus)/deficit for tax exempt entities	(2,146)	(1,323)	-	-
Equity accounted earnings from associate	(1,264)	(1,187)	-	-
Profit excluding tax	9,612	8,696	619	572
Prima facie taxation at 20%	1,922	1,739	124	114
Difference for tax at other rates (NZ 30%)	6	-	-	-
Tax effect of non-assessable income	(26)	(84)	-	-
Tax effect of non-deductible expenses	448	410	-	-
Tax effect on prior period adjustments	-	(83)	-	-
Tax on dividend distributed to Government by tax exempt	590	425	-	-
Taxable income not recognised in accounts	164	130	-	-
Application/recognition of tax losses	(15)	(2)	-	-
Income tax expense	3,089	2,535	124	114
Income tax expense is represented by:				
Current	3,149	3,074	125	112
Deferred	(60)	(539)	(1)	2
	3,089	2,535	124	114

Income tax losses carried forward:

Individual entities within the group have combined carried forward tax losses of $186,419 (2017: $174,636). These tax losses are unable to be offset and can only be used by the individual companies. These are held off balance sheet.

These tax losses have no expiry date provided there is 40% continuity in ownership and the taxation laws in relation to these do not change.

Within the group, Cook Islands Government Property Corporation are exempt from taxation under the Income Tax Act 1997.

Notes to the financial statements (continued)

Note 19 Investment in shares

The reconciliation of non-current investments is as follows:

In thousands of New Zealand Dollars	Group Carrying Amount	Group Fair Value	Parent Carrying Amount	Parent Fair Value
Financial instruments at cost				
Investment in Shares				
Opening balance at 1 July 2016	128	128	-	-
Additional investments made	-	-	-	-
Investments sold	-	-	-	-
At 30 June 2017	128	128	-	-
Additional investments made	-	-	-	-
Investments sold	-	-	-	-
Interest capitalised	-	-	-	-
At 30 June 2018	128	128	-	-

There have been no changes to investments in shares during the 2018 period.
Shares held at year end relate to the Group's investment in Asian Development Bank (ADB). The shares are held within the Group by Cook Islands Government Property Corporation.
As at 31 December 2018, ADB had total equity of USD50,984 million. CIGPC holds Cook Islands share being 0.003%. This equates to USD1,529,520.

Note 20 Investment in Associates

These financial statements include the financial statements of the Group and the controlled entities listed in the following table:

Associate entities are those in which the Corporation has a substantial shareholding and in whose commercial and financial policy decisions it participates but does not have any controlling interest.

Telecom Cook Islands Limited is incorporated in the Cook Islands and provides telecommunication services to the Cook Islands. The Group's interest in Telecom Cook Islands Limited is held by Cook Islands Telecommunication Holdings Limited.

CIIC Seabed Resources Limited was established during the 2018 period.
The principal activity of CIIC Seabed Resources Limited is the exploration, classification, exploitation, marketing and selling of polymetallic nodules within the Cook Islands Exclusive Economic Zone and the Cook Islands assigned area within the Clarion Clipperton Zone.
The Company is 50% owned by the Cook Islands Investment Corporation and 50% by GSR-CI Limited. The ultimate Parent Company of GSR-CI Limited is Global Sea Mineral Resources NV, a Company incorporated and registered in Belgium.

	Ownership	Total Assets	Total Liabilities	Total Income	Total Profit/(loss)
2017					
Telecom Cook Islands Limited (12 months to 31/12/16)	40%	31,211	9,644	26,939	8,317
CIIC Seabed Resources Limited (non-existent)	-	-	-	-	-
2018					
Telecom Cook Islands Limited (12 months to 31/12/17)	40%	36,216	28,291	27,751	9,162
CIIC Seabed Resources Limited (8 months to 30/6/18)	50%	3,798	3,800		(51)

Notes to the financial statements (continued)

Note 20 (a) Investment in Associates (continued)

Investment in associates - Group

In thousands of New Zealand Dollars	2018			2017		
	Telecom Cook Islands Limited	CIIC Seabed Resources Limited	Total	Telecom Cook Islands Limited	CIIC Seabed Resources Limited	Total
Equity accounted investee						
Opening balance at 1 July	9,719	-	9,719	8,532	-	8,532
Investment at cost	-	25	25	-	-	-
Share of profit/(loss)	4,464	(25)	4,439	3,587	-	3,587
Dividend received	(3,200)	-	(3,200)	(2,400)	-	(2,400)
Balance at 30 June	10,983	-	10,983	9,719	-	9,719

Note 20 (b) Investment in Subsidiaries

Aitutaki Power Supply Limited (APS) is a company registered in the Cook Islands. APS was incorporated on 30 June 2017.
The share capital of the Company is $1,000 divided into 1,000 ordinary shares of $1 each.
The Company's shareholders are:
- Cook Islands Government Property Corporation – 999 shares
- Cook Islands Investment Corporation – 1 share

To Tatou Vai Limited (TTV) is a company registered in the Cook Islands. TTV was incorporated on the 25th of August 2017.
The share capital of the Company is $100,000 divided into 100,000 ordinary shares of $1 each.
The Company's shareholders are:
- Cook Islands Government Property Corporation – 50,000 shares
- Cook Islands Investment Corporation – 50,000 shares

Avaroa Cables Limited (ACL) is a company registered in the Cook Islands. ACL was incorporated on the 24th of March 2017.
The share capital of the Company is $1,000 divided into 1,000 ordinary shares of $1 each.
The Company's shareholders are:
- Cook Islands Government Property Corporation – 500 shares
- Cook Islands Investment Corporation – 500 share

It has been determined that Cook Islands Investment Corporation, the Parent, has control over these entities – APS, TTV, and ACL and as such have been consolidated directly into these Group financial statements.

Investment in Subsidiaries	Group		Parent	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017
Aitutaki Power Supply Limited	-	-	1	-
To Tatou Vai Limited	-	-	1	-
Avaroa Cables Limited	-	-	100	-
Total Investment in Subsidiaries	-	-	102	-

Note 21 Banking customer deposits - Group

In thousands of New Zealand Dollars	2018			2017		
	Total	Due within one year	Over one year	Total	Due within one year	Over one year
Call deposits	44,459	44,459	-	34,432	34,432	-
Client term deposits	46,016	44,214	1,802	59,879	55,662	4,217
TOTAL	90,475	88,673	1,802	94,311	90,094	4,217

Included in customer deposits are deposits from Cook Islands Government, Cook Islands Government Departments and other entities ultimately owned by the Cook Islands Government totalling $40,997,000 (2017: $47,124,000).

Notes to the financial statements (continued)

Note 22 Borrowings

In thousands of New Zealand Dollars

	Group		Parent	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017
Current portion	771	703	-	-
Non current portion	20,548	22,039	-	-
Total borrowings	21,319	22,742	-	-

The Asian Development Bank (ADB) approved two loans (L2472-COO and L2473-COO) on 20 November 2008 for the funding of the Avatiu Port Development Project. The ADB signed the loan agreements for these two loans with the Government of the Cook Islands on 5 May 2009 and the Government on-lent to the Ports Authority by way of a subsidiary loan agreement signed on 31 July 2009. ADB further approved and signed a supplementary loan (L2739-COO) to loans L2472-COO and L2473-COO on 24 March 2011 and 30 December 2011 respectively with the Government of the Cook Islands as additional funding of the Avatiu Port Development Project. The Government on-lent the funds to the Ports Authority by effect of the subsidiary Loan agreement signed on 31 July 2009.
The borrowings were drawn down through the Cook Islands Government. The interest rates for the three loans which were offered to the Cook Islands Government are the same rates in the subsidiary loan agreement between Government and the Ports Authority.

ADB L2472
This loan is for a period of 20 years plus a 5 year grace period with repayments commencing on 15 May 2014. This concessionary loan was fully drawn by May 2013. The full draw down was USD$8,419,792.

ADBL2473
The loan is fixed for a period of 24 years plus an 8 year grace period with equal repayments commencing on 15 May 2017. This concessionary loan was fully drawn by February 2014. The full draw down was SDR4,519,038. The nominal interest rate for Loan 2473 is 1% per annum for the 8 year grace period and 1.5% thereafter.

The Authority is responsible for any changes in the amounts payable arising due to exchange rate fluctuations. Accordingly, all exchange rate risks are carried by the Authority. The borrowings are recorded in NZD at the exchange rate at the date of the drawdown and are restated using the closing rate at balance date. Any changes in exchange rate fluctuations are recorded in the Statement of Revenue and Expense.

ADB L2739
Loan 2739 is supplementary to L2473 and L2472 for USD $4.7 million and is fixed for a period of 20 years plus a 5 year interest grace period with repayments commencing on 15 May 2016. The full draw down was US$4,428,273 by May 2013 and a further NZ$32,425 was drawn on January 2014 after the loan was converted to NZD currency.

Loan 2472 and Loan 2739 was converted to NZD on 15 May 2013 with a fixed interest rate of 5.77% and an average floating interest rate of 2.57% (2017: 2.78%) for the respective loans.

	L2472	L2473	L2739	Total
As at 1 July 2017	9,376,229	8,224,398	5,142,069	22,742,696
Opening balance adjustment	-	-	(40,342)	(40,342)
Interest accrued during the year	536,790	118,085	135,174	790,049
Repayments	(778,046)	(1,845,876)	(236,872)	(2,860,794)
Movement in foreign exchange	-	687,303	-	687,303
As at 30 June 2018	**9,134,973**	**7,183,910**	**5,000,029**	**21,318,912**
Current Liability	264,798	391,208	115,278	771,284
Non-current Liability	8,870,175	6,792,702	4,884,751	20,547,628

During the year, a one off lump sum payment of $1,337,792 was made in September 2017 with respect to Loan 2473. This resulted in the maturity of the loan brought forward from 15 November 2040 to 15 May 2037.

Notes to the financial statements (continued)

Note 23 Financial Instruments - financial risk management

Exposure to currency, interest rate, liquidity and credit risk arises in the normal course of the Group's operations. This note presents information about the Group's exposure to each of the above risks, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these financial statements.

Fair values

All financial assets held by the group are classified as 'Loans and Receivables'. Due to the nature and term of the financial assets that the Group holds, the fair value and carrying value of financial assets is not materially different.

Set out below are the carrying amounts by class of the Group's financial instruments

In thousands of New Zealand Dollars	Carrying amount	
Financial assets	**Group**	**Parent**
30 June 2017		
Cash and cash equivalents	24,520	791
Term deposits	43,612	3,880
Trade and other receivables	5,736	527
Banking portfolio investments	74,381	-
Taxation receivable	685	569
Dividends receivable	-	319
Related party receivables	786	366
	149,720	6,452
Financial assets		
30 June 2018		
Cash and cash equivalents	14,960	444
Term deposits	43,334	686
Trade and other receivables	6,853	307
Banking portfolio investments	77,940	-
Taxation receivable	1,172	718
Dividends receivable	-	-
Related party receivables	1,755	1,152
	146,014	3,307

In thousands of New Zealand Dollars	Carrying amount	
Financial liabilities	**Group**	**Parent**
30 June 2017		
Trade and other payables	7,740	1,373
Employee entitlements	1,106	67
Banking customer deposits	94,311	-
Income tax payable	477	-
Related party payables	757	1,756
Bank loan	22,742	-
Dividends payable	255	255
	127,388	3,451
Financial liabilities		
30 June 2018		
Trade and other payables	5,630	419
Employee entitlements	717	65
Banking customer deposits	90,475	-
Income tax payable	192	-
Related party payables	872	1,878
Bank loan	21,319	-
Dividends payable	-	-
	119,205	2,362

Notes to the financial statements (continued)

Note 23 **Financial Instruments - financial risk management (continued)**

Due to the nature and term of the financial liabilities that the group holds, the fair value and carrying value of financial liabilities is not materially different.

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. The following methods and assumptions were used to estimate the fair values:

- Cash and short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
- Long-term fixed rate and variable rate receivables/borrowings are evaluated by the Group based on parameters such as interest rates, specific country risk factors and individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken to account for the incurred losses of these receivables and market related interest rates. As at 30 June 2018 and 2017 respectively, the carrying amounts of such receivables, net of allowances are not materially different from their calculated fair values.

- The fair value of other financial liabilities is estimated by discounting future cashflows using rates currently available for debt on similar terms, credit risk and remaining maturities.

Credit risk

Credit risk is the risk of financial loss to the Group if customers or counterparties to financial instruments fail to meet their contractual obligations. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk as at 30 June was:

	Group		Parent	
In thousands of New Zealand Dollars	30 June 2018	30 June 2017	30 June 2018	30 June 2017
Cash and cash equivalents	13,615	23,348	444	791
Term deposits	43,334	43,612	686	3,880
Trade and other receivables	6,853	5,736	307	527
Banking portfolio investments	77,940	74,381	-	-
Taxation receivable	1,172	685	718	569
Dividends receivable	-	-	0	319
Related party receivables	1,755	786	1,152	366
Maximum exposure to credit risk	144,669	148,548	3,307	6,452

In the normal course of business, the Group incurs credit risk from trade debtors, cash and cash equivalents and term deposits held with other financial institutions and loans receivable from customers.

The Group establishes an allowance for impairment that represents its estimate of anticipated losses in respect of receivables.

Credit risk for the Group arises principally from the Bank of the Cook Islands Limited's loans to customers.

Notes to the financial statements (continued)

Note 23 Financial Instruments - financial risk management (continued)

Credit risk (continued)

Bank management monitor credit risk through credit policies and security ratio limits. All loans are reviewed annually to ensure that loans are still operating under loan contracted conditions. Anomalies are reported to the Manager Credit who will assign follow up tasks for the credit officers. Loan payment arrears are reviewed monthly to ensure client arrears are addressed. The Bank holds monthly Credit Management Committee meetings to montior accounts, arrears and follow ups. Loans that become a concern are followed up by the Asset Management Unit and reported monthly to the Board of Directors. The exposure is monitored on an on-going basis and monthy reports to Management and the Board of Directors.

(i) Analysis of Credit Quality

Maximum exposure to credit risk from bank lending activities within the group is set out below:

	Loans and advances to customers		Lending commitments and financial guarantees	
In thousands of New Zealand Dollars	2018	2017	2018	2017
Maximum exposure to credit risk				
Carrying amount	84,477	80,623	-	-
Amount committed	-	-	4,484	2,449
At amortised cost				
Total gross amount	84,477	80,623		
Provision for doubtful loans	(3,155)	(3,191)		
Provision for non-performing interest	(2,540)	(2,250)		
Deferred income	(841)	(801)		
Net carrying amount	77,940	74,381		
Off balance sheet				
Maximum exposure				
Lending commitments:				
Gross carrying amount			4,484	2,449
Total exposure			4,484	2,449
Loans with renegotiated terms				
Gross carrying amount	3,349	3,736		
	3,349	3,736		
Neither past due nor impaired				
Gross carrying amount	77,221	70,379		
Past due but not impaired (days in arrears)				
0-30	146	695		
31-60	-	-		
61-90	-	3		
	146	698		

Notes to the financial statements (continued)

Note 23 Financial Instruments - financial risk management (continued)

Credit risk (continued)

(i) Analysis of Credit Quality (continued)

In thousands of New Zealand Dollars	Loans and advances to customers 2018	2017
Individually impaired		
Gross carrying amount	7,110	5,809
Allowance for impairment		
Individual	4,912	(4,205)
Collective	783	(1,236)
	5,695	(5,441)

Impaired loans

The Group regards a loan as impaired in the following circumstances.

- There is objective evidence that a loss event has occurred since initial recognition and the loss event has an impact on future estimated cash flows from the asset.
- A retail loan is overdue for 90 days or more.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

Provision is made for specific loans where recovery is considered doubtful or they have become non-performing. Provision is made in accordance with the Financial Supervisory Commission's prudential guidelines based on asset classifications being pass (0%), special mention (5%), substandard (20%), doubtful (50%) and loss (100%). All bad debts are written off against specific provisions in the period in which they become classified as irrecoverable.

Loans that are past due but not impaired

Loans and advances that are past due but not impaired are those for which contractual interest or principal payments are past due but the bank believes that impairment is not appropriate on the basis of the level of security or collateral available and / or the stage of collation of amounts owed to the bank.

Loans with renegotiated terms and the Bank's forbearance policy

Renegotiated loans are impaired assets for which the terms have been changed to grant the counterparty a concession that would not otherwise have been available due to the counterparty's difficulty in complying with the original terms and where the yield on the asset following restructuring is still above the bank's cost of funds.

The Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and miniminse the risk of default. Under the bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The bank's Compliance Committee regularly reviews reports of forbearance activities.

Notes to the financial statements (continued)

Note 23 Financial Instruments - financial risk management (continued)

Credit risk (continued)

(i) Analysis of Credit Quality (continued)

For the purposes of disclosures in these financial statements, 'loans with renegoatiated terms' are defined as loans that have been restructured due to a deterioration in the borrower's financial position for which the bank has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the bank and provided initially and that it would not otherwise consider. A loan continues to be presented as part of loans with renegotiated terms until maturity, ealier repayment or until it is written off.

Irrespective of whether loans with renegotiated terms have been derecognised or not, they remain disclosed as impaired and appropriately provisioned until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows and there are no other indicators of impairment.

Loan quality classification

The Group prepares financial statements in accordance with International Public Sector Accounting Standards (IPSAS). The asset quality definitions under Financial Supervisory Commission (FSC) regulations differs from that under IPSAS e.g. Under FSC guidelines when assessing the recoverability of a loan, the valuation of security held against loans cannot be brought into consideration unless legal proceedings have been initiated. Under IPSAS the value of security held against a loan can be considered whether legal proceedings have been initiated or not. In addition a past due loan is one operating outside its key terms for 30 days under FSC guidelines. Under IPSAS a past due loan is a loan for which the borrower has failed to make a payment when contractually due i.e. as per the terms of loan agreement.

Individual provisioning is calculated using FSC guidelines where pass is 0 - 30 days in arrears, special mention is 30 to 89 days in arrears. When a loan is 90 days in arrears it will be graded as substandard, doubtful or loss depending on the clients situation and the bank's judgement based on credit criteria and likeliness for recovery. Collateral value can only be taken into consideration where legal action for recovery has been undertaken. The methodology and assumptions used for estimating collectability are revised regularly to reduce any differences between loss estimates and actual loss experience.

Under IPSAS a collective provision would be made to allow for potential losses on loans not specifically provided. The specific provision has been calculated under FSC guidelines and is higher than the specific provision required under IPSAS due to different treatment of security.

Under FSC provisioning methodology no general provision is permitted however the overstatement of the specific provision is not materially different to the amount that would be required as a general provision under IPSAS.

Security

Security is required in respect of most lending. There are various securities which the bank holds. These include but are not limited to mortgages over lease and occupation rights, personal and company guarantees and Instruments by Way of Security.

(ii) Significant concentrations of credit risk

Concentrations of credit risk exist if a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The Group monitors concentrations of credit risk by location, institution and sector.

Notes to the financial statements (continued)

Note 23 Financial Instruments - financial risk management (continued)
Credit risk (continued)
(ii) Significant concentrations of credit risk (continued)

In thousands of New Zealand Dollars		Group 30 June 2018	Group 30 June 2017	Parent 30 June 2018	Parent 30 June 2017
Concentration by Location					
New Zealand		26,955	29,833	-	-
Australia		65	193	-	-
Rarotonga		39,709	44,141	3,307	6,452
Rarotonga - lending		67,749	64,602	-	-
Outer islands - lending		10,191	9,779	-	-
		144,669	148,548	3,307	6,452
Concentration by Counterparty					
	Credit rating				
Australia New Zealand Bank	AA-	18,797	21,490	6	20
Bank of South Pacific	BBB-	22,063	18,657	419	1,412
Kiwi Bank	A	14,338	10,893	-	-
Westpac Banking Corporation	AA-	103	41	-	-
Capital Security Bank	N/A	27	27	-	-
Coop Money NZ	BBB-	1,556	15,659	-	-
National Australia Bank Group	AA-	65	193	-	-
Bank of the Cook Islands	N/A	-	-	705	3,239
Loans to customers	N/A	77,940	74,381	-	-
Related parties	N/A	1,755	1,471	1,152	1,254
Other	N/A	8,025	5,736	1,025	527
Total		144,669	148,548	3,307	6,452
Concentration by Sector					
Banks		55,393	51,301	1,130	4,671
Other institutions		1,556	15,659	-	-
Retail		-	7	-	-
Housing		38,810	33,472	-	-
Personal		9,796	12,194	-	-
Business		29,334	28,708	-	-
Related parties		1,755	1,471	1,152	1,254
Other		8,025	5,736	1,025	527
Total		144,669	148,548	3,307	6,452

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations as and when they fall due. The Group evaluates its liquidity requirements on an on-going basis. In general, the Group generates sufficient cash flows from operating activities to meet its obligations arising from its financial liabilities. Within the Group the Ports and Airports Authority have obtained external borrowings to fund major capital projects. The repayment of these borrowings is met from operating cashflow.

Within the Group, liquidity risk is most prevalent in the banking operations.

The Bank of the Cook Islands Board sets the Bank's strategy for managing liquidity risk and has delegated responsibility for oversight of the liquidity policy to the Assets and Liabilities Committee.

The Finance and Customer Service & Marketing departments review the liquidity position on a daily basis and report any exceptions and liquidity issues to the Managing Director.

Notes to the financial statements (continued)

Note 23 Financial Instruments - financial risk management (continued)

Liquidity risk (continued)

The Bank's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet liabilities as they fall due under both normal and stressed conditions without unacceptable losses or damage to the Bank's reputation. The key elements of the Bank's strategy are as follows:

- daily monitoring of cash levels held for client withdrawals,
- daily monitoring of cash held in other financial institutions on call and on term deposit,
- weekly liquidity reporting to management taking into consideration incoming and outgoing cash flows and estimates commitments for the week,
- monthly discussions in the Assets and Liabilities Committee meeting and at Board level.

The maturity of individual financial assets and liabilities are detailed in the relevant notes.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points (bp) in interest rates at the reporting date would have increased (decreased) the profit or loss by amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2017.

Group	GROUP		PARENT	
In thousands of New Zealand Dollars	30 June 2018	30 June 2017	30 June 2018	30 June 2017
Interest bearing Financial assets	134,889	141,341	1,130	4,671
Interest bearing Financial liabilities	(111,794)	(117,053)	-	-
Net exposure	**23,095**	**24,288**	**1,130**	**4,671**
100bp increase effect on profit	(231)	(243)	(11)	(47)
100bp decrease effect on profit	231	243	11	47

Currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to movements in exchange rates. The Group does not hold any material foreign currency assets or liabilities and therefore there is minimal currency risk.

Notes to the financial statements (continued)

Note 23 Financial Instruments - financial risk management (continued)

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The following financial instruments are sensitive to changes in interest rates: loans, term deposits, cash and cash equivalents, and customer deposits. Loans to customers and Customer deposits are at floating interest rates which are reviewed on a quarterly basis to ensure they are kept in line with market interest rate movements. An immaterial portion of loans have a fixed interest rate for the term of the loan. The cash on hand and short term cash deposits earn interest at normal floating commercial rates.

Interest Rate Repricing Schedule

Group

In thousands of New Zealand Dollars

	Weighted average interest rate	Carrying Amount	0 to 12 months	1 - 5 years	> 5 years	Non sensitive
Balance as at 30 June 2018						
Financial Assets						
Cash on hand	N/A	1,345	-	-	-	1,345
Cash at bank	0.62%	13,615	13,615	-	-	-
Term deposits	2.96%	43,334	42,334	1,000	-	-
Trade and sundry receivables	N/A	6,853	-	-	-	6,853
Related party receivables	N/A	1,755	-	-	-	1,755
Taxation receivable	N/A	1,172	-	-	-	1,172
Banking portfolio investments	9.53%	77,940	77,940	-	-	-
Total Financial Assets		**146,014**	**133,889**	**1,000**	**-**	**11,125**

Interest Rate Repricing Schedule

In thousands of New Zealand Dollars

	Weighted average interest rate	Carrying Amount	0 to 12 months	1 - 5 years	> 5 years	Non sensitive
Balance as at 30 June 2018						
Financial Liabilities						
Trade and other payables	N/A	5,630	-	-	-	5,630
Employee entitlements	N/A	717	-	-	-	717
Banking customer deposits	4.20%	90,475	88,673	1,802	-	-
Income tax payable	N/A	192	-	-	-	192
Related party payables	N/A	872	-	-	-	872
Bank loan	3.64%	21,319	14,136	-	7,183	-
Dividends payable	N/A	-	-	-	-	-
Total Financial Liabilities		**119,205**	**102,809**	**1,802**	**7,183**	**7,411**
Interest Rate Gap		**26,809**	**31,080**	**(802)**	**(7,183)**	**3,714**

Notes to the financial statements (continued)

Note 23 Financial Instruments - financial risk management (continued)

Interest Rate Repricing Schedule (continued)

Group

In thousands of New Zealand Dollars

Balance as at 30 June 2017	Weighted average interest rate	Carrying Amount	0 to 12 months	1 - 5 years	> 5 years	Non sensitive
Financial Assets						
Cash on hand	N/A	1,172	-	-	-	1,172
Cash at bank	0.92%	23,348	23,348	-	-	-
Term Deposits	2.85%	43,612	42,056	1,556	-	-
Trade and other sundry receivables	N/A	5,736	-	-	-	5,736
Related party receivables	N/A	786	-	-	-	786
Taxation receivable	N/A	685	-	-	-	685
Banking portfolio investments	9.42%	74,381	74,381	-	-	-
Total Financial Assets		149,720	139,785	1,556	-	8,379
Financial Liabilities						
Trade and other payables	N/A	7,740	-	-	-	7,740
Employee entitlements	N/A	1,106	-	-	-	1,106
Banking customer deposits	2.87%	94,311	90,124	4,187	-	-
Income tax payable	N/A	477	-	-	-	477
Related party payables	N/A	757	-	-	-	757
Bank loan	3.64%	22,742	5,142	-	17,600	-
Dividends payable	N/A	255	-	-	-	255
Total Financial Liabilities		127,388	95,266	4,187	17,600	10,335
Interest Rate Gap		22,332	44,519	(2,631)	(17,600)	(1,956)

Parent

In thousands of New Zealand Dollars

	Weighted average interest rate	Carrying Amount	0 to 12 months	1 - 5 years	> 5 years	Non sensitive
Balance as at 30 June 2018						
Financial Assets						
Cash and cash equivalents	1.25%	444	444	-	-	-
Term deposits	4.15%	686	686	-	-	-
Trade and sundry receivables	N/A	307	-	-	-	307
Taxation receivable	N/A	718	-	-	-	718
Dividends receivable	N/A	-	-	-	-	-
Related party receivables	N/A	1,152	-	-	-	1,152
Total Financial Assets		3,307	1,130	-	-	2,177

Interest Rate Repricing Schedule (continued)

In thousands of New Zealand Dollars

	Weighted average interest rate	Carrying Amount	0 to 12 months	1 - 5 years	> 5 years	Non sensitive
Balance as at 30 June 2018						
Financial Liabilities						
Trade and other payables	N/A	419	-	-	-	419
Employee entitlements	N/A	65	-	-	-	65
Related party payables	N/A	1,878	-	-	-	1,878
Dividends payable	N/A	-	-	-	-	-
Total Financial Liabilities		2,362	-	-	-	2,362
Interest Rate Gap		945	1,130	-	-	(185)

Notes to the financial statements (continued)

Note 23 Financial Instruments - financial risk management (continued)

Interest Rate Repricing Schedule (continued)

Parent

In thousands of New Zealand Dollars

Balance as at 30 June 2017	Weighted average interest rate	Carrying Amount	0 to 12 months	1 - 5 years	> 5 years	Non sensitive
Financial Assets						
Cash and cash equivalents	0.73%	791	791	-	-	-
Term Deposits	3.76%	3,880	3,880	-	-	-
Trade and other sundry receivables	N/A	527	-	-	-	527
Taxation receivable	N/A	569	-	-	-	569
Dividends receivable	N/A	319	-	-	-	319
Related party receivables	N/A	366	-	-	-	366
Total Financial Assets		6,452	4,671	-	-	1,781
Financial Liabilities						
Trade and other payables	N/A	1,373	-	-	-	1,373
Employee entitlements	N/A	67	-	-	-	67
Related party payables	N/A	1,756	-	-	-	1,756
Dividends payable	N/A	255	-	-	-	255
Total Financial Liabilities		3,451	-	-	-	3,451
Interest Rate Gap		3,001	4,671	-	-	(1,670)

Capital management

The primary objective of managing the Group's capital is to ensure that there is sufficient cash available to support the Group's funding requirements, including capital expenditure, to ensure that the Group remains financially sound. The Group's capital includes Capital Contributions and Reserves.

Bank of the Cook Islands Limited's policy is to maintain investor, creditor and market confidence and to sustain the future development of the banking business.

The bank's regulatory capital comprises two tiers:

Tier One Capital which includes issued and fully paid shares and retained earnings less intangible assets. This must be at least 5% of Risk Weighted Assets

Tier Two Capital which includes all other capital.
Tier Two capital must be at least 10% of Risk weighted assets.

At balance date the bank had the following:

	30 June 2018	30 June 2017
% of Risk Weighted Assets		
Tier One Capital	18.89%	16.68%
Total Capital	18.89%	16.68%

The Bank complied with all externally imposed capital requirements.

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Notes to the financial statements (continued)

Note 24 Commitments and contingencies

Capital Commitments

The Group has no capital commitments as at balance date (2017: nil)

Operating lease rentals

The Group as lessee

Future minimum lease payments under non-cancellable operating leases:

In thousands of New Zealand Dollars	Group		Parent	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017
Land and Buildings				
Due within one year	276	262	-	-
Due within two to five years	1,033	1,091	-	-
Later than five years	3,237	5,005	-	-
Total operating lease expense commitments	4,546	6,358	-	-

Bank of the Cook Islands Limited

The bank leases land on which BCI House stands under an operating lease. The original deed of lease runs for 60 years from 1968.

Cook Islands Government Property Corporation

The Corporation holds long term land leases. To ensure it's lease records, lease provision and commitments are complete and accurate as at 30 June 2018 the Corporation has undertaken a significant project updating their land lease records. In addition a number of land lease claims have been settled and no new material unresolved issues have come to light. The Corporation has not reviewed the balances as at 30 June 2017 or prior periods and as such the lease provision and commitments disclosed for 30 June 2017 may not be complete.

The Group as lessor

Future minimum lease income under non-cancellable operating leases:

In thousands of New Zealand Dollars	Group		Parent	
	30-Jun 2018	30-Jun 2017	30-Jun 2018	30-Jun 2017
Buildings				
Due within one year	125	233	-	-
Due within one to two years	89	112	-	-
Due within two to five years	2	75	-	-
Total	216	420	-	-

The Group lets properties under operating leases. Property rental income earned during the year was $823,000 (2017: $722,000).

Notes to the financial statements (continued)

Note 24 Commitments and contingencies (continued)

Other Commitments

The Group through Bank of the Cook Islands has committed to lending a number of loans in the future that have not yet been drawn down. As at 30 June 2018 these undrawn loans total $4,484,415 (2017: $2,449,129).

Contingencies

The Group is currently aware of the contingent liabilities listed below. Various other contingent liabilities may exist having arisen over the earlier period of the Corporation's existence of which the Members of the Corporation are not aware.

Uncalled Capital

Asian Development Bank – the Corporation has a further 88 uncalled shares. The shares have a par value of USD13,500 each.

There were no further contingent liabilities as at balance date.

Notes to the financial statements (continued)

Note 25 Segmental Reporting

The Group operates primarily in the property investment and management sectors. It also operates in the utilities sector, consisting of ports and airport services, power supply and banking.

Industry Segments

In thousands of New Zealand Dollars

	Banking	Communi-cations	Property	Power supply	Airport	Ports	Total
Balance as at 30 June 2018							
Trading Revenue	8,523	-	1,881	21,805	8,855	3,643	**44,707**
Crown Appropriation	-	-	5,702	-	2,048	-	**7,750**
Other Revenue	2,141	3	4,156	1,377	134	11	**7,822**
Expenses	(9,381)	(6)	(9,897)	(18,808)	(8,898)	(4,020)	**(51,010)**
Other Gains / (Losses)	-	4,464	(25)	-	-	(686)	**3,753**
Surplus / (Deficit) before tax	**1,283**	**4,461**	**1,817**	**4,374**	**2,139**	**(1,052)**	**13,022**
Total Assets	114,612	10,983	56,245	61,342	74,745	34,615	**352,542**
Total Liabilities	92,297	127	2,378	2,804	2,146	21,888	**121,640**
Capital Expenditure	286	0	13,138	2,775	1,961	326	**18,486**
Balance as at 30 June 2017							
Trading Revenue	9,147	-	2,961	19,418	5,468	3,064	**40,058**
Crown Appropriation	-	-	4,554	-	2,048	-	**6,602**
Other Revenue	920	-	6,819	967	60	231	**8,997**
Expenses	(8,969)	-	(12,572)	(14,913)	(8,384)	(3,602)	**(48,440)**
Other Gains / (Losses)	2	3,587	-	157	(11)	254	**3,989**
Surplus / (Deficit) before tax	**1,100**	**3,587**	**1,762**	**5,629**	**(819)**	**(53)**	**11,206**
Total Assets	113,494	8,924	59,685	54,729	71,270	37,120	**345,222**
Total Liabilities	96,188	188	13,575	4,128	1,365	23,409	**138,853**
Capital Expenditure	427	-	2,074	1,435	1,043	486	**5,465**

Note 26 Going Concern

Within the Group, the Bank of the Cook Islands manages it's liquidity by ensuring there are sufficient cash reserves maintained at all times to meet liquidity requirements likely to arise, taking into consideration historical trends. The Bank has the right to redeem term deposits within 48 hours if required to meet client withdrawal requirements.

These financial statements have been prepared on the going concern basis. The Corporation is ultimately dependent on the support of the Government by Crown Appropriation. In addition, the liquidity of the Corporation is inherently dependent on the proceeds from the management and disposal of its assets, the value and potential returns of which are uncertain. Despite this, there are no known matters that suggest the support of the Government will be withdrawn or that the proceeds from the asset management and disposal will be insufficient to meet the requirements of the Corporation for the foreseeable future. The Cook Islands Government has provided a letter of support stating that it will maintain ownership and control of the group for the foreseeable future and will provide financial assisstance where necessary for the Group to continue its operations.

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Notes to the financial statements (continued)

Note 27 Subsequent Events

Subsequent to balance date, one of Te Aponga Uira's generators suffered a severe mechanical failure which resulted in a permanent retirement of the generator engine. As at 30 June 2018, there was no evidence or indications that the engine was suffering any failure. As such, no related impairment has been recognised in these Group financial statements. The net book value of the retired engine as at 30 June 2018 is $616,434.

Since year end, Cook Islands Investment Corporation have received dividends of $1,395,000 and paid dividends of $1,079,000 to the Cook Islands Government.

There have been no other subsequent events after balance date which would materially affect the financial statements.