ANNUAL REPORT 2021

first credit union


Toni

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2021 Highlights

$352 MILLION Member shares reached

3.41% NET INTEREST MARGIN

In 2021, First Credit Union's membership grew by 4%.

49,054 MEMBERS

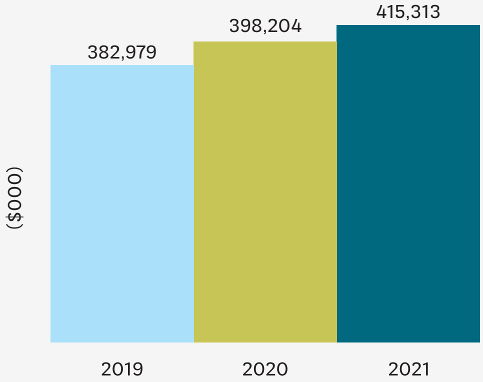
Even with the ongoing challenges faced due to COVID-19, your credit union performed well.

$1.87M OPERATING SURPLUS

INTEREST PAID TO MEMBERS

$5.18 MILLION

TOTAL ASSETS



PERSONAL LOANS	$88,262,000
HOME LOANS	$188,179,000
TOTAL LOANS	**$276,441,000**

Jimmy at the First Credit Union Christmas Parade

CHAIR'S REPORT

Judith Taane
Member since 1979

As of 30 June 2021 First Credit Union:

- Had an operating surplus of $1,867,000
- $415.313 million in assets
- Member shares of $352.156 million
- A loan book totalling $276.441 million
- Paid $5.183 million worth of interest on member shares

During the year First Credit Union advanced $127.50 million in loans. Of this, we disbursed $39.74 million in personal loans and $87.76 million in mortgages. Our loan book sits at 68% mortgages and 32% personal loans.

The year ended 30 June 2021 wasn't without its challenges as we continued to navigate our way through the global pandemic.

REGULATORY ENVIRONMENT

AMENDED PRIVACY ACT

The privacy of our members has always been important to First Credit Union, and on 01 December 2020 the Amended Privacy Act came into effect. The amendments made to the Act aims to strengthen the privacy protections required by an organisation such as ours. With the guidance of Naca Kaloumaira, our Risk and Compliance Manager, our staff received the appropriate training prior to the amendments coming into force.

AML/CFT OBLIGATIONS

First Credit Union continues to adhere to it is AML/ CFT obligations. Recently several Australian and New Zealand banks were fined for breaches of their AML/CFT Act, a timely reminder that we need to ensure that our procedures not only protect our members but the Credit Union as a whole.

Ongoing Customer Due Diligence is an obligation that we must enforce to be compliant with this Act and as such, our staff are required to regularly request up to date ID from our members. First Credit Union has partnered with Cloudcheck Verify as an online verification tool to help us streamline the ID process for our members.

CREDIT CONTRACTS AND CONSUMER FINANCE ACT (CCCFA)

As a responsible lender, we are also bound by the CCCFA Act. The Act, having been around since 2003 is being updated, with changes coming into effect on 1 October 2021.

Management are working through what these changes mean for First Credit Union and will have processes in place to ensure we comply come 1 October.

Judith and Phil Taane with Naca Kaloumaira at the First Credit Union Fun Friday event

RBNZ

In June, we hosted representatives from the RBNZ onsite for two days as they conducted their review of First Credit Union. During their time with First Credit Union, they met with some of our Senior Managers and Rob Pascoe, as Chair of the Audit Committee, represented the Board. The visit went well, and we look forward to receiving the final report from the RBNZ in due course.

FINANCIAL SERVICES FEDERATION

First Credit Union is pleased to now be a full member of the Financial Services Federation (FSF). The FSF is a non-profit organisation that represents responsible, non-bank financial institutions. The FSF sets industry standards for responsible lending, promotes compliance, consumer awareness and works with Government towards fair and enforced legislation.

We look forward to working with FSF as we navigate the ever changing regulatory environment.

FINANCIAL ADVICE PROVIDER (FAP) LICENCE

In March this year we changed our status from being a Qualifying Financial Entity (QFE) to a Financial Advice Provider (FAP). Although we now have a licence to provide financial advice, we do not provide financial advice. Instead, our staff focus on letting our members know what products and services we have available. If you are unsure about what products and services are best for you, we always recommend seeking independent financial advice.

INVESTING IN OUR FUTURE

Having a robust, safe core banking platform is crucial to First Credit Union. A few years ago we changed our core banking system to Finzsoft's Sovereign platform. Sovereign allows First Credit Union the flexibility required to provide our members with the unique set of products and services our members have become accustomed to and gives us a platform for further enhancements.

Earlier this year, the Board made the decision to invest in Finzsoft Solutions Ltd, a NZ based company that delivers tailor-made solutions to meet the needs of a dynamic and ever-changing financial services industry.

This investment is not only in the best interests of our members, but also in First Credit Union's future. First Credit Union is one of three shareholders of Finzsoft, holding 48.86% of it's shares. The other significant shareholder is Police Credit Union.

GOVERNANCE

Director	Board Meeting Eligible To Attend	Board Meeting Attended
Judith Taane	11	11
Malcom Blair	11	11
Simon Scott	11	11
John Harvey	11	11
Peter Iles	11	10
Rob Pascoe	11	11
Phil Todd	11	11

Thank you to First Credit Union's Board, Management and Staff for another successful year.

J a Taane.

Judith Taane
Chair

TREASURER'S REPORT

Peter Iles
Member since 1962

As of 30 June 2021 First Credit Union:

- An operating surplus of $1,867,000
- Total assets of $415.313 million which represents an increase of 4.30%
- A loan book totalling $276.441 million, an increase of 22.22%
- Member shares totalling $ 352.156 million, an increase of 4.39%

As Treasurer of the First Credit Union Board of Directors, I am pleased to present this report highlighting First Credit Union's financial results for the year ended 30 June 2021.

First Credit Union continues to provide everyday kiwis with reliable products and services to achieve their financial goals with low fees and competitive rates.

Even with ongoing interruptions to business due to Covid, the year ended 30 June 2021 was still successful for your Credit Union.

A major factor in the growth of First Credit Union's loan book is due to an increase in mortgages, a reflection of the New Zealand market at the moment. The personal loan market, our ongoing regulatory obligations and an overall decrease in appetite from members has seen a shift in how we lend. We have been working with local members to help them get into their first home, or forever home.

First Credit Union's total reserves sit at $59.495 million, and our Risk Weighted Capital is 13.53%, above our regulatory requirement of 8%.

Thank you to our members for continuing to support First Credit Union.

Peter Iles
Treasurer

11,834 active Mobile Banking users

8,256 active Internet Banking users

308,591 calls answered by the Call Centre

GENERAL MANAGER'S REPORT

Simon Scott
Member since 1973

The year ended 30 June 2021 hasn't been without its ups and downs as we continued to feel the effects of Covid and changes in alert levels. I would like to take this opportunity to thank our members and staff for their support and understanding during this time.

As expected, the effects of Covid were felt widely across our membership, and where possible we were able to assist those who needed extra support during this time. As reported last year, when Covid hit we were able to move quickly to provide additional assistance to members with personal loans and mortgages. I am pleased to report that at year end all of those who had received support through our covid relief packages are now back to normal repayment schedules.

PUTTING THE "PERSONAL" IN PERSONAL LOANS

Our personal loan product has helped thousands of members throughout the years. With no application fees, we can save you hundreds and help our members make their dreams happen - whatever they may be.

As a member owned financial cooperative, all of our lending decisions are based on putting our members first and we're getting noticed!

Recently, First Credit Union was reviewed by Moneyhub. Overall, First Credit Union fared very well in this review, and it is pleasing to note that we are now listed in the top three on their site for personal loans and to quote Moneyhub "First Credit Union offers transparent personal loans that are competitive not only with the interest rate but also the absence of fees and penalties."

We take our role as a responsible lender very seriously; we work hard to help kiwis achieve their goals **within their means**. We believe that every New Zealander has the right to simple and fair credit that won't adversely affect their financial situation.

As the personal loan market continues to evolve, all departments work alongside each other to ensure that we are meeting our regulatory requirements as well as the needs of our members.

HOME LOANS

Getting on to the property ladder in today's economic environment can be hard. If buying your first home is important to you, then we will do our best to make this happen.

This year we reactivated our relationship with Kāinga Ora, a Crown agency that provides rental housing for New Zealanders in need.

In addition, we have helped finance some local developers build 68 dwellings under contract for Kainga Ora. We're proud to be helping with the housing crisis in this way.

*"**First Credit Union** has helped my family create so many **wonderful memories**"*

Member feedback

MEMBER EXPERIENCE
Our staff work hard to help our members achieve their goals and manage their accounts in branch, online and through our call centre.

We are continuously looking to improve our member experience. Our Mobile Banking App continues to be popular with our members and to meet member expectations earlier this year we made further enhancements including, but not limited to:

- Temporary blocking/ unblocking of Mastercard Debit card
- Touch ID or Facial Recognition login
- Password change
- Payment transaction receipt forwarding
- View/Alter/Skip/Delete upcoming payments

Investing in the ongoing development of our Mobile and Internet Banking is important and shows a real shift in our member's behaviours since Covid.

However, as always, we remain committed to our branch network and believe that the service that our local staff provide members in branch is important and what makes us different to others in the industry.

In recent years, we have seen a mass exodus of banks and other financial institutions in many of the smaller towns we operate in.

We're proud to be the only financial institution serving and committed to our Te Aroha and Ngaruawahia communities. We believe that members of these communities, like all others have the right to access fair and simple financial products and services.

Anne Hunter

Imaan Tuitama and Rangi Huriwai

STAFF
In September Anne Hunter, from our Rotorua branch retired after 36 years of service to the NZ Credit Union movement. Anne started at St Michaels and St Mary's Credit Union in 1984 and in her time saw many changes within the Credit Union sector. We were really pleased to have her join team in 2014 when NZCU Rotorua became part of the First Credit Union family and wish Anne and husband Pat all the best for their retirement.

After 13 years of dedicating her time to her Credit Union, we saw Rangi Huriwai, our Ngaruawahia Branch Manager leave. Rangi has always been and no doubt will continue to be an advocate for First Credit Union within her local community. Rangi left us to focus more on her family, however, is always keeping a keen eye on what we are up to.

WE'RE POPPING UP
One of the better things to come out of our time in lock down last year was enhancements that we made to our processes and technology. This has allowed us to start "popping up" at local shopping centres, bringing our staff and our branches to more convenient locations for our members.

As at June 30 2021, we have been onsite at Te Awa (Hamilton) and The Crossing (Tauranga) and we will be at Bayfair in July. We look forward to seeing our members at these locations and sharing the FCU story with others in our community.

On behalf of Management and Staff I would like to thank our members for their support.

Simon Scott
General Manager

Training

Investing in our staff, and their wellbeing is also an investment in our members and our organisation as a whole. Throughout the year we continued to support our staff with various development opportunities, all of which help us to better serve our members.

RESILIENCE TRAINING

In August 2020, once we were in a more 'settled' space with alert levels we thought it prudent to enlist the help of Lance Burdett to run through some resilience training with our staff.

Lance spent 22 years with the NZ Police, becoming the lead crisis negotiator. Lance has developed and delivers coaching programmes that focus on handling emotional conversations and personal resilience.

Covid impacted on our members and our staff lives in a way that had never been seen before, and Lance spoke to our staff about dealing with change, planning for change and personal resilience.

Having explained how different people react, Lance was able to provide our staff with the tools necessary to do their jobs and support our members post covid.

STAFF TRAINING DAY

In March, we closed the doors and held a full staff training day in Mount Maunganui.

Despite the early start for many, it was one of the few opportunities to get everyone together to discuss plans for the coming 12 months and to hear from Senior Managers and external parties such as Damian Henry, Advisor Banking and AML CFT Supervision, RBNZ and Dr Denise Quinlan, Director of the NZ Institute of Wellbeing & Resilience.

With a full agenda, the training day was successful and allowed staff to get a better understanding of the role First Credit Union plays in the NZ financial sector.

Staff engaging with speaker at the March training day.

Natalie Malcolmson, Merle Costav, Janet Gibb, Tori Smiler.

NZ FEDERATION OF BUSINESS & PROFESSIONAL WOMEN

Tori Smiler and Natalie Malcolmson attended this year's BPW NZ conference on behalf of First Credit Union. BPW NZ "connects and empowers women who aspire to do more". Tori and Natalie enjoyed their time networking and listening to a range of guest speakers.

INCIDENT RESPONSE

The environment we operate in is forever changing. The risks an organisation such as ours face now are completely different to 10 years, or even 5 years ago.

Annually a team of Senior Managers meet to run through a security incident exercise. This year's exercise focussed on how the team would handle a cyber security incident. Whilst we hope that we never have to put this training into action, it is important that we are prepared.

Special thanks to our members who allowed us to close the branches and call centre for our training days, we appreciate your support and investment in our staff.

First Insurance

Members with First Insurance covers	9,860 (LPI and FP)

First Insurance Limited (FIL), like First Credit Union, puts our members FIRST. FIL provides our membership with two simple types of insurance:

- **Funeral Insurance**- simple, affordable funeral cover with claims that are paid quickly. Having a plan in place can help your family cope financially at an already stressful time.
- **Loan Protection Insurance**- protects our member's loans against unforeseen events such as death, disability, critical illness and bankruptcy.

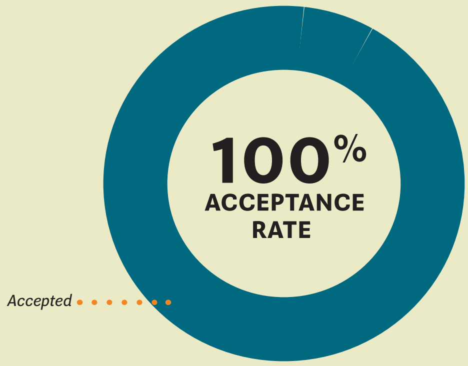
As at 30 June 2021, FIL has insured 9,860 members (Funeral and Loan Protection).

Over the last 12 months, FIL has once again performed above industry standards, approving 100% of Funeral Insurance claims and 92.4% of Loan Protection Insurance Claims.

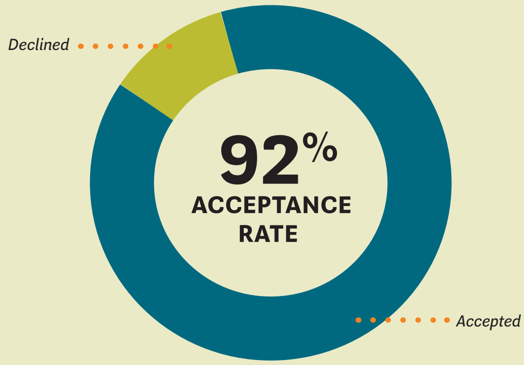
These statistics can be attributed to FIL's unique approach to claims, to always look for a way to approve the claim rather than decline it.

Michael Cathro
Insurance Manager

FUNERAL INSURANCE CLAIMS



LOAN PROTECTION CLAIMS



COMMUNITY REPORT

As soon as alert levels allowed, our teams were back out and about in their local communities.

Our teams have always maintained a strong presence in our communities. With many community events having been cancelled due to covid, we felt that getting back out in our communities and supporting those who support us was particularly important. Over the last 12 months our teams have been busy visiting schools, attending events, taking part in expos and sponsoring some pretty important local events!

SPONSORSHIP

Throughout the year we have sponsored several community projects, both big and small. These sponsorships allow our teams the opportunity to get out in our communities, supporting what is important to them.

Christmas is one of our favourite times of year, it is when we can really get amongst our communities and spread some Christmas Cheer! We were proud sponsors of the First Credit Union Hamilton Christmas parade, and enjoyed participating in the Te Aroha and Kawerau parades.

You will not find a more iconic event in the Waikato than Balloons over Waikato! We once again enjoyed a week full of FREE events, which included the "First Credit Union Fun Friday" morning. Our event is always well attended by the public and our team had a great time entertaining everyone- we look forward to doing it all again next year!

Our Whakatane branch participated in the local "it's cool to be kind" promotion, and as our random act of kindness gave out meal packs to their community.

Without volunteers, many charitable organisations would not be able to do all the good work they do. It takes a special person to volunteer their time to help and this year we proudly sponsored the Waikato Volunteer Awards. Congratulations to all this year's winners, we appreciate what you do for our communities.

"Without a sense of caring there can be no sense of community"

COMMUNITY EVENTS

We love nothing more than getting out and about, attending local events. We were thrilled this year to be invited along to several community events and our teams thoroughly enjoyed every one of them!

Some of the events we participated in this year include:

- Waldorf (Tauranga) School Gala
- Awakeri Top School and Gala
- Waiwhakareke Arbor Day planting
- Greening Taupo Arbor Day planting
- Move your butt (bowel cancer) challenge
- Local chamber networking events
- Te Teko School Gala
- Fairfield Community Expo
- Ngaruawahia Matariki Festival
- Supporting Annie's Corner

We would like to thank all the local groups we have worked with during the year for allowing us to be a part of your day.

Rotorua Branch donating their collection to the Fill the Bus appeal in support of The Salvation Army

Maiya Smith

First Credit Union is proud to support Maiya Smith who is a talented young dancer from Hamilton.

Maiya has been dancing since she was three years old. In 2016 at the age of 12, Maiya auditioned and was successful in becoming a member of the Bubblegum Hip Hop Crew, the junior crew for The Royal Family based in Auckland at the Palace Dance Studio, owned and operated by Parris Goebel.

The Royal Family is a hip hop mega dance crew from New Zealand that has won countless championships and dances for many celebrities.

Since then, Maiya has travelled throughout New Zealand and Internationally competing in competitions including the World Hip Hop Championships in America. She has also appeared in two dance videos, one for Psy (South Korean Singer) and Ciara (American Pop Singer). Maiya must reaudition for The Royal Family each year and has been successful in retaining a spot for the last five years.

Being part of the Royal Family takes a lot of commitment and hard work including travelling to Auckland six times a week for classes and training. It can also be very demanding financially with her family fundraising each year to support Maiya on her dance journey.

First Credit Union has been supporting Maiya for the last couple of years. The funding we offer has gone towards travel and living costs while representing The Royal Family. In April 2020, over three weeks during lockdown, our Facebook followers had the opportunity to learn a dance choreographed by Maiya. These videos were watched by over 2,500 viewers!

Audited Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

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Directory

FOR THE YEAR ENDED 30 JUNE 2021

FIRST CREDIT UNION INCORPORATED BOARD OF DIRECTORS	
Chair	Judith Taane
Deputy Chair	Malcolm Blair
Directors	John Harvey
	Peter Iles (Secretary/Treasurer)
	Phil Todd
	Robert Pascoe
	Simon Scott

FIRST INSURANCE LIMITED BOARD OF DIRECTORS	
Chair	Malcolm Blair
Deputy Chair	Judith Taane
Directors	Mark Joblin
	Peter Iles
	Simon Scott
	Steve Nichols

SENIOR MANAGEMENT TEAM	
General Manager	Simon Scott
Chief Financial Officer	Stephen Hawkins
Chief Information Officer	Jarrod Dowd
Collection Solutions Manager	Michelle Arundel
Insurance Manager	Michael Cathro
Lending Manager	Richard O'Regan
Marketing & Communications Manager	Melissa Hay
Member Experience Manager	Ana Braunias
Risk & Compliance Manager	Asenaca Kaloumaira
Special Projects Manager	Caitlin Kerr-Bell
Treasury & Agency Banking Manager	Herb Wulff

Auditor	BDO Wellington Audit Limited
Prudential Supervisor	Covenant Trustee Services Limited
Bankers	ANZ, Heartland, Westpac
Affiliations	World Council of Credit Unions

CONSOLIDATED STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

FOR THE YEAR ENDED 30 JUNE 2021

	Note	2021	2020[1]
REVENUE		**$000**	**$000**
Interest Revenue	2.1	17,749	21,900
Interest Expenditure	2.1	(5,183)	(8,828)
Net Interest Revenue		**12,566**	**13,072**
Other Income	2.2	6,539	6,622
Insurance Underwriting Surplus	6.1(a)	945	1,058
		20,050	**20,752**
EXPENDITURE			
Operating Expenses	2.3	(9,363)	(9,406)
Employee Benefits	2.3	(6,449)	(6,875)
Loan Impairment Expenses	4.2	(1,420)	(2,151)
Depreciation	5.1	(692)	(778)
Occupancy		(486)	(549)
Total Operating Expenditure		**(18,410)**	**(19,759)**
Share of Surplus/(Deficit) of an Equity Accounted Associate	5.6	227	0
Surplus before Taxation		**1,867**	**993**
Income Tax Expense	2.4	0	(14)
Surplus for the Year Attributable to Members		**1,867**	**979**
Other Comprehensive Revenue and Expense		0	0
Total Comprehensive Revenue and Expense for the Year		**1,867**	**979**

The attached notes to the financial statements form part of and should be read in conjunction with the financial statements.
[1] Comparative information for 2020 has been restated due to a change in accounting policy related to the capitalisation of intangible assets. Refer to 7.1 Changes to Accounting Policies for more information.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS/EQUITY

FOR THE YEAR ENDED 30 JUNE 2021

	Note	Accumulated Revenue and Expense	Property Revaluation Reserve	Total
		$000	$000	$000
Balance as at 30 June 2019 - as Previously Reported[1]		**57,524**	**2,034**	**59,558**
Prior Period Adjustment - IFRIC SaaS Accounting Policy Change[1]	7.1	(2,909)	0	(2,909)
Balance as at 30 June 2019 - Restated[1]		**54,615**	**2,034**	**56,649**
Total Comprehensive Revenue and Expense for the Year[1]		979	0	979
Balance as at 30 June 2020 - Restated[1]		**55,594**	**2,034**	**57,628**
Total Comprehensive Revenue and Expense for the Year		1,867	0	1,867
Balance as at 30 June 2021		**57,461**	**2,034**	**59,495**

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[1] Comparative information for 2019 and 2020 has been restated due to a change in accounting policy related to the capitalisation of intangible assets. Refer to 7.1 Changes to Accounting Policies for more information.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2021

	Note	2021	2020[1]
MEMBERS' FUNDS		**$000**	**$000**
Accumulated Revenue and Expense		57,461	55,594
Property Revaluation Reserve		2,034	2,034
Total Members' Funds		**59,495**	**57,628**
ASSETS			
Cash and Cash Equivalents	3.1	20,924	18,895
Term Deposits	3.2	95,625	133,865
Loans to Members	4.1	273,561	223,224
Property, Plant and Equipment	5.1	12,779	12,102
Prepayments	5.2	3,172	8,754
Other Assets	5.4	191	352
Loan to Associate	5.7	2,750	0
Investment in Associate	5.6	6,311	1,012
Total Assets		**415,313**	**398,204**
LIABILITIES			
Trade and Other Payables	5.5	3,278	2,835
Employee Entitlements		384	383
Members' Deposits	5.8	352,156	337,358
Total Liabilities		**355,818**	**340,576**
Net Assets / Equity		**59,495**	**57,628**

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

DIRECTOR ***Judith Taane***

Date 22 September 2021

DIRECTOR ***Rob Pascoe***

Date 22 September 2021

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[1] Comparative information for 2020 has been restated due to a change in accounting policy related to the capitalisation of intangible assets. Refer to 7.1 Changes to Accounting Policies for more information.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2021

	Note	2021	2020[1]
CASH FLOWS FROM OPERATING ACTIVITIES		**$000**	**$000**
Interest Received		18,220	22,227
Fees, Commissions and Other Income		7,382	7,109
Bad Loans Recovered		270	365
Interest Paid		(5,794)	(8,985)
Payments to Suppliers and Employers		(10,270)	(22,706)
Net Cash Provided by Operating Activities before changes in Operating Assets		**9,808**	**(1,990)**
Net (Increase) Decrease in Members' Loans		(51,766)	(22,933)
Net Increase (Decrease) in Member Deposits		15,409	17,586
Net Cash Provided by Operating Activities		**(26,549)**	**(7,337)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for Property, Plant, Equipment and Intangibles		(1,378)	(372)
Sale of Capital Notes		0	4,057
Investment in Associate		(5,072)	(1,012)
Loan to Assosiate		(2,750)	0
Net (Increase) Decrease in Term Deposits		37,778	7,896
Net Cash Used in Investing Activities		**28,578**	**10,569**
Total Net Increase (Decrease) in Cash and Cash Equivalents Held		2,029	3,232
Cash and Cash Equivalents at the Beginning of the Period		18,895	15,663
Cash and Cash Equivalents at the End of the Period	**3.1**	**20,924**	**18,895**
RECONCILIATION OF CASH FLOW FROM OPERATING ACTIVITIES WITH OPERATING SURPLUS			
Surplus for the Year Attributable to Members		1,867	979
NON CASH ITEMS			
Depreciation, Amortisation and Loss on Sale		700	778
Bad Debts Written off		1,500	1,961
Bad Debt Provision Increase (Decrease)		(80)	190
Share of Surplus of an Equity Accounted Associate		(227)	0
		1,893	2,929
CHANGES IN ASSETS AND LIABILITIES			
Movement in Accounts Receivable		161	(104)
Movement in Prepayments		5,582	(5,690)
Movement in Accounts Payable		444	(253)
Movement in Employee Benefits		1	(21)
Movement in Accrued Interest Receivable		471	327
Movement in Accrued Interest Payable		(611)	(157)
Net Movement in Members' Loans		(51,766)	(22,933)
Net Increase (Decrease) in Member Deposits		15,409	17,586
		(30,309)	(11,245)
Net Operating Cash Flows		**(26,549)**	**(7,337)**

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[1] Comparative information for 2020 has been restated due to a change in accounting policy related to the capitalisation of intangible assets. Refer to 7.1 Changes to Accounting Policies for more information.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

1 Corporate Information

1.1 Reporting Entity

The consolidated financial statements comprising First Credit Union Incorporated ("the Credit Union") and its controlled entity First Insurance Limited ("the Insurer"), together comprise the Group ("the Group"). First Credit Union Incorporated is registered under the Friendly Societies and Credit Unions Act 1982 ("FSCU Act") and the Insurer is a licensed insurer under the Insurance (Prudential Supervision) Act 2010 ("IPS Act"). The Group is an FMC reporting entity for the purposes of the Financial Markets Conduct Act 2013 ("FMC Act").

1.2 Nature of Business

The purpose of the Credit Union is to promote savings among its members and to use those savings for their mutual benefit. The Insurer provides loan protection and funeral insurance to policy holders who are members of the Credit Union. The Group operates primarily in the North Island of New Zealand and the Group is domiciled in New Zealand. The Credit Union is restricted in its borrowings, and members contribute to the Credit Union, by way of share subscriptions. The shares cannot be transferred or sold. Members are able to withdraw their funds subject to certain conditions. The Credit Union makes loans to members and to other small to medium enterprises associated with members, or invests funds on the members' behalf. Interest and other income are received by the Credit Union and interest is paid to depositing members in the form of interest on shares.

1.3 Trust Deed

To meet the requirements of The Securities Act 1978 a Trust Deed is entered into between the Credit Union and a Prudential Supervisor. Covenant Trustee Services Limited is the current Prudential Supervisor, and is appointed to act in the interests of the members of the Credit Union by monitoring the compliance by the Credit Union of its obligations, its Rules, the Trust Deed and the Friendly Societies and Credit Unions Act 1982. In addition, the Prudential Supervisor is under duty to exercise reasonable diligence to ascertain whether the Credit Union has:

a. committed any breach of the Trust Deed or any of the conditions of issue of the shares; and
b. sufficient assets to meet its obligations to members, as they fall due.

The current Trust Deed is dated 1 January 2020.

1.4 Basis of Preparation

Statement of Compliance

For the purposes of complying with New Zealand Generally Accepted Accounting Practice (NZ GAAP), the Group is a not-for- profit public benefit entity. They comply with the Public Benefit Entity Accounting Standards (PBE Standards), as appropriate for Tier 1 not for profit/public benefit entities.
The financial statements are:

- prepared in accordance with the statutory requirements of the FMC Act and the IPS Act
- prepared in accordance with NZ GAAP
- in compliance with Public Benefit Entity Accounting Standards (PBE Standards)
- presented in New Zealand dollars ($) rounded to the nearest thousand
- stated net of GST where GST is recoverable, with the exception of receivables and payables, which are stated inclusive of GST, where applicable. If GST is not recoverable it is generally included in the expense or asset value.
- prepared in accordance with the historical cost convention except for certain assets, which are stated at fair value and insurance contract liabilities, which are measured on an accumulation method basis.

Use of Estimates and Judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.
Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. In particular, information about significant areas of estimation uncertainty in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in notes 4.1 and 4.2 for the measurement of loans to customers; note 5.1 for the fair value of property, plant and equipment; and note 6.1 for the insurance contract liabilities.
These financial statements were authorised for issue by the Directors on the date set out in the Statement of Financial Position.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

2 Financial Performance

2.1 Net Interest Revenue

	2021	2020
	$000	**$000**
Interest Revenue - Interest on Loans and Receivables		
Interest on Loans to Members	15,909	18,367
Interest on Term Deposits	1,512	3,453
Interest from Associates (Prepayment, Subordinated Loan)	317	0
Interest on Cash and Cash Equivalents	11	80
Total Interest Revenue	**17,749**	**21,900**
Interest Expenditure - Liabilities at Amortised Cost		
Interest on Members Call Shares	(1,031)	(2,367)
Interest on Members Term Shares	(4,152)	(6,461)
Total Interest Expenditure	**(5,183)**	**(8,828)**

RECOGNITION AND MEASUREMENT

Except as described below, revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenues are recognised at fair value of the consideration received net of the amount of any Goods and Services Tax ("GST") payable to the Inland Revenue Department ("IRD") if applicable.

Interest on Loans to Members

Loan interest is calculated on the daily loan balance outstanding and is charged in arrears to the members loan account at the end of each month or in line with the repayment frequency. Loan interest is recognised in the surplus or deficit using the effective interest method.

Interest on Term Deposits and Loan to Associate

Investment interest revenue is recognised using the effective interest method which allocates the interest over the period that it relates to.

Interest Expense

Interest on members' shares is recognised as an expense in the period that it relates to using the effective interest method, which allocates the interest expense over the term of the members' shares to which they relate.

2.2 Other Income

	2021	2020
	$000	**$000**
ATM/Eftpos Card Recoveries	4,319	4,128
Costs Recovered and Other Fees Charged	1,721	1,550
Bad Debts Recovered	270	365
Commissions Received	87	228
Gain on Sale of Property, Plant and Equipment, Capital Notes	15	108
Other Income	127	243
Total Other Income	**6,539**	**6,622**

RECOGNITION AND MEASUREMENT

Fees, commissions and other income are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. The Credit Union does not charge loan origination fees on personal loans.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

2 Financial Performance (continued)

2.3 Expenditure

	Note	2021	2020
		$000	$000
Operating Expenses includes:			
External Audit of Financial Statements			
BDO Audits		145	137
BDO Other Services		0	0
Directors Fees	6.4	216	217
Employee Benefits includes:			
Wages and Salaries		5,902	6,233
Defined Contribution Expense		130	158

2.4 Taxation

	2021	2020
	$000	$000
Income Tax Recognised in Statement of Comprehensive Revenue and Expense		
Net Operating Surplus before Taxation	1,867	993
Less: Exempt Income and Expenses	(1,882)	(942)
Operating Surplus before Taxation	**(15)**	**51**
Income Tax Expense at Current Rate of 28%	0	14
Current Tax Receivable		
Taxation Expense	0	(14)
Resident Withholding Tax Paid	35	53
Taxation Refund	**35**	**39**

RECOGNITION AND MEASUREMENT

The income tax expense charged against the surplus for the year is the estimated liability in respect of that surplus. It is calculated using tax rates and tax laws that have been enacted by the reporting date. Current tax for the current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

The income tax expense relates to the Insurer's business operations. No amounts have been provided for income tax on the Credit Union's income from members since it is exempt under section CW 44 of the Income Tax Act 2007.

Deferred income tax is provided on any temporary differences at the reporting date between the tax bases of assets and liabilities, and their carrying amounts for financial reporting purposes. At this stage there are no temporary differences and consequently no deferred tax has been recognised.

Goods and Services Tax - the Credit Union and Insurer are registered for GST to comply with Inland Revenue Department requirements to pay GST on types of income where appropriate. Generally GST is not recoverable and is therefore included in the expense or asset value. Recoverable GST is excluded from the financial statements, with the exception of receivables and payables, which are stated inclusive of GST, where applicable.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

3 Deposits and Liquidity

3.1 Cash and Cash Equivalents

	Interest Rates	2021	2020
		$000	$000
Cash on Hand	0.00%	971	1,202
Bank Balances - On Call	0.05%	19,953	17,693
Total Cash and Cash Equivalents		**20,924**	**18,895**

RECOGNITION AND MEASUREMENT

Cash and cash equivalents comprise cash and call deposits at other financial institutions. Under PBE standards definition of financial assets, cash and cash equivalents are classified as loans and receivables.

3.2 Term Deposits

	Interest Rates	2021	2020
		$000	$000
ANZ	0.77% to 1.05%	29,948	1,927
Heartland	1.10% to 1.50%	15,177	0
Westpac Bank	0.57% to 0.67%	50,500	131,938
Total Term Deposits		**95,625**	**133,865**

RECOGNITION AND MEASUREMENT

All term deposits are classified as short term investments, measured at amortised cost using the effective interest method, less any impairment losses. All term deposits mature within the next twelve months and are current assets. Under PBE standards definition of financial assets, term deposits are classified as loans and receivables.
Refer to note 10 for additional information on liquidity, risk management objectives and policies.

3.3 Reconciliation of Cash Flows from Operating Activities

RECOGNITION AND MEASUREMENT

The Statement of Cash Flows is prepared using the direct approach.

Certain cash flows have been netted in order to provide more meaningful disclosure as many of the cash flows are received and disbursed on behalf of members and reflect the activities of the members rather than those of the Credit Union. These include members' loans and members shares.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

4 Loans and Receivables

4.1 Loans to Members

	Note	2021	2020
		$000	$000
Mortgages		188,179	134,440
Personal Loans		88,262	91,744
Gross Loans to Members		**276,441**	**226,184**
Less: Allowance for Impairment	4.2	(2,880)	(2,960)
Net Loans to Members		**273,561**	**223,224**

RECOGNITION AND MEASUREMENT

Loans and Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not available for sale. They arise when the Credit Union provides funds directly to a Member with no intention of trading the receivable. Loans are recognised when cash is advanced to the borrowers. Loans include mortgages and personal loans.

Subsequent to initial recognition Loans and Receivables are recorded at amortised cost using the effective interest method less impairment.

4.1(a) Credit Quality - Security Dissection

	2021	2020
	$000	$000
Secured by Mortgage Over Real Estate with LVR < 80%	145,591	98,616
Secured by Mortgage Over Real Estate with LVR > 80%	42,588	35,824
Secured by Members Shares	16,330	18,558
Partially Secured by Motor Vehicles or Other Collateral	56,276	59,896
Unsecured Loans	15,656	13,290
Credit Quality of Gross Loans to Members	**276,441**	**226,184**

The Credit Union holds security against loans to Members in the form of mortgage interests over property, or for personal loans, security can include motor vehicles, Members Shares or be unsecured. Security is obtained if, based on an evaluation of the Members credit worthiness, it is considered necessary for the Members overall borrowing facility.
All loan value ratios are written within the parameters of the lending policy at the time a loan is advanced.

4.1(b) Asset Quality of Loans to Members

	2021	2020
	$000	$000
Neither Past Due Nor Impaired	259,377	183,709
Past Due But Not Impaired		
1 to 30 days	8,290	9,305
31 to 90 days	390	155
over 90 days	1,484	3,187
Loans with Covid Concessions	0	20,862
Impaired loans	6,900	8,966
Gross Loans	**276,441**	**226,184**
Interest Revenue Recognised on Impaired Loans	**433**	**530**
Interest Revenue Foregone on Impaired Loans	**622**	**662**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

4 Loans and Receivables (continued)

4.1 Loans to Members (continued)

Under PBE standards loans and receivables are financial assets initially stated at fair value plus directly attributable transaction costs and thereafter at amortised cost using the effective interest rate method, less any impairment losses. Loans and receivables comprise loans to members, premiums receivable as well as other trade receivables.
The Group's maximum credit risk exposure, without taking into account the value of any collateral or other security, in the event other parties fail to perform their obligations under financial instruments in relation to each class of recognised financial asset, is the carrying amount of those loans and receivables.
Refer to note 10 for further information on Credit Risk and details about the Credit Unions Financial Risk Management Objectives and Policies.

Loans with Covid Concessions - various initiatives, such as interest only or payment holidays were offered to members suffering detrimental impacts of COVID-19. Such offers, if accepted, were not automatically considered to indicate loan impairment but are used as inputs within the calculation of impairment. See below for further discussion on the impairment calculation.
The Group has offered three initiatives to Members to reduce the financial stress they may be facing: Interest only payments on personal loans for a 12 month period; Interest only payments on mortgages for a 12 month period; Mortgage repayment deferral of up to 6 months. To be eligible Members must: have an existing personal or mortgage loan with First Credit Union; be able to prove that their employment circumstances have changed due to Covid-19; and not be in arrears over 30 days when the employment event occurred.

At reporting date there were no loans with Covid concessions (2020: $20,861,633 of loans to Members were under one of these initiatives, with $15,260,769 being mortgages and $5,600,864 personal loans).

4.2 Provision for Impairment of Financial Assets

Impairment of Loans and Advances

Total doubtful debts and bad debt expense for the year was:	2021	2020
	$000	$000
Provision for Impairment - Increase / (decrease) in the Year	(80)	190
Bad Loans written off	1,500	1,961
Loan Impairment Expenditure	**1,420**	**2,151**

The following movements in provision for impairment of loans and advances occurred during the year:

	Individually Impaired	Collectively Impaired	2021 Total	2020 Total
	$000	$000	$000	$000
Opening Balance	**1,934**	**1,026**	**2,960**	**2,770**
Increase/(Decrease) in the Provision	1,496	451	1,947	875
Increase/(Decrease) in the Covid Provision	0	(552)	(552)	744
Transfer to Bad Debts Written Off	(1,096)	(379)	(1,475)	(1,429)
Closing Balance	**2,334**	**546**	**2,880**	**2,960**

RECOGNITION AND MEASUREMENT

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. Loans are subject to regular management review to assess whether there is any objective evidence that any loan or group of loans is impaired. Mortgages are considered to be impaired if in the event of default, the net realisable value is not sufficient to cover the loan balance. Personal loans in arrears > 30 days, and all loans under-going or subject to Court action are considered to be impaired.
Impairment loss is measured as the difference between the loan's carrying amount and the value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loan's original effective interest rate.
Loans which are known to be uncollectible are written off as an expense in surplus or deficit. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

4 Loans and Receivables (continued)

4.2 *Provision for Impairment of Financial Assets (continued)*

Key Assumptions in Determining the Allowance for Impairment

At the end of each reporting period, the Group performs an impairment assessment of the loans and advances. The assessment involves both collective and individual assessments of impairment.
Individual assessment - in the first instance, and where practical, the likely impairment is calculated on an individual basis taking into account the ability of the member to continue making payments and the value of the security. All loans under-going or subject to Court action (Court loans) are individually assessed.

Thereafter, the balance of loans not assessed individually, the Group makes a collective assessment by grouping loans and advances on the basis of shared credit risk characteristics. The level of impairment takes into account the length of time the loan is in arrears, the historical losses arising in past years and current/projected conditions where possible. The circumstances may vary for each loan over time resulting in higher or lower impairment losses.

If, in a subsequent period, the amount of the impairment loss decreases and can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtors credit rating), the previously recognised impairment loss is reversed by adjusting the allowance amount, with the reversal being recognised in surplus or deficit.

COVID-19 - The impact and duration of COVID-19 on the global economy and how governments, businesses and consumers respond remains uncertain. The provision for impairment of loans and advances as at 30 June 2021 is therefore largely based on management judgement with respect to the impacts of COVID-19 on the Group's exposures. The judgements and assumptions made by management are based on a variety of internal and external information.

The following table summarises the key judgements and assumptions made by management in modelling and calculating the provision for impairment of loans and advances. These judgements and associated assumptions have been made within the context of the impact of COVID-19, and reflect historical experience and other factors that are considered to be relevant, including expectations of future events that are believed to be reasonable under the circumstances.

In relation to COVID-19, many factors are beyond the control of the Group, including but not limited to the extent and duration of the pandemic, impacts of actions of governments and other authorities, the responses of business and consumers in different industries, along with the associated impact on the global economy. Accordingly, the Group's provision for impairment of loans and advances is inherently uncertain and, as a result, actual results may differ from these estimates.

Type/Event	Key Judgement or Assumption of the Group
Base Case Estimate	The standard provisioning model was considered the base case estimate.
Loans with Covid Concessions	For 2021 there are no loans with active Covid concessions. Mortgages - all mortgages have LVRs able to absorb a 5-10% decrease in house prices. Personal Loan loss ratio - for 2021, while there are no active Covid loans, there remains a small increased risk of default for ex-Covid loans, as such $65,000 has been included in the Collectively Impaired provision for 2021 (2020: $485,000).
Loans with no known Covid Impacts	*Mortgages* - the Group operates a very conservative mortgage book, LVR's are 51% overall; Mortgages with an LVR > 90% total $1,934,000 or 1.0% of the total (2020: $5,230,000 or 3.9%). *Personal Loans* with no indicators of impairment - the base case collective provision for these personal loans has been doubled (2020: tripled) to provide for continuing uncertainty around Covid.
Member Composition	The Group predominantly operates in the Waikato and Bay of Plenty. The Membership base is broadly spread, with limited exposure to any one industry/employer/region, as such the Group does not believe its loan book is particularly exposed to high risk industries such as tourism, or centres such as Queenstown or Auckland.
Existing Provision Conservatism and Financial Strength	The Group has traditionally operated a conservative provision for impairment of loans and advances. The Group believes it has the financial strength and resources to withstand a sustained economic downturn and sustained high levels of bad debts.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

5 Other Financial Position Notes

5.1 Property, Plant and Equipment

	Land	Buildings	Computer Equipment	Furniture & Fittings	Motor Vehicles	Total
Cost or Valuation	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
Opening Balance 1 July 2020	**4,829**	**7,388**	**1,963**	**1,763**	**378**	**16,321**
Additions	1,187	54	49	5	102	1,397
Disposals or Written off	0	0	(43)	0	(62)	(105)
Closing Balance 30 June 2021	**6,016**	**7,442**	**1,969**	**1,768**	**418**	**17,613**
Accumulated Depreciation						
Opening Balance 1 July 2020	**0**	**1,381**	**1,473**	**1,215**	**150**	**4,219**
Depreciation for the Period	0	311	224	112	45	692
Disposals or Written off	0	0	(36)	0	(41)	(77)
Closing Balance 30 June 2021	**0**	**1,692**	**1,661**	**1,327**	**154**	**4,834**
Net Book Value at 30 June 2021	**6,016**	**5,750**	**308**	**441**	**265**	**12,779**
Net Book Value at 30 June 2020	**4,829**	**6,007**	**490**	**548**	**228**	**12,102**

RECOGNITION AND MEASUREMENT

Land and Buildings

Land and buildings have been revalued to fair value based on market evidence as determined by an independent valuer. Land and buildings are revalued with sufficient regularity, at least every three years, to ensure that the carrying amount does not differ materially from fair value.

The results of revaluing are credited or debited to an asset revaluation reserve, where this results in a debit to the asset revaluation reserve this balance is expensed in surplus or deficit unless it reverses a previous credit to the asset revaluation reserve. Any subsequent increase or revaluation of the asset that off-sets a previous decrease in value is recognised in surplus or deficit and will be recognised first in surplus or deficit up to the amount previously expensed and then credited to the revaluation reserve.

Revaluation

The land and buildings of the Group were valued by Telfer Young Limited, independent registered valuers, as at 30 June 2019. These are valued on the basis of market value for existing use. A rental capitalisation valuation methodology has been used in determining this value. The rental capitalisation rate adopted for the valuation of the properties as at 30 June 2019 was 5.00%. A significant increase/decrease in the rental capitalisation rate would result in an decrease/increase to the fair value of the land and buildings.

Upon disposal or sale of property, any revaluation reserve for that asset is transferred into accumulated revenue and expense.

Management have assessed the impact of Covid-19 on the Property, Plant & Equipment at reporting date and have determined that there has not been a material change in the fair value therefore a revaluation as at 30 June 2021 has not been performed. This is based on review of available commercial estimates which indicate that there is unlikely to be a material change in the valuation of land and buildings.

Other Property, Plant and Equipment

Except for land and buildings items of property, plant and equipment are measured at cost less accumulated depreciation and any impairment losses.
Historical cost includes expenditure directly attributable to the acquisition of the asset and is recognised only when it is probable that future accrued benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

5 Other Financial Position Notes (continued)

5.1 Property, Plant and Equipment (continued)

Subsequent costs are included in the assets carrying amount or recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to surplus and deficit during the financial period in which they are incurred.

Depreciation

All assets, excluding land which is not depreciated, are depreciated to their residual value over their estimated useful lives from the time the asset is ready for use. Depreciation is charged to surplus or deficit.
The following rates have been used in the current and prior period:

Buildings	1-14% SL
Motor Vehicles	10-20% SL
Computer Equipment	10-42% SL
Furniture and Fittings	5-30% SL

The residual value, depreciation methods and useful lives are reviewed, and adjusted if appropriate, annually.

5.2 Prepayments

	2021	2020
	$000	$000
Prepayments	3,172	8,754
Total Prepayments	**3,172**	**8,754**

RECOGNITION AND MEASUREMENT

Prepayments include trade prepayments, prepaid licence fees to Finzsoft (refer note 5.6, these licences fees were re-paid during the year) and prepaid software costs in relation to configuration and customisation costs incurred in implementing Software-as-a-Service (SaaS) for the Credit Union's core banking system. Further information on the SaaS costs can be found in note 7.1.

5.3 Impairment Testing of Non Financial Assets

The carrying amounts of the Groups non-financial assets (Property, Plant and Equipment) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount, being the higher of the assets fair value less costs to sell and value in use, is compared to the assets carrying value.

Value in use is determined by estimating future cash flows from the use and ultimate disposal of the asset and discounting these to their present value using a pre-tax discount rate that reflects the current market rates and the risks specific to the asset.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Any excess of the asset's carrying value over its recoverable amount is expensed.

5.4 Other Assets

	2021	2020
	$000	$000
Income Tax Receivable	35	39
GST Receivable/(Payable)	10	(1)
Sundry Debtors	146	314
Total Other Assets	**191**	**352**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

5 Other Financial Position Notes (continued)

5.5 Payables

	Note	2021	2020
		$000	$000
Trade Payables		2,419	993
Card Settlement		321	1,185
Sundry Creditors and Accrued Expenses		144	127
Insurance Contract Liabilities	6.1(b)	394	530
Total Trade and Other Payables		**3,278**	**2,835**

RECOGNITION AND MEASUREMENT

A Financial Liability is any liability where there is a contractual obligation to exchange financial assets with another party. Trade Payables, Card Settlement, Sundry Creditors and Accrued Expenses are all classified as financial liabilities. These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial period which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

GST Payable and Insurance Contract Liabilities are not financial liabilities.

5.6 Investment in Associate

	2021	2020
	$000	$000
Investment at Cost	6,084	1,012
Share of Surplus/(Deficit)	227	0
Equity Accounted Investment in Associate	**6,311**	**1,012**

	Voting Rights	Total Assets	Total Liabilities	Revenue	Surplus/ (Deficit)
	%	$000	$000	$000	$000
Finzsoft Solutions Limited - 2021	48.86%	13,503,696	9,779,222	11,099,906	1,282,314
Finzsoft Solutions Limited - 2020	9.99%	13,694,978	11,042,752	10,445,173	(2,073,210)

RECOGNITION AND MEASUREMENT

In 2021 the Group increased its shareholding in Finzsoft Solutions Limited (Finzsoft) to 48.86% (2020: 9.99%). Finzsoft is a key supplier to the Group, providing the core banking system and as such Finzsoft is considered a strategic investment that will secure ongoing provision of that key system.

Finzsoft is considered an Associate for accounting and reporting purposes. 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.

The financial statements of the Group include the Group' s share of the surplus or deficit and other comprehensive revenue and expense of Finzsoft, after adjustments to align the accounting policies with those of the Group, from 23 March 2020, which is when significant influence commenced until balance date.

Finzsoft has the same reporting date as the Group.

There are no significant restrictions regarding the distribution of dividends or repayment of loans from Finzsoft. There were no contingent liabilities in relation to Finzsoft as at the reporting date.

In addition to the above, in 2020 the Group advanced $8,000,000 to a then Director/Shareholder in Finzsoft Solutions Limited. The loan was secured over residential properties and other assets, and has been fully repaid during the current financial year. The loan was advanced on the same conditions applied to all members.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

5 Other Financial Position Notes (continued)

5.6 Investment in Associate (continued)

During 2020 the Group has recognised as an asset prepaid licence fees to Finzsoft totalling $5,995,000 through to September 2026. The prepaid licence fees are secured by General Security Agreement over Finzsoft. During the current financial year the prepaid licence fees were repaid, resulting in use of money interest income for the Group of $273,000. The prepayment was partially replaced with the loan below.

5.7 Loan to Associate

	2021	2020
	$000	$000
Loan to Associate	**2,750**	**0**

RECOGNITION AND MEASUREMENT

During the year the Group advanced funds totalling $2,749,855.10 to Finzsoft Solutions Limited.
The loan is repayable, however at the date of the financial statements, the Group's Directors have no intention of calling the loan. In terms of security, the loan is subordinated, in that it ranks behind Finzsoft Solutions Limited's general secured and unsecured creditors. The loan currently pays interest monthly, at 3.8% per annum.

5.8 Members' Deposits

	2021	2020
	$000	$000
Call Shares	176,349	154,050
Term Shares	175,807	183,308
Total Members' Deposits	**352,156**	**337,358**

RECOGNITION AND MEASUREMENT

The Credit Union's source of funding is members' deposits (also referred to as members' shares). Accordingly, the funding is concentrated in and limited to the area of the 'common bond' and consequently the Credit Union members reside all over New Zealand although predominantly in the Bay of Plenty and Waikato area.

Members shares are secured by a first ranking equitable assignment by way of security over the whole of the Credit Union's present and future undertaking, property, assets and revenues, including the proceeds received for the subscription of shares and unpaid capital (if any). The equitable assignment by way of security was granted in favour of Covenant Trustee Services Limited the Prudential Supervisor of the Credit Union, under Trust Deed dated 2 November 2000, which has been registered with the Registrar of Companies.

The Credit Union has also granted to Covenant Trustee Services Limited a security interest in all its present and after-acquired personal property as additional security for the members' shares. Covenant Trustee Services Limited has registered a financing statement under the Personal Property Securities Act 1999 in respect of the same. The grant of this security interest was recorded in a Deed of Modification to Trust Deed dated 15 October 2002, which has been registered with the Registrar of Companies.

6 Other Notes

6.1 Insurance Activities of the Insurer

On 1 June 2018, First Insurance Limited (FIL) commenced trading after the Credit Union received a non-life insurance licence from the RBNZ, through its 100% owned subsidiary FIL. The licence has enabled FIL to underwrite loan protection cover on loans taken out by members of the Credit Union. On 29 November 2018 this licence was modified to include life insurance, specifically for underwriting the funeral insurance product.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

6 Other Notes (continued)

6.1(a) Insurance Underwriting Surplus

	2021	2020
	$000	$000
Premium Revenue	1,880	2,130
Claims Expense	(935)	(1,072)
Insurance Underwriting Surplus	**945**	**1,058**

RECOGNITION AND MEASUREMENT

Premium Income

Premium income from insurance contracts are recognised evenly over the period of the cover for the contract. Revenue is recognised on the date from which the policy is effective. Premiums are received monthly in arrears hence there is no unearned premium liability.

Claims Expense
The claims expense represents payments made on claims and the movements in the provision for outstanding claims.

6.1(b) Insurance Contract Liabilities

RECOGNITION AND MEASUREMENT

Insurance contracts are defined as those containing significant insurance risk at the inception of the contract. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during the period.

The Insurer has determined that all loan protection and funeral insurance policies provided to members are insurance contracts. Life Insurance covers the death of a member with benefits paid to a beneficiary. Non life insurance covers other situations such as illness, disability, redundancy and bankruptcy.
Impairment losses for uncollectable premiums are written off against premium revenue in the year in which they are incurred. If a policy holder is in arrears, the cover is suspended, and if they are in arrears for more than 90 days, their policy lapses.

Provision for Outstanding Claims

Provision for outstanding claims has been determined on the basis of assumed claim development patterns for disability claims, and reporting patterns for other claims.

Key Assumptions

• Claim development patterns for disability claims have been based on industry experience, adjusted in the early periods for the Insurer's own experience, in quarterly chain-ladder steps.
• Claim provisions for other claims have been derived from the Insurer's recent experience of claim volumes and reporting times.

Claims are predominantly short-term in nature and are generally settled within 12 months of being incurred. Accordingly, amounts are not discounted.

An actuarial report has been obtained to assess the provision for claims incurred but not paid (which includes claims not yet notified) at period end:

- The effective date of the assessment in the actuarial report was 30 June 2021.
- The name and qualification of the actuary is Peter Davies of Davies Financial and Actuarial Limited, Fellow of the New Zealand Society of Actuaries.
- Policy Liabilities and the amount of the outstanding claims liability were determined in accordance with Professional Standard no. 20 ("PS 20") of the New Zealand Society of Actuaries.
- The actuary is satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability.
- The actuarial report contained no qualifications.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

6 Other Notes (continued)

6.1(b) Insurance Contract Liabilities (continued)

Although the unearned premium at reporting date is zero, with premiums being received monthly in arrears, a liability adequacy test is still performed to determine whether any unearned premium liability would be adequate to cover the present value of the expected future cash flows arising from rights and obligations under current insurance contracts. The future cash flows are future claims, associated claims-handling costs and other administration costs relating to the business.

There is no unexpired risk liability for the year ended 30 June 2021, nor would such a liability be required if there were an unearned premium liability at reporting date.

6.1(c) Insurer Capital and Solvency Requirements

As a fully licenced insurer, the Solvency Standard for Life and Non-life Insurance Business issued by the Reserve Bank requires the Insurer to retain a solvency margin of greater than zero, meaning that the actual solvency capital position exceeds the minimum required under the solvency standard.

The Insurer's financial strength rating issued by Fitch is BB+ with a Stable Outlook.

	2021	2020
	$000	**$000**
Actual Solvency Capital	6,153	6,169
Minimum Solvency Capital	5,000	5,000
Solvency Margin	1,153	1,169
Solvency Ratio	**123%**	**123%**

During the year ended 30 June 2021, the Insurer complied with the RBNZ imposed capital requirements.

The Directors' policy for managing capital is to have a strong capital base to establish security for policyholders and members of First Credit Union and enable the Insurer to conduct its business whilst maintaining financial soundness. The Insurer has embedded in its risk management plan the necessary tests to ensure continuous and full compliance with the solvency standard. The policy in respect of solvency capital is regularly reviewed by the Directors in line with the guidelines issued by the Reserve Bank.

The Insurer's risk management plan targets a buffer above the RBNZ minimum requirement, equal to 100% of one year's expected claims. The target at 30 June 2021 was $5,994,715 (2020: $6,089,171) relative to an actual solvency capital of $6,153,171 (2020: $6,168,627).

6.1(d) Insurance Risk Management

The Insurer is exposed to insurance risk through its insurance activities. The Insurer's objectives regarding the management of risks arising from all insurance contracts is to ensure:

- there is a sufficient financial buffer, in excess of that set by the Reserve Bank, to absorb any claims volatility
- strong underwriting that aligns with industry standards
- a pricing strategy that covers the underlying risk of insurance products
- strong operations through robust claims and member processes.

The sensitivity of the outstanding claims provision to changes in the claims settlement pattern is:

	2021	2020
	$000	**$000**
Base assumptions	394	530
Claims provision if assumed development/reporting pattern 10% longer	476	606
Claims provision if assumed development/reporting pattern 10% shorter	308	423

The Insurer's insurance risk is concentrated to within the loan protection and funeral insurance sectors, with a geographical concentration in New Zealand, predominantly in the North Island. Therefore, the concentration of risk by type of insurance and geographic region cannot be avoided. There is no significant exposure to individual large claims.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

6 Other Notes (continued)

6.2 Commitments

Capital Expenditure Commitments

The Group has entered into contracts for the purchase of property, plant and equipment and intangible assets which have not been recognised as a liability and are payable as follows:

	2021	2020
	$000	$000
Not longer than 1 Year	365	178
Total Future Capital Commitments	**365**	**178**

Outstanding Loan Commitments

Loans and credit facilities approved but not funded or drawn at the end of the reporting period.

	2021	2020
	$000	$000
Loans Approved but not Funded	22,190	53
Undrawn Overdraft and Line of Credit	211	325
Total Outstanding Loan Commitments	**22,401**	**378**

6.3 Contingent Liabilities

The Group has no contingent liabilities as at 30 June 2021 (2020 nil).

6.4 Related Parties

Remuneration of Directors, Trustees and Key Management Personnel ('KMP')

	2021	2021	2020	2020
	Directors	KMP	Directors	KMP
	$000	$000	$000	$000
Short-Term Employee Benefits	**217**	**792**	**217**	**764**

RECOGNITION AND MEASUREMENT

Remuneration of Directors, Trustees and Key Management Personnel ('KMP')

Key Management Personnel ('KMP') are those people having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any Director (whether executive or otherwise) of that entity. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

KMP has been taken to comprise the seven Directors/Trustees and four executive managers.

Connected Parties (CP) are defined as the immediate relatives of Directors, Trustees and Key Management Personnel.

Short Term Employee benefits

In the above table, remuneration shown as short term benefits means (where applicable) wages, salaries, paid annual leave and sick leave, bonuses, value for fringe benefits received, but excludes out of pocket reimbursements. There are no post-employment benefits.

	2021	2021	2020	2020
	Shares	Loans	Shares	Loans
Related Party Holdings:	$000	$000	$000	$000
Directors	2,982	353	2,824	435
KMP	15	3,104	8	2,532
Connected Parties	1,428	2,515	1,384	1,815
Total Related Party Holdings:	**4,425**	**5,972**	**4,216**	**4,782**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

6 Other Notes (continued)

6.4 Related Parties (continued)

RECOGNITION AND MEASUREMENT

The Group deals with Directors, Trustees and key management personnel on the same conditions applied to all members. During the year under review new loan advances to Directors, Trustees and Key Management Personnel totalled $0.66 million (2020 $1.35 million).

There are no shares from Directors and KMP exceeding 36 months and all Directors and KMP loans are repayable upon demand.

Finzsoft Solutions Limited (Finzsoft) and the Group have the following related party dealings during the year:

- At reporting date the Group has prepaid licence fees to Finzsoft totalling $220,000 (2020: $5,995,000 through to September 2026, however this prepayment was repaid during the 2021 financial year).
- Excluding the above prepayment, $1,687,085 was paid to Finzsoft during the year.

No loans to related parties have been impaired in the period. (2020: $NIL)

6.5 Events Occurring After Reporting Date

There have been no events subsequent to reporting date that would materially impact the financial statements.

7 Other Accounting Policies

7.1 Changes to Accounting Policies

During the year, the IFRS Interpretations Committee (IFRIC) published its final agenda decision on accounting for configuration and customisation costs in a Software-as-a-Service (SaaS) arrangement. Accordingly, the Group revised its accounting policy in relation to its SaaS arrangements during the year as follows:
Software-as-a-Service (SaaS) arrangements are service contracts providing the Group with the right to access the software provider's application software over the contract period. Costs incurred to configure or customise, and the ongoing fees to obtain access to the software provider's application software, are recognised as operating expenses when the services are received.

Historical financial information has been restated to account for the impact of this change in accounting policy is as follows:

Statement of Comprehensive Revenue and Expense:

- a decrease in Amortisation Expenses of $709,000 and an increase in Operating Expenses of $513,000, resulting in an increase of $196,000 to Total Comprehensive Revenue and Expense for the 2020 year;
- a decrease in Amortisation Expenses of $853,000 and an increase in Operating Expenses of $561,000, resulting in an increase of $292,000 to Total Comprehensive Revenue and Expense for the 2021 year.

Statement of Changes in Net Assets/Equity:

- a decrease in the Accumulated Revenue and Expense opening balance as at 30 June 2019, of $2,909,000;

Statement of Financial Position:

- a decrease in Intangible Assets of $5,357,000 and an increase in Prepayments of $2,644,000 for 2020;
- a decrease in Intangible Assets of $5,179,000 and an increase in Prepayments of $2,766,000 for 2021.

Statement of Cash Flows:

- a decrease in Payments for Property, Plant, Equipment and Intangibles of $412,000 offset by an increase in Payments to Suppliers and Employees of $412,000 for 2020;
- a decrease in payments for Property, Plant and Equipment of $701,000 offset by an increase in Payments to Suppliers and Employees of $701,000 for 2021.

7.2 New Accounting Standards Issued but not yet Effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2021, and have not been applied in preparing these financial statements. Those standards with the most significant potential impact on the financial statements that have been issued but are not yet effective are outlined below:

PBE IPSAS 41 - Financial Instruments effective 1 January 2022. First Credit Union will apply the standard for the year ending 30 June 2023. The standard will require a reassessment of financial asset classification which could lead to recognition and measurement changes, the expected credit loss provision may likely result in higher impairment provisions than under PBE IPSAS 29, when applying PBE IPSAS 41 as well as changes in the presentation and disclosures in the financial statements in relation to financial instruments. The impact of this is currently being assessed.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

7 Other Accounting Policies (continued)

7.2 New Accounting Standards Issued but not yet Effective (continued)

PBE IFRS 17 – Insurance contracts effective 1 January 2023. First Credit Union will apply the standard for the year ending 30 June 2024. The standard replaces the current guidance in PBE IFRS 4 Insurance Contracts, and establishes the principles for recognition, measurement, presentation and disclosure of insurance contracts. First Credit Union is still currently working through what the impact the new standard will have, however there are expected to be significant changes in the presentation of the financial statements and disclosures. Due to the complexity of the requirements within the standard the final impact may not be determined until global interpretations and regulatory responses to the new standard are developed.

PBE FRS 48 - Statement of Service Performance effective 1 January 2022. First Credit Union will apply the standard for the year ending 30 June 2023. This will require additional disclosures which are currently being worked on.

The impact of these standards is yet to be assessed.

7.3 Basis of Consolidation

Controlled entities are all those entities over which the controlling entity has the power to govern the financial and operating policies so as to benefit from its activities. The controlled entities are consolidated from the date on which control is transferred and are de-consolidated from the date that control ceases. In preparing the consolidated financial statements, all inter entity balances and transactions, and unrealised gains and losses arising within the consolidated entity are eliminated. The accounting policies of the controlled entity are consistent with the policies adopted by the Group and have a 30 June 2021 reporting date.
First Insurance Limited is the only controlled entity which the Credit Union owns 100% of the shares.

8 Financial Advice Provider Licence and Disputes Resolution Scheme

On 15 March 2021 the Credit Union was granted a transitional Financial Advice Provider (FAP) licence under the Financial Markets Conduct Act 2013. The FAP licence replaces the Credit Union's Qualifying Financial Entity (QFE) status. Transitional licences are valid for up to two years from 15 March 2021. Transitional licence-holders will need to apply for and be granted a full licence by 16 March 2023 if they want to continue providing advice under their own licence.

As required by the Financial Service Providers (Registration and Dispute Resolution) Act 2008 the Credit Union is a member of an approved dispute resolution scheme – Financial Services Complaints Ltd (FSCL).

9 Credit Rating

The Credit Union has been rated by Fitch Ratings. Fitch Ratings gives ratings from AAA through to C. The Credit Union has a long-term issuer default (IDR) rating of BB with a stable outlook, issued on 1 March 2021 (2020: BB with a negative outlook).

10 Financial Risk Management Objectives and Policies

The Board has endorsed a policy of compliance and risk management to suit the risk profile of the Group.

Key risk management policies encompassed in the overall risk management framework include:

- Market risk
- Credit risk management
- Liquidity risk management
- Capital adequacy management

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

10 Financial Risk Management Objectives and Policies (continued)

10.1 Market Risk

Market risk is the risk that changes in market prices, such as interest rates applicable to Bank deposits, loans to member and members' deposits will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. The Credit Union's exposure to interest risk is set out below detailing the contractual interest change profile based on the next contractual repricing or maturity date (whichever is earlier) as at the reporting date.

			Repricing period at 30 June 2021 Fixed Interest Rate Maturing in:				
	*Weighted average effective interest rate **	*Floating Interest Rate*	*Within 6 months*	*6 months to 1 Year*	*1 to 5 Years*	*Non-interest sensitive*	*Total*
		$000	**$000**	**$000**	**$000**	**$000**	**$000**
Monetary Assets							
Cash & Bank	0.05%	20,924	0	0	0	0	20,924
Term Deposits	0.78%	0	88,957	6,668	0	0	95,625
Trade & Other Receivables	n/a	0	0	0	0	181	181
Loans to Members - Fixed	3.25%	0	60,390	72,305	19,345	0	152,040
Loans to Members - Floating	10.29%	121,521	0	0	0	0	121,521
Loan to Associate	3.80%	0	0	2,750	0	0	2,750
Total Monetary Assets		**142,445**	**149,347**	**81,723**	**19,345**	**181**	**393,041**
Monetary Liabilities							
Members' Deposits	1.08%	176,349	103,581	53,191	19,035	0	352,156
Other Payables	n/a	0	0	0	0	3,278	3,278
Total Monetary Liabilities		**176,349**	**103,581**	**53,191**	**19,035**	**3,278**	**355,434**

			Repricing period at 30 June 2020 Fixed Interest Rate Maturing in:				
	*Weighted average effective interest rate **	*Floating Interest Rate*	*Within 6 months*	*6 months to 1 Year*	*1 to 5 Years*	*Non-interest sensitive*	*Total*
		$000	**$000**	**$000**	**$000**	**$000**	**$000**
Monetary Assets							
Cash & Bank	1.25%	18,895	0	0	0	0	18,895
Term Deposits	1.85%	0	133,265	600	0	0	133,865
Trade & Other Receivables	n/a	0	0	0	0	271	271
Loans to Members - Fixed	4.13%	0	42,196	52,316	6,414	0	100,926
Loans to Members - Floating	10.89%	122,298	0	0	0	0	122,298
Total Monetary Assets		**141,193**	**175,461**	**52,916**	**6,414**	**271**	**376,255**
Monetary Liabilities							
Members' Deposits	2.30%	154,050	107,404	58,723	17,181	0	337,358
Other Payables	n/a	0	0	0	0	2,835	2,835
Total Monetary Liabilities		**154,050**	**107,404**	**58,723**	**17,181**	**2,835**	**340,193**

* The weighted average effective interest rate has been calculated on the interest sensitive financial instruments in each category.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

10 Financial Risk Management Objectives and Policies (continued)

10.1 Market Risk (continued)

Interest Rate Sensitivity

The Group is exposed to interest rate risk. The policy of the Group to manage the risk is to maintain a balanced "on book" strategy by ensuring the net interest rate gaps between members loans (i.e. interest rate on loans) and members shares (the cost of borrowing from members paid out in the form of dividends / interest) are not excessive. At 30 June 2021 it is estimated that a general increase of one percentage point in interest rates on bank deposits, loan receivables and Members' deposits would decrease the Groups surplus before income tax and equity by $227,000 (30 June 2020: increase by $102,000).

A decrease in interest rates would have the opposite impact on surplus than that described above.

The Board and Management consider that given the relatively stable nature of the New Zealand financial environment a 1% movement in interest rate risk is within prudent guidelines.

There has been no change to the Group's exposure to market risk or the way the Group manages and measures market risk in the reporting period.

10.2 Credit Risk

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the Group incurring a financial loss. This usually occurs when debtors fail to settle their obligations owing to the entity.

RECOGNITION AND MEASUREMENT

The Group has established policies and procedures over the:

- Credit assessment and approval of loans and facilities covering acceptable risk assessment and security requirements
- Limits of exposure over the value to individual borrowers, non-mortgage secured loans, and concentrations to geographic and industry groups considered at high risk of default
- Reassessing and review of the credit exposures on loans and facilities
- Establishing appropriate provisions to recognise the impairments of loans
- Debt recovery procedures
- Review of compliance with the above policies

Regular reviews of compliance are conducted as part of the internal audit process. The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security held. There is no industry concentration of credit risk with respect to loans and receivables as the Group has a large number of customers dispersed in varying areas of employment. The credit policy is that loans and investments are only made to members that are credit worthy.

Daily reports monitor the loan repayments to detect delays in repayments and recovery is undertaken after 7 days if not rectified. For personal loans where repayments become doubtful the Group has internal processes in place to conduct recovery action once the loan is over 30 days in arrears. Debt recovery policies allow the Group to reset the maturity date of a loan where regular and consistent repayments have been resumed by the loan holder. These loans are considered to be past due loans. The exposures to losses arise predominantly in the personal loans and facilities.

Impairment of Loans and Advances - refer to Note 4.2.

For term investments, the Board policy is to place its investments with registered trading banks.

All registered banks used have Fitch or Standard & Poor's credit ratings of BBB or better.

Other Credit Risks Comprise of the Following Items:

(a) Large Counterparties

The Credit Union has exposure to counter-parties in excess of 10% of equity as follows:

	Number of counterparties 2021	Number of counterparties 2020
Over 100%	1	1
Between 40% and 50% of equity	1	0
Between 20% and 30% of equity	1	0
Between 10% and 20% of equity	2	2

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

10 Financial Risk Management Objectives and Policies (continued)

10.2 Credit Risk (continued)

(b) Loans to Members

Loans can only be made to Credit Union members. Loan interest rates range from 2.65% to 18% p.a. (2020 3.15% to 19.0% p.a.). The Credit Union has a lending policy that allows for various levels and types of security, and loans may be secured over the borrowing members shares. The Friendly Societies and Credit Unions Act 1982 limits the risk of any one member and provides, along with the loan agreement that any and all shares might be used to offset an individual loan to the limit of their liability.

Credit Unions are required to lend within their rules and policies.
The key elements of the Credit Union lending policy are as follows:

- personal loans can be approved for a period up to 10 years with adequate security but are usually scheduled to be repaid within 5 years;
- mortgages can be approved for a period up to 40 years but are usually scheduled to be repaid within 20 to 25 years;
- arrears in loan payments may be reset after 6 consecutive weekly payments, 3 fortnightly payments or 2 monthly payments.

	2021	2020
Proportion of Loans with Repayments in Arrears in Excess of 90 Days:	2.4%	4.3%
Proportion of Loans owed in Aggregate by the Six Largest Debtors:	10.5%	7.4%
Weighted Average Maturity of Loans (in Months) is:	178	173

Other than loans, there are no other financial assets in arrears. Loans are for varying terms but the standard loan contract includes an “on demand” clause.

	2021	2020
The Credit Union offers an overdraft facility	**$000**	**$000**
The amounts drawn down are as follows:	523	438

Fair Value of Assets and Liabilities

The values for financial assets and liabilities, per the carrying amounts shown in the Statement of Financial Position, are equal to their fair values except fixed mortgage loans. Fair value has been determined on the basis of net present value of expected future cash flows under the terms and conditions of each financial asset and financial liability.

Mortgage Loans - the fair value of the fixed mortgage loans receivable carried at $167,189,897 is $162,721,697 assuming an average floating mortgage interest rate of 5.85% at 30 June 2021.

Members Shares - the carrying amount of member share accounts repriced within 12 months is a reasonable estimate of the net fair value. For term shares repriced past 12 months the Credit Unions current interest rates are compared to the contracted interest rates. The current rates are comparable to the market rates for term deposits of a similar term.

Other - the Directors consider that the fair value of all other financial assets and liabilities is approximately equal to the book value. All of the financial instruments except the loans receivable and investment in associate are at call or able to be recovered or settled in the short term.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

10 Financial Risk Management Objectives and Policies (continued)

10.3 Liquidity Risk

Liquidity risk is the risk that the Group may encounter difficulties raising funds to meet commitments associated with financial instruments, e.g. borrowing repayments. It is the policy of the Board of Directors that the Group maintains adequate cash reserves so as to meet the member withdrawal demands when requested.

Financial assets and liabilities have differing maturity profiles depending on the contractual term, and in the case of loans, the repayment amount and frequency. The associated table shows the period in which different financial assets and liabilities held will mature and be eligible for renegotiation or withdrawal.

	On Call	Within 6 Months	6 Months to 1 Year	1 to 5 Years	Over 5 Years	No Maturity	Total
	$000	$000	$000	$000	$000	$000	$000
Financial Assets							
Cash and Bank	20,924	0	0	0	0	0	20,924
Trade and Other Receivables	0	181	0	0	0	0	181
Term Deposits	0	88,957	6,668	0	0	0	95,625
Future Interest Receivable	0	8,644	8,207	34,972	122,895	0	174,718
Loans to Members	0	24,981	26,580	73,770	151,110	0	276,441
Loan to Associate	0	0	0	0	0	2,750	2,750
Total Financial Assets 30 June 2021	**20,924**	**122,763**	**41,455**	**108,742**	**274,005**	**2,750**	**570,639**
Total Financial Assets 30 June 2020	**18,895**	**160,075**	**25,516**	**101,284**	**193,636**	**0**	**499,406**
Financial Liabilities							
Payables	0	3,278	0	0	0	0	3,278
Future Interest Payable	0	968	713	437	0	0	2,118
Members Call Shares	176,349	0	0	0	0	0	176,349
Member Term Shares	0	103,581	53,191	19,035	0	0	175,807
Total Financial Liabilities 30 June 2021	**176,349**	**107,827**	**53,904**	**19,472**	**0**	**0**	**357,552**
Total Financial Liabilities 30 June 2020	**154,050**	**112,264**	**60,248**	**17,930**	**0**	**0**	**344,492**
Liquidity (Shortfall)/Surplus 30 June 2021	**(155,425)**	**14,936**	**(12,449)**	**89,270**	**274,005**	**2,750**	**213,087**
Liquidity (Shortfall)/Surplus 30 June 2020	**(135,155)**	**47,811**	**(34,732)**	**83,354**	**193,636**	**0**	**154,914**

RECOGNITION AND MEASUREMENT

The Group manages liquidity risk by:

- Monitoring cash flows
- Reviewing the maturity profiles of financial assets and liabilities
- Maintaining adequate reserves and liquidity

The Group's policy is to maintain at least 15% of total assets as liquid assets capable of being converted to cash within 90 days. Should the liquidity ratio fall below this level, management and Director's are to address the matter to ensure that liquid funds are obtained from new deposits or borrowing facilities available. The Group has maintained the policy level throughout the financial period under review.

In the case of loans, the table shows the period over which the principal outstanding will be repaid based on the remaining period to the repayment date assuming contractual repayments are maintained.
Future Interest Receivable and Future Interest Payable represent the expected future interest cashflows arising from the contractual obligations of the underlying financial assets and liabilities respectively.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

10 Financial Risk Management Objectives and Policies (continued)

10.4 Capital Adequacy

The Credit Union is regulated under the Friendly Societies and Credit Union Act 1982. There is a statutory requirement over the minimum capital requirements as prescribed by the Reserve Bank of New Zealand and reflected in the Credit Union Trust Deed which requires the Credit Union to maintain a minimum capital ratio of 8%. The Credit Unions Risk Weighted Capital Ratio as at 30 June 2021 is 13.53% (2020: 15.65%) , as calculated under the Deposit Takers (Credit Ratings, Capital Ratios, and Related Party Exposures) Regulations 2017.

The Credit Union has, throughout the year, complied with all regulatory requirement pursuant to the Reserve Bank of New Zealand's "Deposit Takers (Credit Ratings, Capital Ratios, and Related Party Exposures) Regulations 2017".

To manage the Group's capital, which can be affected by excessive growth and by changes in total assets, the Group reviews the capital adequacy ratio monthly and monitors major movements in the asset levels. Policies have been implemented to require reporting to the Board and the trustee if the capital ratio falls below 10%. Further, an annual capital budget projection of the capital level is maintained to address how strategic decisions or trends may impact on the capital level.

BDO Wellington Audit Limited

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF FIRST CREDIT UNION

Opinion

We have audited the consolidated financial statements of First Credit Union ("the Credit Union") and its subsidiary (together, "the Group"), which comprise the consolidated statement of financial position as at 30 June 2021, and the consolidated statement of comprehensive revenue and expense, consolidated statement of changes in net assets/equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Public Benefit Entity Standards ("PBE Standards") issued by the New Zealand Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ("ISAs (NZ)"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the Credit Union or its subsidiary.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Loans to Members	How The Matter Was Addressed in Our Audit
The Credit Union's gross loans to members balance was $276,441,000 as at 30 June 2021. The Credit Union's impairment allowance was $2,880,000 as at 30 June 2021. We considered this to be a key audit matter based on the materiality of the loans to members balance and the significant estimation required to calculate the impairment provision. Further the impact of Covid-19 has introduced additional subjectivity and judgement in determining the provision. Note 4.2 of the financial statements describes the key assumptions in determining the allowance for impairment as well as the increased estimation uncertainty arising from the potential impacts of Covid 19 on the Credit Union's impairment allowance. These disclosures include key judgements and assumptions in relation to the impairment provision and highlight the uncertainty around the provision at 30 June 2021. As described in note 4.2, the underlying forecasts and assumptions are subject to uncertainties which are often outside the control of the Credit Union. Actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected.	• We gained an understanding of the design and implementation of the control environment in regards to loans to members and assessment of impairment. • We obtained a loan portfolio listing and reconciled this to the members loan balance included in the financial statements. • We examined a sample of loans, from the loan portfolio listing, which had not been identified as impaired. We agreed a sample of loan details to source documentation including verification of collateral held, original loan balance, whether repayment terms are being met and whether they had been approved within the credit control policy to determine that the key loan data inputs were correctly input into the system. • We performed recalculation over a sample of loans based on the details of their loan agreement to gain assurance that the loans existed at balance date and their balance was being recalculated within the system correctly. • We examined and analysed the loans in arrears report at balance date and looked at manual adjustments that had been made to reset a loan balance from being in arrears. • We developed expectations based on historical data and trends, looked at macroeconomic data publicly available and compared this to the current year provision to determine whether the provision is consistent and accurate. • We evaluated the extent and appropriateness of disclosures in note 4.2 in relation to the specific assumptions, sensitivities and uncertainties that Covid-19 has had on this year's provision.

<table>
<tr><th>Software as a Service Arrangements (SaaS)</th><th>How The Matter Was Addressed in Our Audit</th></tr>
<tr><td>In April 2021, the IFRS Interpretations Committee (the Committee), which is responsible for interpreting the application of IFRS issued a decision on the accounting for expenditure for configuring and customising software provided under software as a service arrangements (SaaS). The decision sets out that where a SaaS provider controls the application software, the expenditure is likely expensed when receiving the configuration and customisation services.

However where the expenditure creates an asset controlled by the customer that is separate from the software, or the services are not separable from the Group’s right to receive access to the SaaS provider’s application and the costs are provided by the SaaS supplier, such costs may be eligible for capitalisation as a prepayment and amortised over the expected SaaS term.

The decision requires a voluntary change in accounting policy, requiring retrospective restatement.

This was considered to be a key part of the audit because it required the Credit Union to perform a retrospective review of previous costs capitalised under PBE IPSAS 31 "Intangible Assets" to ensure the costs capitalised were in accordance with the April 2021 IFRIC Agenda Decision.

As a result, a prior period adjustment and a restatement to the 2020 financial year balances were posted. Refer to note 7.1.</td><td>We performed the following procedures over the updated interpretation regarding SaaS:
• Reviewed the master services agreement between the Credit Union and its software provider to determine whether it meet the definition of a SaaS arrangement.

Reviewed the retrospective analysis of costs previously recognised as an intangible performed by the Credit Union and performed the following:
• Identified which costs specifically related to the configuration and customisation of the software.
• Whether the expenditure created a separate asset controlled by the Credit Union or whether the costs should be reclassified as a prepayment or should be expensed.
• Reviewed the adjustments to restate opening equity and 2020 comparative balances.
• Reviewed whether the restatement disclosures in the financial statements were in accordance with the relevant accounting standards and met the needs of the users.</td></tr>
</table>

IT Environment	How The Matter Was Addressed in Our Audit
First Credit Union is heavily dependent on complex IT systems for the processing and recording of significant volumes of transactions and other core banking activity. We consider this a key part of our audit because of the: • Complex IT environment supporting diverse business processes integral to the operation of the Credit Union. • Mix of manual and automated controls • Multiple internal and outsourced support arrangements.	Our audit procedures, amongst others, included the following: • We performed substantive testing, on a sample basis over the generation of certain reports to ensure we could rely on these reports for our audit testing, as well as obtaining evidence that key controls within the system were operating as intended. We engaged our BDO Information System experts to perform the following procedures, amongst others: • Gain an understanding of the IT environment, particularly around the key controls in place within the system that were relevant to financial statement balances, such as the member loans and member shares account balances. • Assess the design and operating effectiveness of the IT control environment, including core banking IT systems, key automated controls and reporting. Where control deficiencies were noted, the impact on the financial statements was assessed.

Other Information

The directors are responsible for the other information. The other information comprises the Annual Report, but does not include the consolidated financial statements and our auditor's report thereon. The Annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors.

Directors' Responsibilities for the Consolidated Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at: https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-1/.

This description forms part of our auditor's report.

Who we Report to

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

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

BDO Wellington Audit Limited

BDO WELLINGTON AUDIT LIMITED
Wellington
New Zealand
22 September 2021