Cook Islands Investment Corporation

Financial Statements under IPSAS

For the year ended 30 June 2016

Report
Contents

Contents	2
Directory	3 - 5
Annual Report of the Members of the Corporation	6 - 8
Audit report	9 - 11
Financial statements	
Statement of Comprehensive Revenue and Expenses	12 - 13
Statement of Financial Position	14 - 15
Statement of Changes in Equity - Group	16
Statement of Changes in Equity - Parent	17
Statement of Cashflows	18 - 19
Notes to the Financial Statements	20 - 63

Directory

Directors

Cook Islands Investment Corporation

Michael Henry	Chairman	
Malcolm Sword	Director	
Caren Rangi	Director	appointed 1/06/16
Tamarii Tutangata	ex officio - Chief Executive Officer	

Directors of Subsidiaries

Airport Authority

Harold Arthur Browne	Chairman	appointed 26/07/16
Ianis Boaza	Director	
Tuainekore Marlene Manuela	Director	appointed 1/03/16
Tereapii Porio	Director	appointed 26/07/16
Annie Taripo	Director	appointed 10/09/15
Ned Howard	ex officio - Director of Civil Aviation	
George Taoro Brown	Director	appointed 02/06/15, revoked 26/07/16
Joseph Ngamata	Chief Executive Officer	

Ports Authority

Sam Crocombe	Chairman	
Teariki George	Director	
Makiroa Mitchell	Director	
William Kauvai	Director	
Geoffrey Vazey	Director	
Rakimata Matapuku	Director	resigned 30/09/15
Nooroa (Bim) Tou	General manager	

Te Aponga Uira o Tumu-te-Varovaro

Mata Nooroa	Chairman	
Steve Anderson	Director	
Randolf George	Director	
Elizabeth Wright Koteka	ex officio - Energy Commissioner	
Apii Timoti	ex officio - Chief Executive Officer	

Cook Islands Broadcasing Corporation

Caren Rangi	Director	appointed 14/09/15
Tamarii Tutangata	Director	appointed 14/09/15
Arthur Taripo	Director	resigned 14/09/15
Siona Paku	Director	resigned 14/09/15

Cook Islands Government Property Corporation

The Honourable Henry Puna	Chairman
The Honourable Teariki Heather	Director
The Honourable Kiriau Turepu	Director
The Honourable Mark Brown	Director
The Honourable Nandi Glassie	Director

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

Banana Court Company Limited

Ian Karika Wilmot	Chairman	
Mary Ann Pirake	Director	
Vasie Poila	Director	appointed 1/03/16
Anne Taoro	Director	resigned 1/03/16

Bank of the Cook Islands Holdings Corporation

Jessie Sword	Chairperson	
Kerry Burridge	Director	
Anne Herman	Director	appointed 17/02/16
Jeanne Matenga	Director	
Garth Henderson	ex officio - Finance Secretary	appointed 31/03/16
Richard Neves	ex officio - Finance Secretary	resigned 31/12/15
Vaine Arioka	ex officio - Managing Director	

Cook Islands Property Corporation (NZ) Limited

Caren Rangi	Director	appointed 1/07/15
Malcolm Sword	Director	
Michael Henry	Director	appointed 1/06/15, resigned 1/07/15

Cook Islands Telecommuncation Holdings Limited

Harmon Pou Arere	Chairman
George Lindsay Turia	Director

Suwarrow Development Corporation Limited

Michael Henry	Director	appointed 14/09/15
Tamarii Tutangata	Director	appointed 14/09/15
Alfred Morris	Director	resigned 14/09/15

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 Group Pty Limited
Westpac Banking Group Limited
Kiwibank
Capital Security Bank 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 2016.

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 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 six subsidiaries and six Government owned companies.

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 2016**	30 June 2015	**30 June 2016**	30 June 2015
Surplus/(Deficit) after tax	**5,740**	6,385	**1,498**	526
Total assets	**312,795**	293,588	**6,085**	4,710
Owners' equity	**199,005**	195,024	**830**	768

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 $71,813,159 and equity of $69,521,291 at 30 June 2016. It made a tax paid loss of $311,996 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 $101,475,794 and equity of $16,850,348 at 30 June 2016. It made a tax paid surplus of $654,901 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 2016 dividend from Cook Islands Telecommunication Holdings Limited of $1.295 million.

The Corporation has total assets of $49,865,825 and equity of $47,767,373 at 30 June 2016. It made a profit of $135,965 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 $38,690,421 and equity of $14,878,788 at 30 June 2016. It made a loss of $54,487 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 total assets of $39,598 and equity of $22,509 at 30 June 2016. It did not trade during the year; consequently there was no surplus of deficit.

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 $53,133,792 and equity of $48,166,933 at 30 June 2016. It made a tax paid surplus of $5,945,342 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 $656,855 and equity of $19,603 at 30 June 2016. It made a tax paid deficit of $56,586 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 $9,171,010 and equity of $8,951,475 at 30 June 2016. It made a tax paid surplus before dividends payable of $2,774,506 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 $169,290 and equity of $156,354 at 30 June 2016. It made a tax paid surplus of $40,798 for this 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 $20,000 as Chairman of Directors during the year. Mr Malcolm Sword received $15,000 and Ms Caren Rangi received $15,000 for their roles as Directors 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 2017 financial year.

For and on behalf of the Members of the Corporation

Director

28 Feb 2018

Date

Director

28 Feb 2018.

Date

KPMG

Independent Auditor's Report

To the shareholders of Cook Islands Investment Corporation

Report on the Corporation and Group financial statements

Qualified opinion

In our opinion, the accompanying 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 matter described in the basis for qualified opinion:

i. present fairly in all material respects the Corporations and Group's financial position as at 30 June 2016 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 financial statements which comprise:

— the Corporation and Group statement of financial position as at 30 June 2016;

— 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 Corporations and Group cash flows and qualified opinion on the financial position and comprehensive revenue and expenses for the year ending 30 June 2016.

Ownership, completeness and valuation of property, plant and equipment

The Corporation and Group's property, plant and equipment, is carried at $165,451,000 on the Statement of Financial Position for the Corporation and Group as at 30 June 2016. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of the property, plant and equipment as at 30 June 2016 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 Corporation and Group financial statements for property, plant and equipment and depreciation were necessary.

Future lease commitments

The Corporation and Group's land lease provision and operating lease commitments are recorded as $1,770,000 and $6,391,000 respectively in the notes to the Corporation and Group financial statements as at 30 June 2016. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of the lease provision and lease commitments as at 30 June 2016 due to 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 were necessary.

© 2018 KPMG, a New Zealand partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Our audit opinion on the Corporation and Group financial position and comprehensive revenue and expenses for the year ended 30 June 2015 was also modified in respect of the matters listed above.

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 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 Members, on behalf of the Corporation and Group, are responsible for the other information included in the financial statements. Other information includes the Directors 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 shareholders as a body. Our audit work has been undertaken so that we might state to the shareholders 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 shareholders as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

Responsibilities of the Members of the Corporation and Group for the Corporation and Group financial statements

The Members of the Corporation, 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 set of Corporation and Group 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.

A further description of our responsibilities for the audit of these Corporation and Group financial statements is located at the External Reporting Board (XRB) website at:

http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-7/

This description forms part of our independent auditor's report.

KPMG

KPMG
Rarotonga

21 March 2018

Statement of Comprehensive Revenue and Expenses
For the year ended 30 June 2016

		Group		Parent	
In thousands of New Zealand Dollars	*Note*	**2016**	2015	**2016**	2015
Revenue from exchange transactions					
Airport landing fees		**4,432**	4,138	**-**	-
Electricity services		**17,224**	18,157	**-**	-
Fees on banking portfolio assets		**1,061**	971	**-**	-
Interest on banking portfolio assets		**6,955**	5,810	**-**	-
Port services		**2,743**	2,688	**-**	-
Rental income		**2,919**	2,869	**525**	539
Total revenue from exchange transactions		**35,334**	34,633	**525**	539
Other revenue					
Aid funding		**25**	37	**25**	38
Crown appropriation		**4,653**	5,405	**2,605**	3,357
Grant revenue		**241**	95	**-**	-
Dividends received		**-**	-	**1,795**	687
Interest income		**1,389**	1,346	**98**	92
POBOC Infrastructure		**176**	115	**176**	115
Sundry income	*5*	**761**	747	**39**	50
Total other revenue		**7,245**	7,745	**4,738**	4,339
Total Revenue		**42,579**	42,378	**5,263**	4,878

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

RAROTONGA Marked for Identification Purposes

Statement of Comprehensive Revenue and Expenses
For the year ended 30 June 2016

In thousands of New Zealand Dollars	*Note*	Group 2016	Group 2015	Parent 2016	Parent 2015
Expenditure					
Personnel costs		**9,417**	9,318	**594**	633
Depreciation and amortisation	14,15,16	**7,511**	7,632	**34**	32
Directors fees and expenses		**370**	288	**80**	60
Increase / (decrease) in provision for doubtful debts		**1,592**	869	**(28)**	3
Finance costs		**3,678**	3,538	**-**	18
Legal and professional fees		**465**	563	**-**	52
Rental and operating lease costs		**454**	217	**99**	54
Office communication		**487**	406	**44**	20
Repairs and maintenance		**3,315**	4,254	**1,937**	2,731
Insurance		**1,131**	1,175	**236**	244
Fuel		**5,775**	7,451	**-**	-
Other expenses	6	**3,206**	2,881	**395**	375
Total expenditure		**37,401**	38,592	**3,391**	**4,222**
Other gains/(losses)					
Loss on disposal of assets		**(21)**	(22)	**-**	1
Unrealised foreign exchange (loss) / gain		**(484)**	(204)	**-**	-
Realised foreign exchange gain		**509**	2,293	**-**	-
Revaluation gains		**-**	-	**-**	-
Share of profit of equity accounted investees	20	**3,079**	2,764	**-**	-
Impairment loss		**-**	-	**-**	-
Total other gains/(losses)		**3,083**	4,831	**-**	1
Surplus / (deficit) before income tax		**8,261**	**8,617**	**1,872**	**657**
Income tax expense	18	(2,521)	(2,232)	(374)	(131)
Surplus / (deficit) for the year		**5,740**	**6,385**	**1,498**	**526**
Other comprehensive revenue and expenses for the year, net of income tax		**-**	**-**	**-**	**-**
Total comprehensive revenue and expenses for the year		**5,740**	**6,385**	**1,498**	**526**

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

RAROTONGA Marked for Identification Purposes

Statement of Financial Position
As at 30 June 2016

		Group		Parent	
In thousands of New Zealand Dollars	Note	2016	2015	2016	2015
Assets					
Current assets					
Cash and cash equivalents	8	**13,613**	21,660	**471**	(147)
Term deposits	9	**37,101**	26,394	**2,459**	2,968
Trade receivables	10	**4,228**	3,975	**42**	45
Dividends receivable		**-**	-	**1,333**	338
Inventories	13	**5,677**	5,341	**5**	8
Other receivables		**1,338**	1,164	**1,214**	860
Sundry debtors and prepayments		**1,585**	2,204	**19**	46
Related party receivables	11	**461**	74	**87**	5
Banking portfolio investments	12	**8,633**	7,987	**-**	-
Derivative financial instrument		**-**	855	**-**	-
Taxation receivable	18	**831**	651	**369**	461
Total current assets		**73,467**	**70,305**	**5,999**	**4,584**
Non current assets					
Property, plant and equipment	14	**165,451**	159,434	**83**	110
Investment properties	16	**5,711**	5,918	**-**	-
Capital work in progress		**1,140**	1,963	**-**	-
Banking portfolio investments	12	**56,540**	47,580	**-**	-
Future income tax benefit	18	**19**	19	**-**	-
Deferred tax assets	18	**945**	784	**3**	16
Intangible assets	15	**862**	299	**-**	-
Investment in associate	20	**8,532**	7,053	**-**	-
Investment in shares	19	**128**	128	**-**	-
Term deposits	9	**-**	105	**-**	-
Total non-current assets		**239,328**	**223,283**	**86**	**126**
Total assets		**312,795**	**293,588**	**6,085**	**4,710**

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

RAROTONGA Marked for Identification Purposes

Statement of Financial Position
As at 30 June 2016

	Note	Group 2016	Group 2015	Parent 2016	Parent 2015
In thousands of New Zealand Dollars					
Equity					
Capital contribution and retained earnings		**199,005**	195,024	**830**	768
Total Equity		**199,005**	195,024	**830**	768
Liabilities					
Current liabilities					
Trade and other payables	17	**5,237**	6,143	**355**	436
Banking customer deposits	21	**74,183**	58,209	**-**	-
Customer bonds		**876**	813	**27**	29
Bank loan	22	**1,006**	1,061	**-**	-
Deferred revenue liability		**722**	409	**721**	409
Employee entitlements	7	**1,055**	875	**36**	28
Income in advance		**353**	273	**-**	-
Related party payables	11	**756**	778	**23**	48
Capital project liability		**1,177**	841	**1,176**	841
Dividends payable	11	**1,066**	338	**1,066**	338
Income tax payable	18	**1,203**	919	**-**	-
Total current liabilities		**87,634**	**70,659**	**3,404**	**2,129**
Non current liabilities					
Banking customer deposits	21	**2,190**	2,957	**-**	-
Deferred taxation liability	18	**1,189**	1,296	**-**	-
Deferred revenue liability		**54**	15	**54**	15
Employee entitlements	7	**27**	26	**-**	-
Bank loan	22	**22,696**	23,611	**-**	-
Related party payables	11	**-**	-	**1,797**	1,798
Total non current liabilities		**26,156**	**27,905**	**1,851**	**1,813**
Total liabilities		**113,790**	**98,564**	**5,255**	**3,942**
Total equity and liabilities		**312,795**	**293,588**	**6,085**	**4,710**

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

RAROTONGA Marked for Identification Purposes

Statement of Changes in Equity
For the year ended 30 June 2016

Group

In thousands of New Zealand Dollars	Capital contributions & retained earnings	Total equity
Balance at 1 July 2014	186,007	**186,007**
Changes in net assets/equity for 2015		
Tax benefit on dividends paid	137	**137**
Surplus/(Deficit) for the year	6,385	**6,385**
Total recognised revenue and expenses for the year	6,522	**6,522**
Transactions with owners of the Parent:		
Equity injection by owners	4,398	**4,398**
Ports PBE Adjustments	(15)	**(15)**
Dividends	(1,888)	**(1,888)**
Total contributions by and distributions to owners of the Parent	2,495	**2,495**
Balance at 30 June 2015	195,024	**195,024**
Balance at 1 July 2015	**195,024**	**195,024**
Changes in net assets/equity for 2016		
Tax benefit on dividends paid	**366**	**366**
Surplus/(Deficit) for the year	**5,740**	**5,740**
Total recognised revenue and expenses for the year	**6,106**	**6,106**
Transactions with owners of the Parent:		
Equity injection by owners	**605**	**605**
Dividends	**(2,730)**	**(2,730)**
Total contributions by and distributions to owners of the Parent	**(2,125)**	**(2,125)**
Balance at 30 June 2016	**199,005**	**199,005**

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

KPMG RAROTONGA Marked for Identification Purposes

Statement of Changes in Equity
For the year ended 30 June 2016

Parent

In thousands of New Zealand Dollars	Capital contributions & retained earnings	Total equity
Balance at 1 July 2014	792	**792**
Changes in net assets/equity for 2015		
Surplus/(Deficit) for the year	526	**526**
Total recognised revenue and expenses for the year	526	**526**
Transactions with owners of the Parent:		
Dividends	(550)	**(550)**
Total contributions by and distributions to owners of the Parent	(550)	**(550)**
Balance at 30 June 2015	768	**768**
Balance at 1 July 2015	**768**	**768**
Changes in net assets/equity for 2016		
Surplus/(Deficit) for the year	**1,498**	**1,498**
Total recognised revenue and expenses for the year	**1,498**	**1,498**
Transactions with owners of the Parent:		
Dividends	**(1,436)**	**(1,436)**
Total contributions by and distributions to owners of the Parent	**(1,436)**	**(1,436)**
Balance at 30 June 2016	**830**	**830**

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

RAROTONGA Marked for Identification Purposes

Statement of Cashflows
For the year ended 30 June 2016

In thousands of New Zealand Dollars	Note	Group 2016	Group 2015	Parent 2016	Parent 2015
Cash flows from operating activities					
Cash receipts from customers		**29,420**	27,690	**558**	473
Crown funding		**5,477**	6,806	**2,665**	4,270
POBOC Infrastructure		**176**	139	**176**	139
Dividends received		**1,600**	2,600	**799**	1,024
Interest received		**8,344**	7,156	**99**	92
Aid funding		**194**	132	**194**	38
Other funding		**-**	-	**-**	19
Net increase in client deposits		**15,207**	2,041	**-**	-
Bond deposits		**-**	-	**(1)**	(1)
Net investment in banking portfolio		**(11,257)**	(6,175)	**-**	-
Cash paid to suppliers and employees		**(24,534)**	(25,209)	**(3,391)**	(4,186)
Interest paid		**(3,572)**	(3,438)	**-**	-
Income tax paid		**(2,319)**	(1,765)	**(269)**	(455)
Net cash from operating activities		**18,736**	9,977	**830**	1,413
Cash flows from investing activities					
Net acquisition/disposal of property, plant and equipment		**(11,430)**	(3,718)	**(7)**	(11)
Net acquisition/sale of intangibles		**(809)**	(155)	**-**	-
Proceeds from term deposits		**(10,598)**	3,500	**509**	(520)
Loans to related parties		**(468)**	3	**-**	-
Net cash from investing activities		**(23,305)**	(370)	**502**	(531)
Cash flows from financing activities					
Repayment of bank loans		**(970)**	656	**-**	-
Proceeds from related parties		**(22)**	71	**(6)**	(22)
Dividends paid		**(2,002)**	(3,175)	**(708)**	(819)
Net cash from financing activities		**(2,994)**	(2,448)	**(714)**	(841)
Net (decrease)/increase in cash and cash equivalents		**(7,563)**	7,159	**618**	41
Effect of exchange rate fluctuation		**(484)**	(203)	**-**	-
Cash and cash equivalents at the beginning of the year		**21,660**	14,704	**(147)**	(188)
Cash and cash equivalents at the end of the year		**13,613**	21,660	**471**	(147)
Made up of:					
Bank balances and on-call deposits	8	**13,613**	21,660	**471**	(147)
Total cash and cash equivalents		**13,613**	**21,660**	**471**	(147)

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

Marked for identification Purposes

Statement of Cashflows (continued)
For the year ended 30 June 2016

In thousands of New Zealand Dollars	Group		Parent	
	2016	2015	**2016**	2015
Surplus for the year after tax	**5,740**	6,385	**1,498**	526
Depreciation & amortisation	**7,511**	7,632	**34**	32
Doubtful debts	**(59)**	45	**(28)**	3
(Gains)/losses on asset disposal	**21**	22	**-**	(1)
Foreign exchange losses/(gains)	**484**	203	**-**	-
Net increase in future income tax benefit	**-**	8	**-**	-
Net increase in deferred tax assets	**(161)**	(178)	**13**	-
Net increase in deferred tax liabilities	**(107)**	(215)	**-**	-
Plant and Equipment acquired in non-exchange	**(241)**	(140)	**-**	-
Working capital adjustments				
(Increase) / decrease in receivables & prepayments	**603**	(1,127)	**2**	(116)
Increase / (decrease) in payables & other accruals	**(661)**	(764)	**(20)**	(53)
(Increase) / decrease in work in progress	**(19)**	(19)	**(354)**	(540)
(Increase) / decrease in bank loan portfolios	**(9,606)**	(5,351)	**-**	-
(Increase) / decrease in inventories	**(336)**	860	**3**	9
(Increase) / decrease in related party receivables	**82**	1,247	**(101)**	1,178
(Increase) / decrease in project liabilities	**-**	-	**335**	521
Increase / (decrease) in deferred income liability	**351**	(161)	**351**	(160)
Increase / (decrease) in income in advance	**80**	(145)	**-**	-
Increase / (decrease) in net tax payable	**471**	859	**92**	(256)
Increase / (decrease) in customer deposits	**15,207**	2,041	**-**	-
Increase / (decrease) in bank loan	**-**	-	**-**	-
Increase / (decrease) in related party payables	**-**	-	**-**	-
(Increase) / decrease in dividends receivables	**-**	1,000	**(995)**	337
Increase / (decrease) in dividend payables	**-**	-	**-**	(67)
Increase / (decrease) in derivative liability	**855**	(1,061)	**-**	-
(Increase) / decrease in Investment in Associate	**(1,479)**	(1,164)	**-**	-
Net cash flows from operating activities	**18,736**	9,977	**830**	1,413

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

Marked for Identification Purposes

Notes to the financial statements

	Page
1 Reporting entity	21
2 Basis of preparation	21
3 Significant accounting policies	21 - 31
4 New standards and interpretations not yet adopted	31
5 Sundry income	32
6 Other expenses	32
7 Employee entitlements	32
8 Cash and cash equivalents	33
9 Term Deposits	33
10 Receivables from exchange transactions	33
11 Related parties	34 - 36
12 Banking portfolio investments	37 - 38
13 Inventories	38
14 Plant, property and equipment	39 - 42
15 Intangible assets	43
16 Investment property	43
17 Trade and other payables	44
18 Taxes	45 - 46
19 Investment in shares	47
20 Investment in Associates	47 - 48
21 Banking customer deposits	48
22 Borrowings	48 - 49
23 Financial instruments	50 - 59
24 Commitments and contingencies	60 - 61
25 Segmental reporting	62
26 Going concern	62
27 Subsequent events	63

Marked for Identification Purposes

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.

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).

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.

KPMG RAROTONGA Marked for Identification Purposes

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

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.

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

KPMG TAHOTOMA Marked for Identification Purposes

Notes to the financial statements (continued)

Note 3 Significant accounting policies (continued)

c) Revenue recognition (continued)

Government grants and funding (continued)

- 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 income 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.

Marked for Identification Purposes

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.

Marked for Identification Purposes

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	40 years
Furniture and fittings	10 years
Motor vehicles	4 years
Office equipment	3-5 years
Marine equipment	5 years
Harbours	20 years
Runways	20 years

Marked for Identification Purposes

Notes to the financial statements (continued)

Note 3 Significant accounting policies (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.

Marked for Identification Purposes

Notes to the financial statements (continued)

Note 3 Significant accounting policies (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.

KPMG RAROTONGA Marked for Identification Purposes

Notes to the financial statements (continued)

FINANCIAL ASSETS (continued)

Note 3 **Significant accounting policies (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 recognized 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.

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.

KPMG RAROTONGA Marked for Identification Purposes

Notes to the financial statements (continued)

FINANCIAL ASSETS (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 profit or loss, 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.

KPMG RAROTONGA Marked for Identification Purposes

Notes to the financial statements (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 to settle on a net basis or to realise the asset and settle the liability simultaneously.

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.

KPMG RAROTONGA Marked for Identification Purposes

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 International Public Sector Accounting Standards (IPSAS's) issued but not yet effective that would require disclosure under IPSAS 3 Accounting policies, changes in accounting estimates and errors.

RARO TONGA Marked for Identification Purposes

Notes to the financial statements (continued)

Note 5 Sundry Income

In thousands of New Zealand Dollars	Group 30 June 2016	Group 30 June 2015	Parent 30 June 2016	Parent 30 June 2015
Sundry revenue	423	389	39	50
Social responsibility cost recoveries	338	358	-	-
	761	747	39	50

Note 6 Other expenses

Advertising	200	115	2	-
Electricity	575	130	5	-
Fees paid to group auditor - audit services	259	300	119	122
Fees paid to group auditor - non audit services	61	42	13	30
Fees paid to other auditors - audit services	55	60	-	-
Motor vehicle expenses	138	181	10	12
Payment on behalf of Crown	176	126	176	126
Staff training expenses	191	237	1	16
Travel expenses	79	62	8	8
Other operating expenses	1,472	1,628	61	61
Total Other expenses	3,206	2,881	395	375

Non-audit services include IFRS and IPSAS transition assistance, financial statements compilation and tax compliance services.

Note 7 Employee entitlements

Current				
Accrued salaries and wages	33	1	-	-
Annual leave	1,022	874	36	28
Current employee entitlements	1,055	875	36	28
Non-current				
Annual leave	27	26	-	-
Non-current employee entitlements	27	26	-	-
Total employee entitlements	1,082	901	36	28

KPMG RAROTONGA Marked for Identification Purposes

Notes to the financial statements (continued)

Note 8 Cash and cash equivalents

	Group		Parent	
In thousands of New Zealand Dollars	**30 June 2016**	30 June 2015	**30 June 2016**	30 June 2015
Cash on hand	**1,185**	1,165	**-**	-
Cash at bank	**12,428**	20,495	**471**	(188)
Total cash and cash equivalents	**13,613**	21,660	**471**	(188)

Note 9 Term Deposits

	Group		Parent	
In thousands of New Zealand Dollars	**30 June 2016**	30 June 2015	**30 June 2016**	30 June 2015
Less than 12 months	**37,101**	26,394	**2,459**	2,968
Over 12 months	**-**	105	**-**	-
Total term deposits	**37,101**	26,499	**2,459**	2,968

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. Interest rate ranges from 2.51% to 4.5% (2015: 0.15% to 4.5%).

Note 10 Receivables from exchange transactions

	Group		Parent	
In thousands of New Zealand Dollars	**30 June 2016**	30 June 2015	**30 June 2016**	30 June 2015
Current receivables	**5,000**	4,798	**87**	154
Less: impairment allowance	**(772)**	(823)	**(45)**	(109)
Total receivables from exchange transactions	**4,228**	3,975	**42**	45

As at 30 June 2016, 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 2015					
Total receivables from exchange transactions	3,975	2,228	958	330	459

In thousands of New Zealand Dollars	**Total**	Neither past due or impaired	<30 days	30-60 days	>60 days
As at 30 June 2016					
Total receivables from exchange transactions	**4,228**	**3,012**	**630**	**370**	**216**

JPMG RAROTONGA Marked for Identification Purposes

Notes to the financial statements (continued)

Note 11 Related parties

In thousands of New Zealand Dollars	Group 30 June 2016	Group 30 June 2015	Parent 30 June 2016	Parent 30 June 2015
Related party receivables				
Government of the Cook Islands	**87**	5	**87**	5
Ministry of Foreign Affairs And Immigration	**57**	57	**-**	-
Ministry of Finance and Economic Management	**317**	12	**-**	-
Total related party receivables	**461**	74	**87**	5

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

In thousands of New Zealand Dollars	Group 30 June 2016	Group 30 June 2015	Parent 30 June 2016	Parent 30 June 2015
Dividends receivable				
Telecom Cook Islands Limited	**-**	-	**1,333**	338
Total dividends receivable	**-**	-	**1,333**	338

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.

RARONGA Marked for Identification Purposes

Notes to the financial statements (continued)

Note 11 Related parties (continued)

In thousands of New Zealand Dollars	Group 30 June 2016	Group 30 June 2015	Parent 30 June 2016	Parent 30 June 2015
Related party payables - Current				
Government of the Cook Islands	**637**	637	**23**	48
Telecom Cook Islands	**119**	141	**-**	-
Total related party payables - current	**756**	778	**23**	48

In thousands of New Zealand Dollars	Group 30 June 2016	Group 30 June 2015	Parent 30 June 2016	Parent 30 June 2015
Related party payables - Non current				
Government of the Cook Islands	**-**	-	**-**	-
Cook Islands Government Property Corporation	**-**	-	**1,757**	1,757
Cook Islands Broadcasting Corporation	**-**	-	**40**	40
Total related party payables - non current	**-**	-	**1,797**	1,797

In thousands of New Zealand Dollars	Group 30 June 2016	Group 30 June 2015	Parent 30 June 2016	Parent 30 June 2015
Dividends payable				
Government of the Cook Islands	**1,066**	338	**1,066**	338
Total dividends payable	**1,066**	338	**1,066**	338

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 senior management team being the Chief Executive Officer, Financial Controller, Property Manager and Legal Manager.

In thousands of New Zealand Dollars	30 June 2016	30 June 2015
Total remuneration	**384**	369
Number of persons	**7**	8

Marked for Identification Purposes

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 $1,177,000 (2015: $806,000) 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 $487,000 (2015: $406,000) to Telecom Cook Islands for telecommunication services which has been eliminated on consolidation.

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 $2,047,997 (2015: $2,047,997) and also by the parent entity of $2,605,000 (2015: $3,357,000)

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. Total capital project liability at 30 June 2016 is $1,177,000 (2015: $841,000)

h) Cook Islands Government Property Corporation made a revenue transfer of $540,000 (2015:$569,000) 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 2016 was $605,000 (2015: $4,398,000) being assets from Cook Islands Investment Corporation consisting of land, completed buildings and extensions transferred to the parent during the year.

j) The parent received dividends of $1,795,000 (2015: $687,000) from subsidiaries. These dividends were then paid to the shareholder, Cook Islands Government. The group received a tax benefit of $366,000 (2015: $137,000) in relation to dividends paid to the parent, Cook Islands Investment Corporation, a tax paying entity.

KPMG RAROTONGA Marked for Identification Purposes

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 2016

Group	Total 2016	Total 2015	Due within One Year 2016	Due within One Year 2015	Over One Year 2016	Over One Year 2015
In thousands of New Zealand Dollars						
Agriculture	**22**	52	15	28	7	24
Fishing	**-**	0	-	0	-	-
Pearls	**3**	2	3	2	-	0
Consumer	**9,423**	9,018	3,900	3,739	5,523	5,279
Business	**17,560**	13,963	2,330	1,719	15,230	12,244
Housing	**33,252**	28,416	2,364	2,187	30,888	26,229
Staff	**2,540**	2,279	398	373	2,142	1,906
Tourism	**7,885**	6,318	351	345	7,534	5,973
Hire purchase loans	**5**	28	5	16	-	12
	70,690	60,076	**9,366**	8,409	**61,324**	51,667

LESS:		
Provision for Doubtful loans	**3,043**	2,244
Provision for non-performing interest	**1,793**	1,723
Deferred income	**681**	542
Net Portfolio as at 30 June	**65,173**	55,567
Split by:		
Current	**8,633**	7,987
Non - current	**56,540**	47,580
	65,173	55,567

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

Housing 4.04% to 15.49% (2015: 4.54% to 15.99%)
Development (including Business) - 7.75% to 20.5% (2015: 7.75% to 20.5%)
Consumer - 9.5% to 20.50% (2015: 9.5% to 20.5%)
Government - 10.50% (2015: 10.50%)

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

Group	30 June 2016			30 June 2015		
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%	**4**	**5,102**	**30.28%**	3	3,007	18.20%
+10%	**2**	**4,948**	**29.38%**	2	4,742	28.70%

KPMG RAROTONGA Marked for Identification Purposes

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 2016**	30 June 2015
The total charge of provisions was made up as follows:		
PROVISIONS FOR DOUBTFUL LOANS		
Opening balance	**2,244**	1,627
Bad debts written out of provisions	**(396)**	(91)
Allowance for hardship	**-**	337
Provisions for doubtful loans	**1,195**	371
Balance at end	**3,043**	2,244
Net increase/(decrease) in provision for doubtful loans	**799**	617
PROVISIONS FOR NON-PERFORMING INTEREST		
Opening balance	**1,723**	1,449
Write off of non-performing loan interest	**(67)**	(179)
Write back of non-performing loan interest	**(319)**	-
Interest accrued on non-performing loans	**456**	453
Balance at end	**1,793**	1,723

Note 13 Inventories

	Group		**Parent**	
In thousands of New Zealand Dollars	**30 June 2016**	30 June 2015	**30 June 2016**	30 June 2015
Trading stock	**4,363**	3,896	**5**	8
Spare parts	**60**	48	**-**	-
Fuels	**988**	1,146	**-**	-
Other	**266**	251	**-**	-
Total inventories	**5,677**	5,341	**5**	8

KPMG RAROTONGA Marked for Identification Purposes

Notes to the financial statements (continued)

Note 14 **Property, plant and equipment**

In thousands of New Zealand Dollars

GROUP

	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													
Cost													
At 1 July 2014	10,985	1,371	71,870	65	4,637	740	2,077	23,291	23,714	17,158	52,056	10,382	218,346
Additions	-	262	617	-	833	92	339	511	133	3,883	-	145	6,815
Disposals	-	-	-	-	(277)	-	(10)	(120)	-	-	-	-	(407)
Transfers/adjustments	-	-	(14)	(1)	36	(16)	33	2	(23,387)	(1)	-	23,183	(165)
At 30 June 2015	10,985	1,633	72,473	64	5,229	816	2,439	23,684	460	21,040	52,056	33,710	224,589
Additions	-	605	502	-	736	131	741	9,565	284	409	-	120	13,093
Disposals	-	-	-	-	-	(5)	(25)	(53)	-	-	-	-	(83)
Transfers/adjustments	-	-	77	-	-	28	34	-	(133)	-	-	56	62
At 30 June 2016	10,985	2,238	73,052	64	5,965	970	3,189	33,196	611	21,449	52,056	33,886	237,661

KPMG RAROTONGA Marked for Identification Purposes

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 2014	-	101	21,910	41	3,592	501	1,735	13,646	-	10,433	4,712	1,604	58,275
Disposals	-	-	-	-	(270)	-	(8)	(104)	-	-	-	-	(382)
Transfers	-	-	(24)	-	62	9	3	(57)	-	-	7.00	(2)	(2)
Depreciation	-	14	1,885	4	279	54	210	1,589	-	779	1,585	865	7,264
At 30 June 2015	-	115	23,771	45	3,663	564	1,940	15,074	-	11,212	6,304	2,467	65,155
Disposals	-	-	-	-	-	(1)	(11)	(28)	-	-	-	-	(40)
Transfers	-	0	-	-	-	7	37	-	-	-	-	-	44
Depreciation	-	18	1,942	4	355	80	207	1,325	-	649	1,592	880	7,052
At 30 June 2016	-	133	25,713	49	4,018	650	2,173	16,371	-	11,861	7,896	3,347	72,211

	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 2014	10,985	1,270	49,960	24	1,045	239	342	9,645	23,714	6,725	47,344	8,778	160,071
At 30 June 2015	10,985	1,518	48,702	19	1,566	252	499	8,610	460	9,828	45,752	31,243	159,434
At 30 June 2016	**10,985**	**2,105**	**47,339**	**15**	**1,947**	**320**	**1,016**	**16,825**	**611**	**9,588**	**44,160**	**30,539**	**165,451**

JPMG RAROTONGA Marked for Identification Purposes

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 2014	237	165	402
Additions	13	-	13
Disposals	(21)	(30)	(51)
Transfers/adjustments	-	-	-
At 30 June 2015	229	135	364
Additions	**7**	**-**	**7**
Disposals	-	-	-
Transfers/adjustments	-	-	-
At 30 June 2016	**236**	**135**	**371**
Depreciation and impairment			
At 1 July 2014	(168)	(104)	(272)
Disposals	20	30	50
Depreciation	(18)	(14)	(32)
Impairment	-	-	-
Transfers/adjustments	-	-	-
At 30 June 2015	(166)	(88)	(254)
Disposals	-	-	-
Depreciation	**(20)**	**(14)**	**(34)**
Impairment	**-**	**-**	**-**
Transfers/adjustments	-	-	-
At 30 June 2016	**(186)**	**(102)**	**(288)**
Net Book Values			
At 1 July 2014	**69**	**61**	**130**
At 30 June 2015	**63**	**47**	**110**
At 30 June 2016	**50**	**33**	**83**

COMMS RAROTONGA Marked for Identification Purposes

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 (2015: $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 11 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
Except as disclosed elsewhere in this note, fixed assets have been included in the Statement of Financial Position based on valuations performed by the Members. Furthermore, certain assets have been recorded in the financial statements at nil value. 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 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.

RAROTONGA Marked for Identification Purposes

Notes to the financial statements (continued)

Note 15 Intangible Assets

GROUP
In thousands of New Zealand Dollars

Cost	Carrying Amount
At 1 July 2014	2,065
Additions	156
At 30 June 2015	2,221
Additions	808
At 30 June 2016	3,029
Amortisation and impairment	
At 1 July 2014	1,766
Amortisation for the year	156
At 30 June 2015	1,922
Amortisation for the year	245
At 30 June 2016	2,167
Net book values	
At 1 July 2014	299
At 30 June 2015	299
At 30 June 2016	862

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 2016**	30 June 2015
Opening balance 1 July	**5,918**	6,036
Additions / (Disposals)	**7**	94
Depreciation	**(214)**	(212)
Closing balance at 30 June	**5,711**	5,918

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.

KPMG Marked for Identification Purposes

Notes to the financial statements (continued)

Note 17 Trade and other payables

In thousands of New Zealand Dollars	Group 30 June 2016	30 June 2015	Parent 30 June 2016	30 June 2015
Trade and other payables from exchange transactions				
Trade creditors	**792**	1,521	**75**	201
Audit fees - Group auditors	**410**	334	**206**	141
Other fees owed to Group auditors	**85**	53	**13**	30
Audit fees - other auditors	**115**	60		
Interest accrual	**809**	703	**-**	-
Provisions	**1,770**	1,580	**-**	-
Motor vehicle registration	**43**	61	**-**	-
Other payables and accruals	**967**	1,706	**50**	33
Total trade and other payables from exchange transactions	**4,991**	6,018	**344**	405

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	**246**	125	**11**	31
Total trade and other payables from non-exchange transactions	**246**	125	**11**	31
Total trade and other payables	**5,237**	**6,143**	**355**	**436**

Provisions

In thousands of New Zealand Dollars	Group 30 June 2016	30 June 2015	Parent 30 June 2016	30 June 2015
Opening land lease provision	**1,580**	1,580	**-**	-
Additional provision made in the period	**190**	-	**-**	-
Closing land lease provision	**1,770**	1,580	**-**	-
Opening other provision	**-**	250	**-**	-
Additional provision made in the period	**-**	(250)	**-**	-
Closing other provision	**-**	-	**-**	-
Total Provision	**1,770**	1,580	**-**	-

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.

VPMG RAROTONGA Marked for Identification Purposes

Notes to the financial statements (continued)

Note 18 Taxes

In thousands of New Zealand Dollars	Group 2016	Group 2015	Parent 2016	Parent 2015
Income tax receivable				
Income tax receivable (payable) c/f 1 July	**651**	653	**461**	205
Reclassified from tax payable	**(247)**	(647)	-	-
Income tax on current year surplus	**(1,040)**	(382)	**(361)**	(131)
Income tax paid	**1,375**	1,027	-	-
Income tax benefit on dividends paid	**92**	-	**269**	387
Income tax receivable 30 June	**831**	651	**369**	461
Future income tax benefit 1 July	**19**	27	-	-
Current year movement	-	(8)	-	-
Future income tax benefit 30 June	**19**	19	-	-
Deferred tax asset				
Deferred tax asset c/f 1 July	**784**	606	**16**	16
Deferred tax on current year surplus	**161**	178	**(13)**	-
Deferred tax asset 30 June	**945**	784	**3**	16
Income tax payable				
Income tax payable c/f 1 July	**919**	199	-	-
Reclassified as tax payable	**(247)**	(647)	-	-
Income tax on current year surplus	**1,749**	2,238	-	-
Income tax paid	**(944)**	(741)	-	-
Tax benefit on dividends paid	**(274)**	(137)	-	-
Tax penalties	-	7	-	-
Income tax payable 30 June	**1,203**	919	-	-
Deferred tax liability				
Deferred tax liability c/f 1 July	**1,296**	1,511	-	-
Deferred tax on current year surplus	**(107)**	(218)	-	-
Other adjustment	-	3	-	-
Deferred tax asset 30 June	**1,189**	1,296	-	-

RAROTONGA Marked for Identification Purposes

Notes to the financial statements (continued)

Note 18 Taxes (continued)

Reconciliation of effective tax rate

In thousands of New Zealand Dollars	Group 2016	Group 2015	Parent 2016	Parent 2015
Surplus before taxation for the year	**8,261**	8,617	**1,872**	657
(Surplus)/deficit for tax exempt entities	**54**	(74)	-	-
Equity accounted earnings from associate	**(1,479)**	(1,163)	-	-
Surplus excluding tax	**6,836**	7,380	**1,872**	657
Prima facie taxation at 20%	**1,367**	1,476	**374**	131
Tax effect of non-assessable income	**(115)**	(62)	-	-
Tax effect of non-deductible expenses	**541**	375	-	-
Tax on dividend distributed to Government by tax exempt entity	**351**	338	-	-
Taxable income not recognised in accounts	**377**	105	-	-
Income tax expense	**2,521**	2,232	**374**	131
Income tax expense is represented by:				
Current	**2,789**	2,628	**361**	131
Deferred	**(268)**	(396)	**13**	-
	2,521	2,232	**374**	131

Income tax losses carried forward:

Individual entities within the group have combined carried forward tax losses of $174,636 (2015: $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.

KPMG RAROTONGA Marked for Identification Purposes

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 2014	128	128	-	-
Additional investments made	-	-	-	-
Investments sold	-	-	-	-
At 30 June 2015	128	128	-	-
Additional investments made	-	-	-	-
Investments sold	-	-	-	-
Interest capitalised	-	-	-	-
At 30 June 2016	128	128	-	-

There have been no changes to investments in shares during the 2016 period.
Shares held at year end relate to the Group's investment in Asian Development Bank. The shares are held within the Group by Cook Islands Government Property Corporation.

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.

Investment in associates comprises of Telecom Cook Islands Limited which 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.

	Ownership	Total Assets	Total Liabilities	Total Income	Total Profit/(loss)
2015					
Telecom Cook Islands Limited (18 months to 31/12/15)	40%	27,565	8,314	36,131	11,026

In 2015 the associate changed their balance date from 30 June to 31 December. The next audited financial statements are for 31 December 2016.

Marked for Identification Purposes

Notes to the financial statements (continued)

Note 20 Investment in Associates (continued)

Investment in associates - Group

In thousands of New Zealand Dollars	2016	2015
Equity accounted investee		
Opening balance at 1 July	**7,053**	**5,889**
Share of profit/(loss)	**3,079**	**2,764**
Dividend received	**(1,600)**	**(1,600)**
Balance at 30 June	**8,532**	**7,053**

Note 21 Banking customer deposits

In thousands of New Zealand Dollars	2016			2015		
	Total	Due within one year	Over one year	Total	Due within one year	Over one year
Call deposits	30,089	30,089	-	23,611	23,611	-
Client term deposits	46,284	44,094	2,190	37,555	34,598	2,957
TOTAL	**76,373**	**74,183**	**2,190**	**61,166**	**58,209**	**2,957**

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 $37,489,000 (2015: $31,035,599).Interest rates on client deposits range from 0.00% to 5.75% (2015: 0.00% to 4.50%).

Note 22 Borrowings

In thousands of New Zealand Dollars

	Group		Parent	
	30 June 2016	30 June 2015	**30 June 2016**	30 June 2015
Current portion	**1,006**	1,061	-	-
Non current portion	**22,696**	23,611	-	-
Total borrowings	**23,702**	24,672	-	-

Marked for Identification Purposes

Notes to the financial statements (continued)

Note 22 Borrowings (continued)

The Airport Authority borrowed from ANZ Bank the amount of $8.1 million to refinance its loan held with Westpac Bank and to assist with capital expenditure programs. The loan was not fully drawn at balance date. The ANZ Bank loan has a 5 year term and a variable interest rate is applicable at 5.54% per annum. The loan is repayable by monthly instalments of $68,308.65 which is inclusive of interest and is based on a 15 year amortisation term with balloon payment at the end of term. The loan is secured by registered mortgage debenture over the assets and undertakings of the Authority. The loan agreement contains a financial covenant that requires the amount of EBITDA generated less dividend paid to be greater than 2x annual debt servicing commitments at all times. Covenant will be measured annually in arrears.

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. The interest rate on Loan 2473 is 1% per annum for the 8 year grace period and 1.5% per annum thereafter.The Ports Authority is responsible for any changes in the amount payable due to exchange rate fluctuations. Accordingly, all exchange rate risk is carried by the Ports Authority. The borrowings are recorded in NZD at the exchange rate at the date of the draw down and are restated using the closing rate at balance date. Any difference in exchange rate fluctuations are recorded in the Statement of Comprehensive Revenue and Expenses. The first draw down was made on 25 May 2010. Loan 2472 of USD$8.6 million is fixed for a period of 20 years plus a 5 year grace period with repayments commencing on 15 May 2014. Loan 2473 of SDR$4.5 million is fixed for a period of 24 years plus an 8 year grace period with repayments commencing on 15 May 2017. 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.

KPMG PHOTOCOPY Marked for identification Purposes

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 2015		
Cash and cash equivalents	21,660	(147)
Term deposits	26,499	2,968
Trade and other receivables	5,041	45
Banking portfolio investments	55,567	-
Derivative financial instrument	855	-
Taxation receivable	651	461
Dividends receivable	-	338
Related party receivables	74	5
	110,347	3,670
Financial assets		
30 June 2016		
Cash and cash equivalents	13,613	471
Term deposits	37,101	2,459
Trade and other receivables	5,000	42
Banking portfolio investments	65,173	-
Taxation receivable	831	369
Dividends receivable	-	1,333
Related party receivables	461	87
	122,179	4,761

In thousands of New Zealand Dollars	Carrying amount	
Financial liabilities	Group	Parent
30 June 2015		
Trade and other payables	6,956	465
Employee entitlements	901	28
Banking customer deposits	61,166	-
Income tax payable	919	-
Related party payables	778	1,846
Bank loan	24,672	-
Dividends payable	338	338
	95,730	2,677
Financial liabilities		
30 June 2016		
Trade and other payables	6,113	382
Employee entitlements	1,082	36
Banking customer deposits	76,373	-
Income tax payable	1,203	-
Derivative liability	-	-
Related party payables	756	1,820
Bank loan	23,702	-
Dividends payable	1,066	1,066
	110,295	3,304

RAROTONGA Marked for Identification Purposes

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 2016 and 2015 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	
	30 June 2016	30 June 2015	30 June 2016	30 June 2015
In thousands of New Zealand Dollars				
Cash and cash equivalents	**12,428**	20,495	**471**	(147)
Term deposits	**37,101**	26,499	**2,460**	2,968
Trade and other receivables	**5,000**	5,041	**1,279**	45
Banking portfolio investments	**65,173**	55,567	-	-
Derivative financial instrument	-	855	-	-
Taxation receivable	**831**	651	**369**	461
Dividends receivable	-	-	**1,333**	338
Related party receivables	**461**	74	**87**	5
Maximum exposure to credit risk	**120,994**	**109,182**	**5,999**	**3,670**

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 credit risk in relation to the cash and cash equivalents and term deposits is considered to be low as funds are placed primarily with financial institution counterparties that are rated at least AA3 to AA2 based on rating agencies Moody's ratings. Bank of the Cook Islands and Capital Security Bank Cook Islands are unrated.

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.

RAROTONGA Marked for Identification Purposes

Notes to the financial statements (continued)

Note 23 Financial Instruments - financial risk management (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	**2016**	2015	**2016**	2015
Maximum exposure to credit risk				
Carrying amount	**70,690**	60,076	-	-
Amount committed	-	-	**2,564**	4,775
At amortised cost				
Pass	**63,369**	54,466		
Special mention	**67**	284		
Substandard	**3,675**	1,267		
Doubtful	**2,894**	2,943		
Loss	**685**	1,116		
Total gross amount	**70,690**	**60,076**		
Provision for doubtful loans	**(3,043)**	(2,244)		
Provision for non-performing interest	**(1,792)**	(1,723)		
Deferred income	**(682)**	(542)		
Net carrying amount	**65,173**	55,567		
Off balance sheet				
Maximum exposure				
Lending commitments:				
Pass			**2,564**	4,775
Total exposure			**2,564**	4,775
Loans with renegotiated terms				
Gross carrying amount	**2,324**	505		
Allowance for impairment	**(271)**	(43)		
Allowance for non-accrued interest	**(8)**	(51)		
	2,045	**411**		
Neither past due nor impaired				
Pass	**62,576**	53,242		
Past due but not impaired (days in arrears)				
0-30	**776**	686		
31-60	-	-		
61-90	**17**	537		
	793	1,223		

KPMG RAROTONGA Marked for Identification Purposes

Notes to the financial statements (continued)

Note 23 Financial Instruments - financial risk management (continued)
(i) Analysis of Credit Quality (continued)

In thousands of New Zealand Dollars	Loans and advances to customers 2016	2015
Individually impaired		
Special mention	67	285
Substandard	3,675	1,267
Doubtful	2,894	2,943
Loss	685	1,116
	7,321	5,611
Allowance for impairment		
Individual	4,209	3,662
Collective	627	305
	4,836	3,967

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.

KPMG RARCTOMGA Marked for Identification Purposes

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.

KPMG RAROTONGA Marked for Identification Purposes

Notes to the financial statements (continued)

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

		Group		Parent	
		30 June 2016	30 June 2015	30 June 2016	30 June 2015
In thousands of New Zealand Dollars					
Concentration by Location					
New Zealand		**21,593**	14,542	-	-
Australia		**128**	-	-	-
Rarotonga		**34,100**	39,072	**4,765**	3,670
Rarotonga - lending		**55,262**	46,422	-	-
Outer islands - lending		**9,911**	9,146	-	-
		120,994	109,182	**4,765**	3,670
Concentration by Counterparty					
	Credit rating				
Australia New Zealand Bank	AA2	**29,100**	37,601	-	-
Bank of South Pacific	AA2	**4,131**	7,192	**1,086**	452
Kiwi Bank	AA3	**5,204**	4,064	-	-
Westpac Banking Corporation	AA3	**9**	0	-	-
Capital Security Bank	N/A	**27**	333	-	-
Coop Money NZ	BB+	**16,343**	-	-	-
National Australia Bank Group	AA	**128**	-	-	-
Bank of the Cook Islands	N/A	-	-	**1,845**	2,369
Loans to customers	N/A	**65,173**	55,567	-	-
Related parties	N/A	**374**	74	**1,789**	343
Other	N/A	**505**	4,351	**45**	506
Total		**120,994**	109,182	**4,765**	3,670
Concentration by Sector					
Banks		**54,941**	48,562	**2,931**	2,821
Retail		**5**	26	-	-
Housing		**30,657**	26,283	-	-
Personal		**11,030**	10,449	-	-
Business		**23,482**	18,809	-	-
Related parties		**374**	74	**1,789**	343
Other		**505**	4,979	**45**	506
Total		**120,994**	109,182	**4,765**	3,670

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 goup, 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.

KPMG RAROTONGA Marked for Identification Purposes

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 2015.

Group	GROUP		PARENT	
In thousands of New Zealand Dollars	30 June 2016	30 June 2015	30 June 2016	30 June 2015
Interest bearing Financial assets	**114,702**	102,561	**2,930**	2,821
Interest bearing Financial liabilities	**(100,075)**	(85,838)	**-**	-
Net exposure	**14,627**	**16,723**	**2,930**	**2,821**
100bp increase effect on profit	**(146)**	(167)	**(29)**	(28)
100bp decrease effect on profit	**146**	167	**29**	28

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.

Marked for Identification Purposes

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 6 months	6 to 12 months	1 - 5 years	> 5 years	Non sensitive
Balance as at 30 June 2016							
Financial Assets							
Cash on hand	N/A	1,185	-	-	-	-	1,185
Cash at bank	0.62%	12,428	12,428	-	-	-	-
Term deposits	2.94%	37,101	24,473	12,628	-	-	-
Trade and sundry receivables	N/A	5,000	-	-	-	-	5,000
Related party receivables	N/A	461	-	-	-	-	461
Taxation receivable	N/A	831	-	-	-	-	831
Banking portfolio investments	9.53%	65,173	65,173	-	-	-	-
Total Financial Assets		**122,179**	**102,074**	**12,628**	**-**	**-**	**7,477**

Interest Rate Repricing Schedule (continued)

In thousands of New Zealand Dollars

	Weighted average interest rate	Carrying Amount	0 to 6 months	6 to 12 months	1 - 5 years	> 5 years	Non sensitive
Balance as at 30 June 2016							
Financial Liabilities							
Trade and other payables	N/A	6,113	-	-	-	-	6,113
Employee entitlements	N/A	1,082	-	-	-	-	1,082
Banking customer deposits	3.27%	76,373	63,361	10,822	2,190	-	-
Income tax payable	N/A	1,203	-	-	-	-	1,203
Derivative liability	N/A	-	-	-	-	-	-
Related party payables	N/A	756	-	-	-	-	756
Bank loan	3.64%	23,702	5,720	8,387	-	9,595	-
Dividends payable	N/A	1,066	-	-	-	-	1,066
Total Financial Liabilities		**110,295**	**69,081**	**19,209**	**2,190**	**9,595**	**10,220**
Interest Rate Gap		**11,884**	**32,993**	**(6,581)**	**(2,190)**	**(9,595)**	**(2,743)**

KPMG RAROTONGA Marked for Identification Purposes

Notes to the financial statements (continued)

Note 23 Financial Instruments - financial risk management (continued)

Balance as at 30 June 2015	Weighted average interest rate	Carrying Amount	0 to 6 months	6 to 12 months	1 - 5 years	> 5 years	Non sensitive
Financial Assets							
Cash on hand	N/A	1,165	-	-	-	-	1,165
Cash at bank	0.91%	20,495	20,495	-	-	-	-
Term Deposits	3.83%	26,499	20,666	5,728	105	-	-
Trade and other sundry receivables	N/A	5,041	-	-	-	-	5,041
Derivative financial instrument	N/A	855	-	-	-	-	855
Related party receivables	N/A	74	-	-	-	-	74
Taxation receivable	N/A	651	-	-	-	-	651
Banking portfolio investments	9.63%	55,567	55,567	-	-	-	-
Total Financial Assets		110,347	96,728	5,728	105	-	7,786
Financial Liabilities							
Trade and other payables	N/A	6,956	-	-	-	-	6,956
Employee entitlements	N/A	901	-	-	-	-	901
Banking customer deposits	3.27%	61,166	48,756	9,444	2,966	-	-
Income tax payable	N/A	919	-	-	-	-	919
Related party payables	N/A	778	-	-	-	-	778
Bank loan	3.84%	24,672	6,653	8,226	-	9,793	-
Dividends payable	N/A	338	-	-	-	-	338
Total Financial Liabilities		95,730	55,409	17,670	2,966	9,793	9,892
Interest Rate Gap		14,617	41,319	(11,942)	(2,861)	(9,793)	(2,106)

Parent

In thousands of New Zealand Dollars

Balance as at 30 June 2016	Weighted average interest rate	Carrying Amount	0 to 6 months	6 to 12 months	1 - 5 years	> 5 years	Non sensitive
Financial Assets							
Cash and cash equivalents	1.25%	471	471	-	-	-	-
Term deposits	3.77%	2,459	2,459	-	-	-	-
Trade and sundry receivables	N/A	42	-	-	-	-	42
Taxation receivable	N/A	369	-	-	-	-	369
Dividends receivable	N/A	1,333	-	-	-	-	1,333
Related party receivables	N/A	87	-	-	-	-	87
Total Financial Assets		**4,761**	**2,930**	**-**	**-**	**-**	**1,831**

Interest Rate Repricing Schedule (continued)

In thousands of New Zealand Dollars

Balance as at 30 June 2016	Weighted average interest rate	Carrying Amount	0 to 6 months	6 to 12 months	1 - 5 years	> 5 years	Non sensitive
Financial Liabilities							
Trade and other payables	N/A	382	-	-	-	-	382
Employee entitlements	N/A	36	-	-	-	-	36
Related party payables	N/A	1,820	-	-	-	-	1,820
Dividends payable	N/A	1,066	-	-	-	-	1,066
Total Financial Liabilities		**3,304**	**-**	**-**	**-**	**-**	**3,304**
Interest Rate Gap		**1,457**	**2,930**	**-**	**-**	**-**	**(1,473)**

KPMG RAROTONGA Marked for identification Purposes

Notes to the financial statements (continued)

Note 23 Financial Instruments - financial risk management (continued)

Parent Balance as at 30 June 2015	Weighted average interest rate	Carrying Amount	0 to 6 months	6 to 12 months	1 - 5 years	> 5 years	Non sensitive
Financial Assets							
Cash and cash equivalents	**1.25%**	(147)	(147)	-	-	-	-
Term Deposits	**3.73%**	2,968	2,968	-	-	-	-
Trade and other sundry receivables	**N/A**	45	-	-	-	-	45
Taxation receivable	**N/A**	461	-	-	-	-	461
Dividends receivable	**N/A**	338	-	-	-	-	338
Related party receivables	**N/A**	5	-	-	-	-	5
Total Financial Assets		3,670	2,821	-	-	-	849
Financial Liabilities							
Trade and other payables	**N/A**	465	-	-	-	-	465
Employee entitlements	**N/A**	28	-	-	-	-	28
Related party payables	**N/A**	1,846	-	-	-	-	1,846
Dividends payable	**N/A**	338	-	-	-	-	338
Total Financial Liabilities		2,677	-	-	-	-	2,677
Interest Rate Gap		993	2,821	-	-	-	(1,828)

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 2016	30 June 2015
% of Risk Weighted Assets		
Tier One Capital	20.95%	25.86%
Total Capital	20.95%	25.86%

The Bank complied with all externally imposed capital requirements.

RARO TONGA Marked for Identification Purposes

Notes to the financial statements (continued)

Note 24 Commitments and contingencies

Capital Commitments

The Group has no capital commitments as at balance date (2015: nil)

Operating lease rentals

The group as lessee

Future minimum lease payments under non-cancellable operating leases:

In thousands of New Zealand Dollars	Group 30 June 2016	Group 30 June 2015	Parent 30 June 2016	Parent 30 June 2015
Land and Buildings				
Due within one year	**232**	367	-	-
Due within two to five years	**931**	794	-	-
Later than five years	**5,228**	5,459	-	-
Total operating lease expense commitments	**6,391**	6,620	-	-

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. Most of these leases are for 20 – 60 year terms and are perpetually renewable. The Corporation has disclosed its future lease obligation in relation to Tereora Section 106B, Nikao and Te Puka Section 106C in these financial statements. The Corporation therefore has not fully disclosed future commitments (as has been the case in previous years) on its land leases which is required by IPSAS 13 Leases. The audit report has been qualified in this regard.

The group as lessor

Future minimum lease income under non-cancellable operating leases:

In thousands of New Zealand Dollars	Group 30-Jun 2016	Group 30-Jun 2015	Parent 30-Jun 2016	Parent 30-Jun 2015
Buildings				
Due within one year	**200**	196	-	-
Due within one to two years	**172**	93	-	-
Due within two to five years	**140**	115	-	-
Total	**512**	**404**	-	-

The group lets properties under operating leases. Property rental income earned during the year was $759,552 (2015: $793,338). No investment properties have been disposed of since 30 June 2015.

Marked for Identification Purposes

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 2015 these undrawn loans total $2,564,009 (2015: $4,775,203).

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.

Land Warrant

On the 30th of May 2017, the Corporation settled with the Cook Islands Christian Church (CIIC) in full for all land warrant and maritime surveillance houses claims in regards to Te Puka Section 106C. A smaller parcel of Te Puka Section 106C is now subject to a land lease the annual land rent for which is included in the Corporation's operating lease obligations.

There were no further contingent liabilities as at balance date.

KPMG RAROTONGA Marked for Identification Purposes

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 2016							
Trading Revenue	8,159	-	2,776	17,224	4,432	2,743	**35,334**
Crown Appropriation	-	-	2,605	-	2,048	-	**4,653**
Other Revenue	703	-	522	919	72	376	**2,592**
Expenses	(8,116)	19	(7,529)	(12,009)	(6,185)	(3,581)	**(37,401)**
Other Gains / (Losses)	-	3,079	-	259	(21)	(234)	**3,083**
Surplus / (Deficit) before tax	**746**	**3,098**	**(1,626)**	**6,393**	**346**	**(696)**	**8,261**
Total Assets	94,925	9,171	45,115	53,081	71,813	38,690	**312,795**
Total Liabilities	84,619	220	3,992	1,715	2,255	20,989	**113,790**
Capital Expenditure	605	0	11,959	409	0	120	**13,093**
Balance as at 30 June 2015							
Trading Revenue	6,935	-	639	18,157	6,011	2,891	**34,633**
Crown Appropriation	-	-	3,357	-	2,048	-	**5,405**
Other Revenue	883	26	239	762	98	332	**2,340**
Expenses	(6,276)	(8)	(5,788)	(14,549)	(8,141)	(3,830)	**(38,592)**
Other Gains / (Losses)	-	2,763	1	1,273	(12)	806	**4,831**
Surplus / (Deficit) before tax	**1,542**	**2,781**	**(1,552)**	**5,643**	**4**	**199**	**8,617**
Total Assets	84,851	7,651	43,452	46,497	73,111	38,026	**293,588**
Total Liabilities	62,803	192	4,337	4,133	3,238	23,861	**98,564**
Capital Expenditure	261	-	729	3,999	1,092	734	**6,815**

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. 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. 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.

JPMG RAROTONGA Marker for Identification Purposes

Notes to the financial statements (continued)

Note 27 Subsequent Events

Subsequent to year end, the Court reached a decision on the Capital value for the Tereora College land lease. The lease provision in the Statement of Financial Position and lease commitments disclosure has been updated to reflect this decision.

To Tatou Vai Limited was incorporated on the 25th August 2017. This entity was established to manage future water utility projects. The company is owned 50% by the Corporation and 50% by Cook Islands Government Property Corporation.

CIIC Seabed Resources Limited was incorporated on the 2nd November 2017. The company is owned 50% by the Corporation and 50% by GSR Cook Islands Limited.

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

KPMG RAROTONGA Marked for Identification Purposes