First Credit Union Incorporated

Audited Consolidated Financial Statements

For the Year Ended 30 June 2023

First Credit Union Incorporated
Contents of Consolidated Financial Statements

For the Year Ended 30 June 2023

First Credit Union Incorporated
Directory

For the Year Ended 30 June 2023

First Credit Union Incorporated Board of Directors

Chair	Judith Taane
Deputy Chair	Malcolm Blair
Directors	John Harvey (ceased October 2022)
	Peter Iles (Secretary/Treasurer)
	Phil Todd
	Rachel Karalus (appointed November 2022)
	Robert Pascoe
	Simon Scott

First Insurance Limited Board of Directors

Chair	Steve Nichols
Deputy Chair	Judith Taane
Directors	Gerard Rennie (appointed March 2023)
	John Harvey (appointed March 2023)
	Malcolm Blair (ceased March 2023)
	Mark Joblin
	Peter Iles (ceased March 2023)
	Simon Scott (ceased March 2023)

Executive Management

Chief Executive Officer	Simon Scott
Chief Financial Officer	Stephen Hawkins
Marketing & Communications Manager	Melissa Hay
Risk & Compliance Manager	Asenaca Kaloumaira

Senior Management Team

Chief Executive Officer	Simon Scott
Marketing & Communications Manager	Melissa Hay
Chief Financial Officer	Stephen Hawkins
Lending Manager	Richard O'Regan
General Manager - Insurance	Michael Cathro
Member Experience Manager	Ana Braunias
Treasury & Agency Banking Manager	Herb Wulff
Risk & Compliance Manager	Asenaca Kaloumaira
Chief Information Officer	Jarrod Dowd

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

First Credit Union Incorporated

Consolidated Statement of Service Performance

For the Year Ended 30 June 2023

Statement of Service Performance

Who are we?

First Credit Union is a not-for-profit financial co-operative that has been helping everyday Kiwi's achieve their financial goals, within their means for over 65 years. Our products and services are designed to make managing your personal finances easy. Members come first at First Credit Union, every strategic decision made by our Board and Senior Management team has the best interests of our members in mind.

We also have our own fully owned subsidiary- First Insurance Limited, which provides loan protection and funeral insurance to our members. Our common bond allows us to accept members from across New Zealand, we have a large call centre, and online services to support our members and this is backed up with a branch network from Whangarei to Invercargill.

Why do we exist?

We exist for our members. Our purpose is to provide our members with a low cost alternative to the banks. We promote savings amoungst our membership and we use these savings for the mutual benefit of our members.

What we intend to achieve- our medium/ long term objectives

a) Continue to put our members first by providing everyday Kiwis with reliable products and services to help them achieve their financial goals, within their means through a low fee structure and competitive interest rates.
b) Promoting "thrift" within the membership
c) 'People helping people'- supporting and giving back to our local communities

How we measure our performance

Putting members first, providing reliable products & services

	FYE 30 Jun 23	FYE 30 Jun 22
Number of Members	56,000	49,000
Number of NO fee personal loans disbursed	9,149	5,079
Member Shares	$386 million	$374 million
Number of member calls answered	218,658*	219,112
Number of member registered for online banking	30,698	26,586
Number of members with a debit card	23,879	21,933
First Insurance Limited- claims paid out to members	$1,064,000	$978,500

*Does not include NZCU Steelsands member phone calls answered and does not include Westforce Credit Union calls from 1 August to 30 November 2022

Promoting "thrift" within the membership

	FYE 30 Jun 23	FYE 30 Jun 22
Number of schools participating in school banking programme	94	95
Number of Jimmy Jumper accounts	2,513	2,696
Loan Provider Accounts (our cornerstone savings account)	20,624	17,090

BDO WELLINGTON

First Credit Union Incorporated

Consolidated Statement of Service Performance

For the Year Ended 30 June 2023

Statement of Service Performance Continued

'People helping people'

	FYE 30 Jun 23	FYE 30 Jun 22
Community Grants	$10,000^	$60,000^^
Sponsorship	$125,914	$84,155
Global Donations (WOCCU, Ukraine displacement fund)	$10,298	$7,538
Social Housing: Number of developments the approved funding covers	65	46
Social Housing: Amount approved for funding in the year	$29,187,000	$23,736,745
Staff community volunteer hours	254.5	54**

^Our members helped raise funds to support those impacted by Cyclone Gabrielle by contributing $3,500

^^Hunga Tonga-Hunga Haápai eruption $10,000 and $50,000 food bank donations

**Many events were cancelled due to COVID

First Credit Union Incorporated

Consolidated Statement of Comprehensive Revenue and Expense

For the Year Ended 30 June 2023

	Note	2023 $000	2022 $000
REVENUE			
Interest Revenue	**2.1**	26,790	19,117
Interest Expenditure	**2.1**	(8,212)	(4,221)
Net Interest Revenue		**18,578**	**14,896**
Other Income	**2.2**	8,060	6,491
Insurance Underwriting Surplus	**6.1(a)**	638	816
		27,276	**22,203**
EXPENDITURE			
Operating Expenses	**2.3**	(15,139)	(12,195)
Employee Benefits	**2.3**	(8,831)	(6,246)
Loan Impairment Expenses	**4.2**	(1,605)	(1,389)
Total Operating Expenditure		**(25,575)**	**(19,830)**
Share of Surplus/(Deficit) of Joint Venture	**5.5**	627	687
Surplus before Taxation		**2,328**	**3,060**
Income Tax Expense	**2.4**	(1)	(1)
Surplus for the Year Attributable to Members		**2,327**	**3,059**
Other Comprehensive Revenue and Expense			
Revaluation of Property	**5.1**	0	1,413
Total Comprehensive Revenue and Expense for the Year		**2,327**	**4,472**

The attached notes to the financial statements form part of and should be read in conjunction with the financial statements.

First Credit Union Incorporated

Consolidated Statement of Changes in Net Assets/Equity

For the Year Ended 30 June 2023

	Note	Accumulated Revenue and Expense $000	Property Revaluation Reserve $000	Total $000
Balance as at 30 June 2021		**57,461**	**2,034**	**59,495**
Total Comprehensive Revenue and Expense for the Year		3,059	0	3,059
Revaluation of Property	**5.1**	0	1,413	1,413
Balance as at 30 June 2022		**60,520**	**3,447**	**63,967**
Total Comprehensive Revenue and Expense for the Year		2,327	0	2,327
Amalgamation of Steelsands Credit Union	**11.2**	1,481	0	1,481
Amalgamation of Westforce Credit Union	**11.1**	337	0	337
Balance as at 30 June 2023		**64,665**	**3,447**	**68,112**

The attached notes to the financial statements form part of and should be read in conjunction with the financial statements.

First Credit Union Incorporated

Consolidated Statement of Financial Position

As at 30 June 2023

	Note	2023 $000	2022 $000
MEMBERS' FUNDS			
Accumulated Revenue and Expense		64,665	60,520
Property Revaluation Reserve		3,447	3,447
TOTAL MEMBERS' FUNDS		**68,112**	**63,967**
ASSETS			
Cash and Cash Equivalents	3.1	21,821	26,610
Term Deposits and Other Investments	3.2	80,456	94,107
Loans to Members	4.1	330,398	298,282
Property, Plant and Equipment	5.1	16,410	13,674
Prepayments	5.2	2,190	2,497
Other Assets	5.4	136	188
Investment in Joint Venture	5.5	7,625	6,998
TOTAL ASSETS		**459,036**	**442,356**
LIABILITIES			
Trade and Other Payables	5.6	4,088	3,769
Employee Entitlements		364	322
Members' Deposits	5.7	386,472	374,298
TOTAL LIABILITIES		**390,924**	**378,389**
NET ASSETS / EQUITY		**68,112**	**63,967**

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

J.a. Taane.

Judith Taane, Chair

Date: 16 October 2023

Robert Pascoe, Director

Date: 16 October 2023

The attached notes to the financial statements form part of and should be read in conjunction with the financial statements.

BDO
BDO WELLINGTON

First Credit Union Incorporated
Consolidated Statement of Cash Flows

For the Year Ended 30 June 2023

	Note	2023 $000	2022 $000
Cash Flows from Operating Activities			
Interest Received		25,775	18,910
Fees, Commissions and Other Income		8,665	7,016
Bad Loans Recovered		143	290
Interest Paid		(7,428)	(4,066)
Payments to Suppliers and Employees		(23,246)	(16,758)
Net Cash Provided by Operating Activities before changes in Operating Assets		**3,909**	**5,392**
Net (Increase) Decrease in Members' Loans		(18,875)	(26,055)
Net Increase (Decrease) in Member Deposits		(21,496)	21,987
Net Cash Provided by Operating Activities	**3.3**	**(36,462)**	**1,324**
Cash Flows from Investing Activities			
Payments for Property, Plant, Equipment and Intangibles		(1,245)	(58)
Subordinated Debt Repaid		0	2,750
Net (Increase) Decrease in Term Deposits		15,198	1,670
Net Cash Used in Investing Activities		**13,953**	**4,362**
Net Cash provided by Financing Activities		**0**	**0**
Total Net Increase (Decrease) in Cash and Cash Equivalents Held		(22,509)	5,686
Cash and Cash Equivalents at the Beginning of the Period		26,610	20,924
Cash Received on Amalgamation of Steelsands and Westforce Credit Union	**11**	17,720	0
Cash and Cash Equivalents at the End of the Period	**3.1**	**21,821**	**26,610**

The attached notes to the financial statements form part of and should be read in conjunction with the financial statements.

BDO WELLINGTON

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") and the Groups investment in equity accounted investees. 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.

Transfer of Engagements - a process known as a transfer of engagement was completed during the year, with Westforce Credit Union (Westforce) on 31 July 2022, and with Steelsands Credit Union (Steelsands) on 30 November 2022, whereby Westforce and Steelsands transferred all of their engagements to First Credit Union Incorporated. The transfer of engagements means that First Credit Union Incorporated assumed all assets and liabilities of Westforce and Steelsands and now operates as a single merged entity, with Westforce and Steelsands both de-registering - refer to note 11.

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.

BDO WELLINGTON

1. Corporate Information (continued)

1.4 Basis of Preparation (continued)

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; note 5.5 for assessing the classification of interests in joint arrangements; and note 6.1 for insurance contract liabilities.
These financial statements were authorised for issue by the Directors on the date set out in the Statement of Financial Position.

2. Financial Performance

2.1 Net Interest Revenue

	2023 $000	2022 $000
Interest Revenue - Interest on Financial Assets at Amortised Cost		
Interest on Loans to Members	22,325	17,768
Interest on Term Deposits	3,964	1,201
Interest from Joint Venture (Prepayment, Subordinated Loan)	0	120
Interest on Cash and Cash Equivalents	501	28
Total Interest Revenue	**26,790**	**19,117**
Interest Expenditure - Liabilities at Amortised Cost		
Interest on Members Call Shares	(1,091)	(1,009)
Interest on Members Term Shares	(7,121)	(3,212)
Total Interest Expenditure	**(8,212)**	**(4,221)**

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 Joint Venture
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. Financial Performance (continued)

2.2 Other Income

	2023 $000	2022 $000
ATM/EFTPOS Card Recoveries	5,630	4,267
Costs Recovered and Other Fees Charged	2,115	1,665
Bad Debts Recovered	143	290
Commissions Received	100	173
Gain on Sale of Property, Plant and Equipment	0	0
Other Income	72	96
Total Other Income	**8,060**	**6,491**

2.3 Expenditure

	Note	2023 $000	2022 $000
Operating Expenses includes:			
External Audit of Financial Statements			
- BDO Audits		212	176
Directors Fees	**6.4**	226	216
Depreciation	**5.1**	686	580
Loss on Sale of Property, Plant and Equipment	**5.1**	0	10
Occupancy		722	446
Employee Benefits includes:			
Wages and Salaries		8,081	5,761
Defined Contribution Expense		193	148

Recognition and Measurement

Incremental and directly attributable costs (such as commissions) associated with the origination of a financial asset (such as loans) and financial liabilities (such as borrowings) are capitalised as part of the amortised cost and deferred over the life of the financial instrument using the effective interest method.

2.4 Taxation

	2023 $000	2022 $000
Income Tax Recognised in Statement of Comprehensive Revenue and Expense		
Net Operating Surplus before Taxation	2,328	3,060
Less: Exempt Income and Expenses	(2,324)	(3,055)
Operating Surplus before Taxation	**4**	**5**
Income Tax Expense at Current Rate of 28%	**1**	**1**
Current Tax Receivable		
Taxation Expense	(1)	(1)
Resident Withholding Tax Paid	72	31
Taxation Refund	**71**	**30**

2. Financial Performance (continued)

2.4 Taxation (continued)

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.

3. Deposits and Liquidity

3.1 Cash and Cash Equivalents

	Interest Rates	2023 $000	2022 $000
Cash on Hand	0.00%	829	603
Bank Balances - On Call	4.50%	20,992	26,007
Total Cash and Cash Equivalents		**21,821**	**26,610**

Recognition and Measurement

Cash and cash equivalents comprise cash and call deposits at other financial institutions, including Banzpay. Under PBE standards definition of financial assets, cash and cash equivalents are classified as financial assets at amortised cost.

3.2 Term Deposits and Other Investments

	Interest Rates	2023 $000	2022 $000
ANZ	4.20% to 5.65%	4,429	20,739
Heartland	5.10% to 5.70%	9,612	15,406
Westpac Bank	2.94% to 5.74%	59,081	57,962
FNZ Portfolio	1.50% to 4.50%	7,334	0
Total Term Deposits and Other Investments		**80,456**	**94,107**
Current		75,036	88,943
Non-Current		5,420	5,164
Total Term Deposits		**80,456**	**94,107**

Recognition and Measurement

All term deposits and other investments are classified as short term investments, measured at amortised cost using the effective interest method, less any impairment losses. The FNZ portfolio comprises bank balances, New Zealand Government, Local Government Funding Agency and Housing New Zealand Limited securities. All term deposits and other investments that mature within the next twelve months are current assets. Under PBE standards definition of financial assets, term deposits and other investments are classified as financial assets at amortised cost.
Refer to note 10 for additional information on liquidity, risk management objectives and policies.

3. Deposits and Liquidity (continued)

3.3 Reconciliation of Cash Flow from Operating Activities with Operating Surplus

	2023 $000	2022 $000
Surplus for the Year Attributable to Members	**2,327**	**3,059**
Non Cash Items		
Depreciation, Amortisation and Loss on Sale	686	576
Bad Debts Written off	1,710	1,494
Bad Debt Provision Increase/(Decrease)	(105)	(105)
Share of Surplus of an Equity Accounted Joint Venture	(627)	(687)
Changes in Assets and Liabilities		
Movement in Accounts Receivable	212	3
Movement in Prepayments	307	675
Movement in Accounts Payable	(256)	491
Movement in Employee Benefits	(114)	(62)
Movement in Accrued Interest Receivable	(1,015)	(207)
Movement in Accrued Interest Payable	784	155
Net Movement in Members' Loans	(18,875)	(26,055)
Net Increase (Decrease) in Member Deposits	(21,496)	21,987
Net Operating Cash Flows	**(36,462)**	**1,324**

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.

4. Loans to Members

4.1 Loans to Members

	Note	2023 $000	2022 $000
Mortgages		253,416	228,959
Personal Loans		78,910	70,614
Gross Loans to Members		**332,326**	**299,573**
Less: Allowance for Impairment	**4.2**	(1,928)	(1,291)
Net Loans to Members		**330,398**	**298,282**
Current		54,111	60,780
Non-Current		278,215	238,793
Total Gross Loans to Members		**332,326**	**299,573**

Recognition and Measurement

Classification of Financial Assets - management determines the classification of its financial assets at initial recognition. The classification depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial assets are reclassified when and only when its business model for managing those assets changes. The Groups financial assets are measured at amortised cost as they are held for collection of contractual cash flows represent solely payments of principal and interest.

Derecognition of Financial Assets - financial assets are derecognised from the Statement of Financial Position when, and only when, the contractual rights to the cash flows from the financial asset expire, or the Group has transferred all or substantially all of the risks and rewards of ownership of the financial asset. For financial assets measured at amortised cost, a gain or loss is recognised in surplus or deficit loss when the financial asset is derecognised or impaired.
Additionally, under PBE IPSAS 41, if there has been a modification to the contractual cash flows of a financial asset (loan), the Group shall recalculate the gross carrying amount of the financial asset and shall recognise a modification gain or loss in surplus or deficit. This applies to loans that have defaulted and are taken to court, for further details see 4.2 below.

4. Loans to Members (continued)

4.1(a) Credit Quality - Security Dissection

	2023 $000	2022 $000
Secured by Mortgage Over Real Estate with LVR <= 80%	230,798	203,534
Secured by Mortgage Over Real Estate with LVR > 80%	22,618	25,425
Secured by Members Shares	13,839	14,072
Partially Secured by Motor Vehicles or Other Collateral	46,406	44,056
Unsecured Loans	18,665	12,486
Credit Quality of Gross Loans to Members	**332,326**	**299,573**

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.

Under PBE standards financial assets at amortised cost are 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. Financial assets at amortised cost 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 financial assets.

Refer to note 10 for further information on Credit Risk and details about the Credit Unions Financial Risk Management Objectives and Policies.

4.2 Provision for Impairment of Financial Assets

4.2(a) Impairment of Loans and Advances

Total doubtful debts and bad debt expense for the year was:	2023 $000	2022 $000
Provision for Impairment - Increase / (decrease) in the Year	(105)	(105)
Bad Loans written off	1,710	1,494
Loan Impairment Expenditure	**1,605**	**1,389**
Interest Revenue Recognised on Impaired Loans	**274**	**333**
Interest Revenue Foregone on Impaired Loans	**444**	**551**

The following tables show how changes in gross carrying amounts of loans during the period have contributed to changes in the provisions for ECL on loans.

4. Loans to Members (continued)

4.2(b) Carrying Value of Loans to Members

i) Carrying Value of Total Loans to Members

	Performing Stage 1 Collective $000	Performing Stage 2 Collective $000	Non Performing Stage 3 Collective $000	Non Performing Stage 3 Specific [1] $000	Total $000
Gross Carrying Amount 1 July 2022	**292,320**	**1,929**	**2,218**	**4,590**	**301,057**
Restatement for adoption of PBE IPSAS 41[1]	0	0	0	(1,484)	**(1,484)**
Restated Gross Carrying Amount 1 July 2022	**292,320**	**1,929**	**2,218**	**3,106**	**299,573**
Net Transfers In/(Out) of Stages	(2,139)	822	42	1,275	**0**
Net Further Lending/(Repayment)	(17,638)	(335)	(53)	(482)	**(18,508)**
New Financial Assets Originated	136,500	741	714	202	**138,157**
Financial Assets Derecognised	(84,256)	(116)	(129)	(790)	**(85,291)**
Amounts Written Off	(220)	(52)	(173)	(1,160)	**(1,605)**
Gross Carrying Amount 30 June 2023	**324,567**	**2,989**	**2,619**	**2,151**	**332,326**
Provision for ECL 30 June 2023	(869)	(41)	(428)	(590)	**(1,928)**
Net Carrying Balance 30 June 2023	**323,698**	**2,948**	**2,191**	**1,561**	**330,398**

ii) Carrying Value of Mortgage Loans to Members

	Performing Stage 1 Collective $000	Performing Stage 2 Collective $000	Non Performing Stage 3 Collective $000	Non Performing Stage 3 Specific [1] $000	Total $000
Gross Carrying Amount 1 July 2022	**226,222**	**653**	**1,288**	**797**	**228,960**
Restatement for adoption of PBE IPSAS 41[1]	0	0	0	0	**0**
Restated Gross Carrying Amount 1 July 2022	**226,222**	**653**	**1,288**	**797**	**228,960**
Net Transfers In/(Out) of Stages	(1,174)	886	288	0	**0**
Net Further Lending/(Repayment)	(5,017)	(41)	135	(59)	**(4,982)**
New Financial Assets Originated	84,229	425	0	0	**84,654**
Financial Assets Derecognised	(54,412)	0	(66)	(738)	**(55,216)**
Amounts Written Off	0	0	0	0	**0**
Gross Carrying Amount 30 June 2023	**249,848**	**1,923**	**1,645**	**0**	**253,416**
Provision for ECL 30 June 2023	0	0	0	0	**0**
Net Carrying Balance 30 June 2023	**249,848**	**1,923**	**1,645**	**0**	**253,416**

iii) Carrying Value of Personal Loans to Members

	Performing Stage 1 Collective $000	Performing Stage 2 Collective $000	Non Performing Stage 3 Collective $000	Non Performing Stage 3 Specific [1] $000	Total $000
Gross Carrying Amount 1 July 2022	**66,098**	**1,276**	**930**	**3,793**	**72,097**
Restatement for adoption of PBE IPSAS 41[1]	0	0	0	(1,484)	**(1,484)**
Restated Gross Carrying Amount 1 July 2022	**66,098**	**1,276**	**930**	**2,309**	**70,613**
Net Transfers In/(Out) of Stages	(965)	(64)	(246)	1,275	**0**
Net Further Lending/(Repayment)	(12,621)	(294)	(188)	(423)	**(13,526)**
New Financial Assets Originated	52,271	316	714	202	**53,503**
Financial Assets Derecognised	(29,844)	(116)	(63)	(52)	**(30,075)**
Amounts Written Off	(220)	(52)	(173)	(1,160)	**(1,605)**
Gross Carrying Amount 30 June 2023	**74,719**	**1,066**	**974**	**2,151**	**78,910**
Provision for ECL 30 June 2023	(869)	(41)	(428)	(590)	**(1,928)**
Net Carrying Balance 30 June 2023	**73,850**	**1,025**	**546**	**1,561**	**76,982**

[1] Modification of Contractual Cash Flows - under PBE IPSAS 41, the gross carrying value of of modified loans are recalculated at the present value of the modified contractual cash flows and discounted at the loans original effective interest rate. See 4.2 for further details.

4. Loans to Members (continued)

4.2(c) ECL Impairment of Loans to Members

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

i) ECL Impairment of Total Loans to Members

	Performing Stage 1 Collective $000	Performing Stage 2 Collective $000	Non Performing Stage 3 Collective $000	Non Performing Stage 3 Specific [1] $000	Total $000
Opening Balance 1 July 2022	**365**	**22**	**69**	**2,319**	**2,775**
Restatement for adoption of PBE IPSAS 41[1]	0	0	0	(1,484)	**(1,484)**
Restated Opening Balance 1 July 2022	**365**	**22**	**69**	**835**	**1,291**
Net Transfers In/(Out) of Stages	7	(7)	(7)	8	**1**
Net Further Lending/(Repayment)	162	68	231	999	**1,460**
New Financial Assets Originated	608	12	313	51	**984**
Financial Assets Derecognised	(165)	(2)	(5)	(31)	**(203)**
Amounts Written Off	(108)	(52)	(173)	(1,272)	**(1,605)**
Closing Balance 30 June 2023	**869**	**41**	**428**	**590**	**1,928**

ii) ECL Impairment of Mortgage Loans to Members

	Performing Stage 1 Collective $000	Performing Stage 2 Collective $000	Non Performing Stage 3 Collective $000	Non Performing Stage 3 Specific [1] $000	Total $000
Opening Balance 1 July 2022	**0**	**0**	**0**	**50**	**50**
Restatement for adoption of PBE IPSAS 41[1]	0	0	0	0	**0**
Restated Opening Balance 1 July 2022	**0**	**0**	**0**	**50**	**50**
Net Transfers In/(Out) of Stages	0	0	0	0	**0**
Net Further Lending/(Repayment)	0	0	0	(50)	**(50)**
New Financial Assets Originated	0	0	0	0	**0**
Financial Assets Derecognised	0	0	0	0	**0**
Amounts Written Off	0	0	0	0	**0**
Closing Balance 30 June 2023	**0**	**0**	**0**	**0**	**0**

iii) ECL Impairment of Personal Loans to Members

	Performing Stage 1 Collective $000	Performing Stage 2 Collective $000	Non Performing Stage 3 Collective $000	Non Performing Stage 3 Specific [1] $000	Total $000
Opening Balance 1 July 2022	**365**	**22**	**69**	**2,269**	**2,725**
Restatement for adoption of PBE IPSAS 41[1]	0	0	0	(1,484)	**(1,484)**
Restated Opening Balance 1 July 2022	**365**	**22**	**69**	**785**	**1,241**
Net Transfers In/(Out) of Stages	7	(7)	(7)	8	**1**
Net Further Lending/(Repayment)	162	68	231	1,049	**1,510**
New Financial Assets Originated	608	12	313	51	**984**
Financial Assets Derecognised	(165)	(2)	(5)	(31)	**(203)**
Amounts Written Off	(108)	(52)	(173)	(1,272)	**(1,605)**
Closing Balance 30 June 2023	**869**	**41**	**428**	**590**	**1,928**

[1] Modification of Contractual Cash Flows - under PBE IPSAS 41, the gross carrying value of of modified loans are recalculated at the present value of the modified contractual cash flows and discounted at the loans original effective interest rate. See 4.2 for further details.

4. Loans to Members (continued)

4.2(c) ECL Impairment of Loans to Members

Recognition and Measurement

The Group recognises a loss allowance for expected credit losses (ECL) on financial assets that are measured at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial asset.

[1]The first time application of PBE IPSAS 41 has resulted in a change to the gross carrying balance of certain financial assets. The Group considers that Defaulted/Court loans (classified above as "Non performing Stage 3 Specific") have had a modification of contractual cash flows. The gross carrying amount of the financial asset is recalculated as the present value of the modified contractual cash flows, discounted at the financial asset's original effective interest rate.
The Group recalculated the gross carrying amounts of these financial assets and the opening carrying value and impairment tables 4.2(b) and (c) have been restated. This results in a reduction in the gross carrying amount of these financial assets, with a corresponding reduction in the allowance for impairment - the net carrying balance of these financial assets has not changed.
Any subsequent changes to the present value of the financial asset is recognised as a gain or loss in surplus or deficit.

The adoption of PBE IPSAS 41 has not resulted in a material change to the Groups impairment provisions (aside from the modification above), largely due to the conservative nature of the Groups impairment provision from prior years.

The Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12 month ECL (stage 1).

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12 month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date. Homogeneous loans are assessed on a collective basis (collective impairment provision), including personal loans grouped by days in arrears, and non-homogeneous loans are assessed individually (specific impairment provision), including personal loans at default, and mortgages.

Key Assumptions in Determining the Allowance for Impairment

Significant increase in credit risk
In assessing whether the credit risk on a financial asset has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial asset at the reporting date with the risk of a default occurring on the financial asset at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, such as:
- actual or expected changes in economic indicators (i.e. change in employment rates, change in cost of living); and
- non-homogeneous loans significant changes in the value of the collateral supporting the loan or changes in the operating results of the borrower.

The nature of the finance receivables (personal loans and mortgages) means there is little or no updated credit risk information that is routinely obtained and monitored on an individual asset until a customer breaches the contractual terms. However, forward looking information relating to key economic indicators that could affect customers ability to meet their repayment obligations is also assessed and if there are any declining trends, then this is factored into the assessment.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise (stage 2). For mortgages, moving to stage 2 and beyond only occurs if the security is not deemed adequate.

4. Loans to Members (continued)

4.2 Provision for Impairment of Financial Assets (continued)

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Credit impaired members loans (stage 3)
A members loan is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit impaired includes observable data about the following events:
- significant financial difficulty of the borrower;
- a breach of contract, such as a default or past due event;
- and it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

Definition of default
The Group considers that default has occurred when a financial asset has been taken to court and has an attachment order against it, unless the Group has reasonable and supportable information to demonstrate that another default criteria is more appropriate (stage 3 specific).

Write off policy
The Group writes off a financial asset when there is information indicating that the borrower is in severe financial difficulty and there is no realistic prospect of recovery. The Group recognises an impairment gain or loss in profit or loss for all financial assets with a corresponding adjustment to their carrying amount through an expected loss allowance account.

Measurement and recognition of expected credit losses
The measurement of expected credit losses is a function of the probability of default and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward- looking information as described above. The exposure at default, for financial assets, is represented by the assets' gross carrying amount at reporting date. For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

If the Credit Union has measured the loss allowance for a financial asset at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Credit Union measures the loss allowance at an amount equal to 12 month ECL at the current reporting date, except for assets for which simplified approach was used.

The Credit Union recognises an impairment gain or loss in profit or loss for all financial assets with a corresponding adjustment to their carrying amount through a loss allowance account.

Inputs and Assumptions in the ECL Provision Model

The Group's forecast assumes the following:

Key Macroeconomic Assumptions	Scenario	2023	2022
Unemployment Rate	Upside Scenario	2.92%	3.04%
	Base Scenario	3.92%	4.04%
	Downside Scenario	5.92%	6.04%
Consumer Price Index	Upside Scenario	2.71%	1.94%
	Base Scenario	3.71%	2.94%
	Downside Scenario	5.71%	4.94%

ECL Sensitivity Analysis of Macroeconomic Scenarios
The uncertainty surrounding inflation, unemployment rates as well as other economic factors introduce significant estimation uncertainty in relation to the measurement of the Group's provision for expected credit losses. Economic indicators are inherently uncertain and could result in significant adjustments to the provision within the current and next financial years.

Given current economic uncertainties and the judgement applied to factors used in determining the expected default of borrowers in future periods, expected credit losses reported by the Group should be considered a best estimate within a range of possible outcomes.

4. Loans to Members (continued)

4.2 Provision for Impairment of Financial Assets (continued)

The table below illustrates the sensitivity of ECL to key factors used in determining it by showing the results of what the total ECL provision would be if each scenario was applied and how much this would change the provision by.

Scenario	Total ECL Provision	Impact on Provision Gain/(Loss)
Upside Scenario	1,666,776	261,224
Base Scenario	1,928,000	
Downside Scenario	2,447,203	(519,203)

Residential property values were stressed using a severe downside of a 20% reduction in property values. Under this scenario, some Members' mortgages enter 'negative equity' territory, which equates to a potential loss to the Credit Union of $-1,788,888. It is important to note that whilst an individual member may be in negative equity under this scenario, that does not necessarily mean the member cannot service the loan repayments.

The following diagram summarises the impairment accounting policy described above and the requirements under PBE IPSAS 41:

Stage and Basis	Credit Quality	Description	P&L Impact
Stage 1: 12 months ECL Collective basis	Credit risk has not increased significantly since initial recognition.	Loans where credit risk has not increased significantly since initial recognition and the member has the ability to meet contractual cash flows.	Interest income is recognised on the gross carrying amount.
Stage 2: Lifetime ECL Collective basis	Significant increase in credit risk since initial recognition.	Loans where credit risk has increased significantly since initial recognition but no objective evidence of impairment and / or loans are 30 days past due in making a contractual payment.	Interest income is recognised on the gross carrying amount.
Stage 3: Lifetime ECL Individual	Credit impaired assets.	Loans are deemed 'impaired' when the Group has exhausted all options to recover the debt and the loan has gone to Court and an attachment order has been issued. Impaired assets are specifically provided for on an individual basis.	Interest income is recognised on the net carrying amount (net of specific provision).
Stage 4: Write off		Loans are written off when there is no realistic prospect of recovery.	None - an impairment loss is recorded in surplus deficit.

First Credit Union Incorporated

Notes to the Financial Statements

For the Year Ended 30 June 2023

5. Other Financial Position Notes

5.1 Property, Plant and Equipment

Cost or Valuation	Land $000	Buildings $000	Computer Equipment $000	Furniture & Fittings $000	Motor Vehicles $000	Total $000
Opening Balance 1 July 2022	**7,941**	**6,539**	**2,033**	**2,006**	**526**	**19,045**
Additions	428	535	181	38	38	1,220
Revaluations	0	0	0	0	0	0
Acquistions	2,132	235	446	665	96	3,574
Disposals or Written off	0	(61)	(1,602)	(779)	(143)	(2,585)
Closing Balance 30 June 2023	**10,501**	**7,248**	**1,058**	**1,930**	**517**	**21,254**
Accumulated Depreciation						
Opening Balance 1 July 2022	**0**	**1,997**	**1,775**	**1,432**	**167**	**5,371**
Depreciation for the Period	0	232	171	192	91	686
Acquistions	0	66	641	544	51	1,302
Disposals or Written off	0	(61)	(1,602)	(779)	(73)	(2,515)
Closing Balance 30 June 2023	**0**	**2,234**	**985**	**1,389**	**236**	**4,844**
Net Book Value at 30 June 2023	**10,501**	**5,014**	**73**	**541**	**281**	**16,410**

Cost or Valuation	Land $000	Buildings $000	Computer Equipment $000	Furniture & Fittings $000	Motor Vehicles $000	Total $000
Opening Balance 1 July 2021	**6,016**	**7,442**	**1,969**	**1,768**	**418**	**17,613**
Additions	0	58	64	238	139	499
Revaluations	2,015	(602)	0	0	0	1,413
Reclassification of Assets	0	0	0	0	0	0
Disposals or Written off	(90)	(358)	0	0	(32)	(480)
Closing Balance 30 June 2022	**7,941**	**6,539**	**2,033**	**2,006**	**526**	**19,045**
Accumulated Depreciation						
Opening Balance 1 July 2021	**0**	**1,692**	**1,661**	**1,327**	**154**	**4,834**
Depreciation for the Period	0	316	114	105	45	580
Reclassification of Assets	0	0	0	0	0	0
Disposals or Written off	0	(11)	0	0	(32)	(43)
Closing Balance 30 June 2022	**0**	**1,997**	**1,775**	**1,432**	**167**	**5,371**
Net Book Value at 30 June 2022	**7,941**	**4,542**	**258**	**574**	**359**	**13,674**

5. Other Financial Position Notes (continued)

5.1 Property, Plant and Equipment (continued)

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. Land and buildings are carried at revalued amounts less accumulated depreciation and impairment. Land is not depreciated.

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 First Credit Union were valued by Telfer Young Limited, independent registered valuers, as at 30 June 2022. 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 2022 was 5.50% on a weighted average basis. A significant increase/decrease in the rental capitalisation rate would result in an decrease/increase to the fair value of the land and buildings.

The land and buildings transferred from Westforce Credit Union were valued by the Registered Valuers Opteon New Zealand Ltd in June and July 2021. The Group has assessed the value of the Westforce land and buildings, and the carrying amount is a fair approximation of fair value at reporting date.

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

The Directors consider the carrying amount is a fair approximation of fair value at reporting date.

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.

BDO WELLINGTON

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	0-16% SL (2022 1-16% SL)
Motor Vehicles	3-30% SL (2022 8-20%)
Computer Equipment	7-48% SL (2022 no change)
Furniture and Fittings	2-48% SL (2022 2-30% SL)

The residual value, depreciation methods and useful lives are reviewed, and adjusted if appropriate, annually. There were no material impacts from the change in estimates.

5.2 Prepayments

	2023 $000	2022 $000
Trade Prepayments	768	403
Prepaid Software Costs	1,422	2,094
Total Prepayments	**2,190**	**2,497**

Recognition and Measurement

Prepayments include trade prepayments 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.

5.3 Impairment Testing of Non Financial Assets

The carrying amounts of the Groups non-financial assets other than deferred tax assets, 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

	2023 $000	2022 $000
Income Tax Receivable	72	30
GST Receivable/(Payable)	27	11
Sundry Debtors	37	147
Total Other Assets	**136**	**188**

5. Other Financial Position Notes (continued)

5.5 Investment in Joint Venture

	2023 $000	2022 $000
Investment - Opening Balance	6,998	6,311
Share of Surplus/(Deficit)	627	687
Equity Accounted Investment in Joint Venture	**7,625**	**6,998**

The Group jointly controls the following entity which is accounted for using the equity method.

Summarised Financial Information of Finzsoft Solutions Limited	2023 $000	2022 $000
Ownership	48.86%	48.86%
Current Assets	5,509	7,642
Non-current Assets	6,591	7,509
Current Liabilities	4,634	8,834
Non-current Liabilities	1,053	1,187
Revenues	8,932	10,164
Income Tax Expense	499	516
Total Comprehensive Surplus/(Deficit)	1,283	1,405
Cash and Cash Equivalents (including short term investments classified as current assets)	4,218	6,351
Financial Liabilities	1,287	5,745
Non-Financial Liabilities	4,400	4,276

Recognition and Measurement

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 the ongoing provision of that key system. In 2021 the Group acquired a further 39% shareholding in Finzsoft Solutions Limited (Finzsoft). This increased the shareholding from 9.9% in 2020 to 48.86% in 2021.

Finzsoft is considered a Joint Venture for accounting and reporting purposes, refer to the Joint Arrangements - Accounting Policy below for further information. The investment in Finzsoft has been accounted for using the equity method and is recognised initially at cost, including directly attributable transaction costs and subsequently adjusted to reflect the share of profit/(loss) for the period.

The financial statements of Group include a share of the surplus of Finzsoft of $626,805 (2022: $687,081). Finzsoft has the same reporting date as the Group, being 30 June, and is domiciled in New Zealand.
There are no significant restrictions regarding the distribution of dividends or repayment of loans from Finzsoft.

The Groups exposure to contingencies and commitments from its interests in joint ventures:
• There were no contingent liabilities relating to interests in joint ventures to which FCU was jointly and/or severally liable (2022: nil).
• There were no contingent assets relating to interests in joint ventures to which FCU would benefit either jointly and/or severally (2022: nil).
• There were no capital or other commitments relating to interests in joint ventures to which FCU was jointly and/or severally liable (2022: nil).

5. Other Financial Position Notes (continued)

5.5 Investment in Joint Venture (continued)

Joint Arrangements - Accounting Policy:

The Group is a party to a joint arrangement when there is a contractual arrangement that confers joint control over the relevant activities of the arrangement to the group and at least one other party. Joint control is assessed under the same principles as control over subsidiaries. The Group classifies its interests in joint arrangements as either:
- Joint ventures - where the group has rights to only the net assets of the joint arrangement.
- Joint operations: where the group has both the rights to assets and obligations for the liabilities of the joint arrangement.

In assessing the classification of interests in joint arrangements, the Group considers:
- The structure of the joint arrangement
- The legal form of joint arrangements structured through a separate vehicle
- The contractual terms of the joint arrangement agreement
- Any other facts and circumstances (including any other contractual arrangements).

Any premium paid for an investment in a joint venture above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the investment in joint venture. Where there is objective evidence that the investment in a joint venture has been impaired the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

Upon consideration of these factors, the Group has determined that the joint arrangements structured through separate vehicles give it rights to the net assets and is therefore classified as a joint venture.

5.6 Trade and Other Payables

	Note	2023 $000	2022 $000
Trade Payables		2,589	2,690
Card Settlement		1,072	671
Sundry Creditors and Accrued Expenses		64	17
Financial Liabilities at Amortised Cost		**3,725**	**3,378**
Insurance Contract Liabilities	**6.1(b)**	363	391
Total Trade and Other Payables		**4,088**	**3,769**

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. Other Financial Position Notes (continued)

5.7 Members' Deposits

	2023 $000	2022 $000
Call Shares	183,880	188,804
Term Shares	202,592	185,494
Total Members' Deposits	**386,472**	**374,298**
Current	377,156	360,009
Non-Current	9,316	14,289
Total Members' Deposits	**386,472**	**374,298**

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.

6.1(a) Insurance Underwriting Surplus

	2023 $000	2022 $000
Premium Revenue	1,610	1,725
Claims Expense	(972)	(909)
Insurance Underwriting Surplus	**638**	**816**

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.

BDO WELLINGTON

6. Other Notes (continued)

6.1(b) Insurance Contract Liabilities (continued)

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 2023.
• 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.

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 2023, 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 Negative Outlook (2022: BB+ with a Stable Outlook).

	2023 $000	2022 $000
Actual Solvency Capital	6,160	6,157
Minimum Solvency Capital	5,000	5,000
Solvency Margin	1,160	1,157
Solvency Ratio	**123%**	**123%**

During the year ended 30 June 2023, 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 2023 was $5,887,883 (2022: $5,918,581) relative to an actual solvency capital of $6,158,814 (2022: $6,156,555).

BDO
BDO WELLINGTON

6. Other Notes (continued)

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:

	2023 $000	2022 $000
Base assumptions	368	391
Claims provision if assumed development/reporting pattern 10% longer	393	463
Claims provision if assumed development/reporting pattern 10% shorter	261	301

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.

6.2 Commitments

The Group has capital expenditure commitments having 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 at 30 June 2023 $35,000 (2022 $30,000).
The Group has a commitment for software licensing costs of $3,744,000. (2022: $4,884,000).
The Group has also issued bank settlement guarantees as at 30 June 2023 $4,782,000 (2022 $3,800,000).

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

	2023 $000	2022 $000
Loans Approved but not Funded	34,109	10,382
Undrawn Overdraft and Line of Credit	283	235
Total Outstanding Loan Commitments	**34,392**	**10,617**

6.3 Contingent Liabilities

The Group has no contingent liabilities as at 30 June 2023 (2022 nil).

6. Other Notes (continued)

6.4 Related Parties

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

	2023 Directors $000	2022 Directors $000	2023 KMP $000	2022 KMP $000
Short-Term Employee Benefits	**226**	**216**	**955**	**834**

Recognition and Measurement

Remuneration of Directors 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 10 Directors and 4 executive managers. Connected Parties (CP) are defined as the immediate relatives of Directors 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.

Related Party Holdings:	2023 Shares $000	2022 Shares $000	2023 Loans $000	2022 Loans $000
Directors	2,394	3,224	331	342
KMP	88	39	2,042	1,336
Connected Parties	1,560	1,252	2,249	2,383
Total Related Party Holdings:	**4,042**	**4,515**	**4,622**	**4,061**

Recognition and Measurement

During the year under review new loan advances to Directors or Key Management Personnel were $0.82 million (2022 Nil).

The Groups investment in Finzsoft Solutions Limited (Finzsoft) is considered a joint venture for accounting and reporting purposes. Finzsoft and the Group are also considered related parties, and have the following related party dealings at reporting date:
- the Group has prepaid licence fees to Finzsoft totalling $494,000 (2022: $226,000);
- the Group has 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 to Finzsoft totalling $1,422,000 (2022: $2,094,000), refer note 5.2;
- total expenditure on Finzsoft services for the year was $2,338,000 (2022: $1,811,000);
- interest received from Finzsoft on the subordinated debt receivable, totalled $0 (2022: $119,925). This loan was fully repaid during the previous financial year.

No loans to related parties have been impaired in the period. (2022: $NIL)

6. Other Notes (continued)

6.5 Events Occurring After Reporting Date

Fisher and Paykel Credit Union (F&P) - effective 1 October 2023 F&P legally amalgamated with First Credit Union (First) by way of a transfer of engagements. The approval by F&P Members was passed by special resolution on 17 August 2023.
First's Board, in accordance with rule 76 of its Rules and section 135 of the Friendly Societies and Credit Unions Act 1982, resolved, on behalf of the members of First, to accept a transfer of Fisher and Paykel Credit Union's engagements. The net assets of F&P will be transferred into First on 1 October 2023, and as at 30 June 2023 F&P's net assets were approximately $0.684m (total assets $4.423m, total liabilities $3.739m), with 1 branch in Auckland, 2 staff and 1,200 Members.

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

7. Other Accounting Policies

7.1 Changes to Accounting Policies

New standards and amendments and interpretation to existing stands that came into effect during the current accounting period beginning on 1 July 2022.

Impact of the adoption of PBE IPSAS 41 Financial Instruments
PBE IPSAS 41, ‘Financial instruments’, addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in PBE IPSAS 29, ‘Financial Instruments: Recognition and Measurement’, that relates to the classification and measurement of financial instruments. PBE IPSAS 41 retains but simplifies the mixed measurement model and establishes new measurement categories for financial assets. The basis of classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset. In addition, there is now a new expected credit losses impairment model that replaces the incurred loss impairment model used in PBE IPSAS 29.

The adoption of PBE IPSAS 41 has not had a material impact on the financial statements of the Group and no adjustment to retained earnings has been required on transition. The main impact has been presentation only, refer to note 4.1 and 4.2 for further detail.

Impact of the adoption of PBE FRS 48 Statement of Service Performance
PBE FRS 48 requires entities to disclose service performance information to provide contextual information on why the entity exists, what it intends to achieve in broad terms, and what was done during the reporting period towards its broader aims and objectives.

The adoption of PBE FRS 48 has resulted in preparation of the Group’s first statement of service performance which is included on pages 4 to 5.

7. Other Accounting Policies (continued)

7.2 New Accounting Standards Issued but not yet Effective

New standards and amendments and interpretation to existing standards that are not yet effective for the current accounting period beginning on 1 July 2023.

PBE IFRS 17 – Insurance contracts effective 1 January 2023. First Insurance 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 Insurance is still currently working through what the impact of the new standard will have, however there are expected to be significant changes in the presentation of the financial standards 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.

There are no other new standards, amendments or interpretations that have been issued and are not yet effective that are expected to have a significant impact on the Group.

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 2023 reporting date.
First Insurance Limited is the only controlled entity which the Credit Union owns 100% of the shares.

7.4 Amalgamations

Amalgamations are accounted for using the modified pooling of interests method as at the amalgamation date, which is the date on which the Group (as resulting entity) obtains control of the combining operation.

The Group is the resulting entity when it gains control of one or more operations, and in which there is evidence that the combination has the economic substance of an amalgamation.

As of the amalgamation date, the Group, in accordance with PBE Standards, recognises in the financial statements the assets, liabilities and any non-controlling interests of the combining operation as of the amalgamation date at their carrying amounts adjusted to eliminate the effects of all transactions between the Group and the combining operation and to ensure that the combining operation's accounting polices conform with those of the Group.

Amalgamations do not give rise to goodwill. Instead, the aggregate of the carrying amount of the combining operation's assets liabilities and any non-controlling interest is recognised as a single balance in net assets/equity. In addition, any amalgamation adjustments required to eliminate transactions between the combining operation and the Group, any adjustments made to the combining operation's carrying amounts of assets and liabilities to conform with the Group's accounting policies and adjustments made in respect of the exceptions to the recognition and/or measurement principles required on amalgamation are recognised within net assets/equity.

Transactions costs related to amalgamations are expensed in surplus or deficit as incurred.

When an amalgamation has occurred, the prior period results of the combining operation are not included in the resulting entity's (i.e., Group's) comparative financial information. The Group has elected a policy to not include prior period results in relation to the combining operation in the notes.

8. Disputes Resolution Scheme

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 2 February 2023 (2022: BB with a stable 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.

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 2023

	Weighted average effective interest rate *	Floating Interest Rate $'000	Fixed Interest Rate Maturing in: Within 6 months $'000	6 months to 1 Year $'000	1 to 5 Years $'000	Non-interest sensitive $'000	Total $'000
Monetary Assets							
Cash & Bank	4.50%	21,821	0	0	0	0	**21,821**
Term Deposits and Other Investments	5.21%	0	73,140	1,896	5,420	0	**80,456**
Trade & Other Receivables	n/a	0	0	0	0	135	**135**
Loans to Members - Fixed	6.58%	0	84,339	107,103	41,649	0	**233,091**
Loans to Members - Floating	10.91%	97,307	0	0	0	0	**97,307**
Total Monetary Assets		**119,128**	**157,479**	**108,999**	**47,069**	**135**	**432,810**
Monetary Liabilities							
Members' Deposits	1.48%	183,880	114,827	78,449	9,316	0	**386,472**
Other Payables	n/a	0	0	0	0	4,088	**4,088**
Total Monetary Liabilities		**183,880**	**114,827**	**78,449**	**9,316**	**4,088**	**390,560**

Repricing period at 30 June 2022

	Weighted average effective interest rate *	Floating Interest Rate $'000	Fixed Interest Rate Maturing in: Within 6 months $'000	6 months to 1 Year $'000	1 to 5 Years $'000	Non-interest sensitive $'000	Total $'000
Monetary Assets							
Cash & Bank	0.55%	26,610	0	0	0	0	26,610
Term Deposits	2.40%	0	86,338	2,605	5,164	0	94,107
Trade & Other Receivables	n/a	0	0	0	0	188	188
Loans to Members - Fixed	4.37%	0	82,666	91,283	35,387	0	209,336
Loans to Members - Floating	10.69%	88,946	0	0	0	0	88,946
Total Monetary Assets		**115,556**	**169,004**	**93,888**	**40,551**	**188**	**419,187**
Monetary Liabilities							
Members' Deposits	1.48%	188,803	107,569	63,636	14,289	0	374,297
Other Payables	n/a	0	0	0	0	3,769	3,769
Total Monetary Liabilities		**188,803**	**107,569**	**63,636**	**14,289**	**3,769**	**378,066**

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

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 2023 it is estimated that a general increase of three percentage points in interest rates on bank deposits, loan receivables and Members' deposits would decrease the Groups surplus before income tax and equity by $1,385,000 (30 June 2022: decrease by $1,319,000).
A decrease in interest rates would have the opposite impact on surplus than that described above.

The Board and Management consider that given the large increases in the OCR and interest rates during 2023 to date, that modelling a 3% 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 attempts to remediate are made 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 (2022: BBB or better).

BDO WELLINGTON

10. Financial Risk Management Objectives and Policies (continued)

10.2 Credit Risk (continued)

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 2023	Number of counterparties 2022
Over 100%	**1**	1
Between 30% and 40% of equity	**0**	1
Between 20% and 30% of equity	**0**	2
Between 10% and 20% of equity	**6**	3

(b) Loans to Members

Loans can only be made to Credit Union members. Loan interest rates range from 3.15% to 24% p.a. (2022 2.65% to 18.0% 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.

	2023	2022
Proportion of Loans with Repayments in Arrears in Excess of 90 Days:	**1.4%**	2.3%
Proportion of Loans owed in Aggregate by the Six Largest Debtors:	**14.6%**	16.7%
Weighted Average Maturity of Loans (in Months) is:	**173**	163

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.

BDO WELLINGTON

10. Financial Risk Management Objectives and Policies (continued)

10.2 Credit Risk (continued)

	2023	2022
The Credit Union offers an overdraft facility	**$000**	**$000**
The amounts drawn down are as follows:	**160**	380

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 $233,091,477 (2022: $209,336,237) is $227,918,633 (2022: $205,523,416) assuming an average floating mortgage interest rate of 8.25% at 30 June 2023 (2022: 5.85%).

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 joint venture are at call or able to be recovered or settled in the short term.

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.
The table below shows the period in which different financial liabilities held will mature and be eligible for renegotiation or withdrawal.

10.3(a) Maturity Profile of Financial Liabilities	On Call $000	Within 6 Months $000	6 Months to 1 Year $000	1 to 5 Years $000	Over 5 Years $000	Total $000
Financial Liabilities 30 June 2023						
Payables	0	4,088	0	0	0	4,088
Members Call Shares	183,880	0	0	0	0	183,880
Members Term Shares	0	114,827	78,449	9,316	0	202,592
Total Financial Liabilities 30 June 2023	**183,880**	**118,915**	**78,449**	**9,316**	**0**	**390,560**
Financial Liabilities 30 June 2022						
Payables	0	3,769	0	0	0	3,769
Members Call Shares	188,803	0	0	0	0	188,803
Members Term Shares	0	107,569	63,636	14,289	0	185,494
Total Financial Liabilities 30 June 2022	**188,803**	**111,338**	**63,636**	**14,289**	**0**	**378,066**

The table below shows net financial assets held by the Group for the purpose of managing liquidity risk.

10.3(b) Liquidity Management	2023 $000	2022 $000
Cash and Cash Equivalents	21,821	26,610
Term Deposits and Other Investments - Current	75,036	88,943
Term Deposits and Other Investments - Non-Current	5,420	5,164
Total Liquidity	**102,277**	**120,717**

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.

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 2023 is 14.33% (2022: 14.55%) , 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.

11. Amalgamation of Westforce Credit Union and Steelsands Credit Union

First Credit Union has accepted two Transfers of Engagement (ToE) under section 135 of the Friendly Societies and Credit Unions Act 1982, in this reporting period:
- Westforce Credit Union (Westforce) - by Special General Meeting on 17 June 2022 the Members of Westforce agreed the ToE between First Credit Union and Westforce, effective on 31 July 2022.
- Steelsands Credit Union (Steelsands) - by Special General Meeting on 18 October 2022 the Members of Steelsands agreed the ToE between First Credit Union and Steelsands, effective on 30 November 2022.

Accordingly the assets and liabilities of Westforce and Steelsands have been amalgamated with First Credit Union, as detailed in 11.1 and 11.2 below. No adjustments were made to the carrying amounts of any assets or liabilities to conform with the accounting policies of First Credit Union.

The primary reason for the amalgamation was to provide benefits to our members. First has a vision to continue to develop a strong, competitive and sustainable sector that delivers on its purpose of ‘people helping people’ across New Zealand. Uniting together will ensure the credit union movement continues to grow and thrive while ensuring the co-operative principles remain at the core of our focus, and that credit unions remain as a viable alternative within the New Zealand financial services market. The scale of a larger, stronger credit union is intended to create efficiencies to deliver better pricing for savings and lending rates, competitive fees, and enable us to invest in technology to improve services and provide wider access to capital for the benefit of our member-owners.

The amalgamations of Westforce and Steelsands significantly enhances the branch network that our Members are able to access, providing a strong presence in Auckland, in addition to branches in Whangarei and Invercargill.

As small financial entities, Westforce and Steelsands had been finding it increasingly difficult to compete due to the relatively high costs of meeting and delivering financial services and, in recent years, the increased cost of compliance. This trend is expected to continue in the future, and was not unique to Westforce or Steelsands.

11.1 Westforce Credit Union

The assets and liabilities transferred by Westforce as at 31 July 2022 and recognised as a result of the amalgamation are as follows:

	2023
Assets	**$000**
Cash and Cash Equivalents	3,663
Term Deposits	500
Loans to Members	6,468
Property, Plant and Equipment	2,228
Other Assets	154
Total Assets	**13,013**
Liabilities	
Trade and Other Payables	388
Employee Entitlements	117
Members' Deposits	12,171
Total Liabilities	**12,676**
Total Net Assets/Equity	**337**

Loans to members transferred as a result of the amalgamation includes an impairment provision of $200,000.

11. Amalgamation of Westforce Credit Union and Steelsands Credit Union (continued)

11.1 Westforce Credit Union (continued)

The last reporting date for Westforce was 31 August 2021, and for First Credit Union was 30 June 2022. As such the revenue, expenditure and surplus or deficit for each combining operation since its last reporting date, is shown below, for the following periods i) First Credit Union 1 July 2022 to 31 July 2022 (1 month) and ii) Westforce Credit Union: 1 September 2021 to 31 July 2022 (11 months):

	First Credit Union*	Westforce Credit Union
Revenue	**$000**	**$000**
Interest Revenue	1,806	1,404
Other Income	521	2,036
Total Revenue	**2,327**	**3,440**
Expenditure		
Interest Expenditure	481	114
Operating Expenses	973	2,037
Employee Benefits	523	1,632
Loan Impairment Expenses	112	291
Depreciation	46	257
Occupancy	41	212
Total Expenditure	**2,176**	**4,543**
Surplus/(Deficit) for the Period	**151**	**(1,103)**

As at 31 July 2022	First Credit Union*	Westforce Credit Union
Assets	**$000**	**$000**
Cash and Cash Equivalents	22,220	3,663
Term Deposits	87,951	500
Loans to Members	302,281	6,468
Property, Plant and Equipment	13,658	2,228
Other Assets	2,454	154
Investments in Joint Venture & First Insurance Limited	12,998	0
Total Assets	**441,562**	**13,013**
Liabilities		
Trade and Other Payables	4,784	388
Employee Entitlements	321	117
Members' Deposits	372,501	12,171
Total Liabilities	**377,606**	**12,676**
Net Assets/Equity		
Accumulated Revenue and Expense	59,596	337
Property Revaluation Reserve	4,360	0
Total Net Assets/Equity	**63,956**	**337**

*First Credit Union's figures are for the Credit Union only, and are not consolidated.

11. Amalgamation of Westforce Credit Union and Steelsands Credit Union (continued)

11.2 Steelsands Credit Union

The assets and liabilities transferred by Steelsands as at 30 November 2022 and recognised as a result of the amalgamation are as follows:

	2023
Assets	**$000**
Cash and Cash Equivalents	14,057
Term Deposits	278
Loans to Members	8,132
Property, Plant and Equipment	7
Prepayments	6
Other Assets	0
Total Assets	**22,480**
Liabilities	
Trade and Other Payables	245
Employee Entitlements	39
Members' Deposits	20,715
Total Liabilities	**20,999**
Total Net Assets/Equity	**1,481**

Loans to members transferred as a result of the amalgamation includes an impairment provision of $720,000.

The last reporting date for Steelsands and First Credit Union was 30 June 2022. As such the revenue, expenditure and surplus or deficit for each combining operation since its last reporting date, is shown below for the period 1 July 2022 to 30 November 2022 (5 months).

	First Credit Union*	Steelsands Credit Union
Revenue	**$000**	**$000**
Interest Revenue	9,815	588
Other Income	3,323	130
Total Revenue	**13,138**	**718**
Expenditure		
Interest Expenditure	2,787	31
Operating Expenses	5,089	533
Employee Benefits	3,378	287
Loan Impairment Expenses	553	11
Depreciation	312	3
Occupancy	391	47
Total Expenditure	**12,510**	**912**
Surplus/(Deficit) for the Period	**628**	**(194)**

11. Amalgamation of Westforce Credit Union and Steelsands Credit Union (continued)

11.2 Steelsands Credit Union (continued)

As at 30 November 2022	First Credit Union*	Steelsands Credit Union
Assets	**$000**	**$000**
Cash and Cash Equivalents	25,602	14,057
Term Deposits	94,202	278
Loans to Members	309,089	8,132
Property, Plant and Equipment	16,291	7
Prepayments	0	6
Other Assets	2,273	0
Investment in Joint Venture & First Insurance Limited	12,998	0
Total Assets	**460,455**	**22,480**
Liabilities		
Trade and Other Payables	2,657	245
Employee Entitlements	437	39
Members' Deposits	391,989	20,715
Total Liabilities	**395,083**	**20,999**
Net Assets/Equity		
Accumulated Revenue and Expense	60,530	1,481
Property Revaluation Reserve	4,842	0
Total Net Assets/Equity	**65,372**	**1,481**

*First Credit Union's figures are for the Credit Union only, and are not consolidated.

BDO Wellington Audit Limited

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF FIRST CREDIT UNION INCORPORATED

Opinion

We have audited the consolidated financial statements of First Credit Union Incorporated ("the Credit Union") and its subsidiary (together, "the Group"), which comprise the consolidated financial statements on pages 6 to 43 and the consolidated statement of service performance on pages 4 to 5. The complete set of consolidated financial statements comprise the consolidated statement of financial position as at 30 June 2023, 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 presents fairly, in all material respects:

- the consolidated financial position of the Group as at 30 June 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended;
- the consolidated service performance for the year ended 30 June 2023, in accordance with the Group's service performance criteria,

in accordance with Public Benefit Entity Standards ("PBE Standards") issued by the New Zealand Accounting Standards Board.

Basis for Opinion

We conducted our audit of the consolidated financial statements in accordance with International Standards on Auditing (New Zealand) ("ISAs (NZ)") and the audit of the consolidated service performance information in accordance with the ISAs and New Zealand Auditing Standard (NZ AS) 1 *The Audit of Service Performance Information (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 service performance information and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Expected Credit Loss Provision - Loans	How The Matter Was Addressed in Our Audit
The Credit Union's gross loans to members balance was $332,326,000 and expected credit loss provision of $1,928,000 as at 30 June 2023. These balances are further discussed in Notes 4 and 10 to the financial statements. 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 expected credit loss provision. The Group adopted and applied PBE IPSAS 41 - Financial Instruments with the assistance of an expert within the Group's expected credit loss methodology which required the Group to: - identify circumstances to the Group that could indicate when there is a significant deterioration in credit quality; - incorporate identified circumstances and forward-looking macroeconomic information to reflect current or external factors into the credit loss provision. Note 4.2 of the financial statements describes the key assumptions in determining the credit loss provision. These disclosures include key judgements and assumptions in relation to the expected credit loss provision and highlights the estimation uncertainty around the provision at 30 June 2023. As described in note 4.2, the underlying forecasts and assumptions are subject to uncertainties which are often outside the control of the Group. Actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected.	We performed the following procedures on the expected credit loss provision: • We gained an understanding of the design and implementation of the control environment in regard to loans to members and the assessment of the expected credit loss provision: • We examined a sample of loans, from the loan portfolio listing and verified loan details to source documentation. This included 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 loans system; • We reviewed the Group's expected credit loss model methodology against the requirements of PBE IPSAS 41; • We reviewed the Group's approach to incorporating forward looking macroeconomic factors into the credit loss provision; • 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 performed sensitivity analysis over a variety of scenarios to assess the provision; • We assessed the security of the loan and considered how external economic factors may have affected the security; • We evaluated the extent and appropriateness of disclosures in note 4.2 in relation to the specific assumptions, sensitivities and uncertainties on this year's expected credit loss provision.

Directors' Responsibilities for the Consolidated Financial Statements

Those charged with governance are responsible on behalf of the Credit Union for:

(a) the preparation and fair presentation of the consolidated financial statements and consolidated service performance information in accordance with Public Benefit Entity Standards issued by the New Zealand Accounting Standards Board;

(b) service performance criteria that are suitable in order to prepare service performance information in accordance with Public Benefit Entity Standards; and

(c) such internal control as those charged with governance determine is necessary to enable the preparation of the consolidated financial statements and consolidated service performance information 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, and the consolidated service performance information are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) and NZ AS 1 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 consolidated financial statements is located at the External Reporting Board's website at:

https://www.xrb.govt.nz/standards/assurance-standards/auditors-responsibilities/audit-report-9/

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 Henry McClintock.

BDO Wellington Audit Limited

BDO WELLINGTON AUDIT LIMITED
Wellington
New Zealand
16 October 2023