First Credit Union Incorporated

Audited Consolidated Financial Statements

For the Year Ended 30 June 2022

First Credit Union Incorporated

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First Credit Union Incorporated Board of Directors

Chair	Judith Taane
Deputy Chair	Malcolm Blair
Directors	John Harvey
	Peter Iles (Secretary/Treasurer)
	Phil Todd
	Robert Pascoe
	Simon Scott

First Insurance Limited Board of Directors

Chair	Malcolm Blair
Deputy Chair	Judith Taane
Directors	Mark Joblin
	Peter Iles
	Simon Scott
	Steve Nichols

Executive Management

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

Senior Management Team

General Manager	Simon Scott
Marketing & Communications Manager	Melissa Hay
Chief Financial Officer	Stephen Hawkins
Collections Manager	Michelle Arundel
Lending Manager	Richard O'Regan
Insurance Manager	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 Comprehensive Revenue and Expense

For the Year Ended 30 June 2022

	Note	2022 $000	2021 $000
REVENUE			
Interest Revenue	**2.1**	19,117	17,749
Interest Expenditure	**2.1**	(4,221)	(5,183)
Net Interest Revenue		**14,896**	**12,566**
Other Income	**2.2**	6,491	6,539
Insurance Underwriting Surplus	**6.1(a)**	816	945
		22,203	**20,050**
EXPENDITURE			
Operating Expenses	**2.3**	(11,169)	(9,363)
Employee Benefits	**2.3**	(6,246)	(6,449)
Loan Impairment Expenses	**4.2**	(1,389)	(1,420)
Depreciation	**5.1**	(580)	(692)
Occupancy		(446)	(486)
Total Operating Expenditure		**(19,830)**	**(18,410)**
Share of Surplus/(Deficit) of Joint Venture	**5.6**	687	227
Surplus before Taxation		**3,060**	**1,867**
Income Tax Expense	**2.4**	(1)	**0**
Surplus for the Year Attributable to Members		**3,059**	**1,867**
Other Comprehensive Revenue and Expense			
Revaluation of Property	**5.1**	1,413	0
Total Comprehensive Revenue and Expense for the Year		**4,472**	**1,867**

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 2022

	Note	Accumulated Revenue and Expense $000	Property Revaluation Reserve $000	Total $000
Balance as at 30 June 2020		**55,594**	**2,034**	**57,628**
Total Comprehensive Revenue and Expense for the Year		1,867	0	1,867
Balance as at 30 June 2021		**57,461**	**2,034**	**59,495**
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**

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 2022

	Note	2022 $000	2021 $000
MEMBERS' FUNDS			
Accumulated Revenue and Expense		60,520	57,461
Property Revaluation Reserve		3,447	2,034
TOTAL MEMBERS' FUNDS		**63,967**	**59,495**
ASSETS			
Cash and Cash Equivalents	**3.1**	26,610	20,924
Term Deposits	**3.2**	94,107	95,625
Loans to Members	**4.1**	298,282	273,561
Property, Plant and Equipment	**5.1**	13,674	12,779
Prepayments	**5.2**	2,497	3,172
Other Assets	**5.4**	188	191
Subordinated Debt Receivable	**5.5**	0	2,750
Investment in Joint Venture	**5.6**	6,998	6,311
TOTAL ASSETS		**442,356**	**415,313**
LIABILITIES			
Trade and Other Payables	**5.7**	3,769	3,278
Employee Entitlements		322	384
Members' Deposits	**5.8**	374,298	352,156
TOTAL LIABILITIES		**378,389**	**355,818**
NET ASSETS / EQUITY		**63,967**	**59,495**

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

Ja Taane.

Judith Taane, Chair

Date: 05 October 2022

Peter Iles, Director

Date: 05 October 2022

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 Cash Flows

For the Year Ended 30 June 2022

	Note	2022 $000	2021 $000
Cash Flows from Operating Activities			
Interest Received		18,910	18,220
Fees, Commissions and Other Income		7,016	7,382
Bad Loans Recovered		290	270
Interest Paid		(4,066)	(5,794)
Payments to Suppliers and Employees		(16,758)	(10,270)
Net Cash Provided by Operating Activities before changes in Operating Assets		**5,392**	**9,808**
Net (Increase) Decrease in Members' Loans		(26,055)	(51,766)
Net Increase (Decrease) in Member Deposits		21,987	15,409
Net Cash Provided by Operating Activities	**3.3**	**1,324**	**(26,549)**
Cash Flows from Investing Activities			
Payments for Property, Plant, Equipment and Intangibles		(58)	(1,378)
Investment in Associate		0	(5,072)
Subordinated Debt Receivable		2,750	(2,750)
Net (Increase) Decrease in Term Deposits		1,670	37,778
Net Cash Used in Investing Activities		**4,362**	**28,578**
Net Cash provided by Financing Activities		**0**	**0**
Total Net Increase (Decrease) in Cash and Cash Equivalents Held		5,686	2,029
Cash and Cash Equivalents at the Beginning of the Period		20,924	18,895
Cash and Cash Equivalents at the End of the Period	**3.1**	**26,610**	**20,924**

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

First Credit Union Incorporated
Notes to the Financial Statements
For the Year Ended 30 June 2022

Notes to the Financial Statements

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.

1.3 Trust Deed

To meet the requirements of The Securities Act 1978 a Trust Deed is entered into between the Credit Union and a Prudential Supervisor. Covenant Trustee Services Limited is the current Prudential Supervisor, and is appointed to act in the interests of the members of the Credit Union by monitoring the compliance by the Credit Union of its obligations, its Rules, the Trust Deed and the Friendly Societies and Credit Unions Act 1982. In addition, the Prudential Supervisor is under duty to exercise reasonable diligence to ascertain whether the Credit Union has:
(a) committed any breach of the Trust Deed or any of the conditions of issue of the shares; and
(b) sufficient assets to meet its obligations to members, as they fall due.

The current Trust Deed is dated 1 January 2020.

1.4 Basis of Preparation

Statement of Compliance

For the purposes of complying with New Zealand Generally Accepted Accounting Practice (NZ GAAP), the Group is a not-for-profit public benefit entity. They comply with the Public Benefit Entity Accounting Standards (PBE Standards), as appropriate for Tier 1 not for profit/public benefit entities.
The financial statements are:
• prepared in accordance with the statutory requirements of the FMC Act and the IPS Act
• prepared in accordance with NZ GAAP
• in compliance with Public Benefit Entity Accounting Standards (PBE Standards)
• presented in New Zealand dollars ($) rounded to the nearest thousand
• stated net of GST where GST is recoverable, with the exception of receivables and payables, which are stated inclusive of GST, where applicable. If GST is not recoverable it is generally included in the expense or asset value.
• prepared in accordance with the historical cost convention except for certain assets, which are stated at fair value and insurance contract liabilities, which are measured on an accumulation method basis.

Use of Estimates and Judgements

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

2. Financial Performance

2.1 Net Interest Revenue

	2022 $000	2021 $000
Interest Revenue - Interest on Loans and Receivables		
Interest on Loans to Members	17,768	15,909
Interest on Term Deposits	1,201	1,512
Interest from Joint Venture (Prepayment, Subordinated Loan)	120	317
Interest on Cash and Cash Equivalents	28	11
Total Interest Revenue	**19,117**	**17,749**
Interest Expenditure - Liabilities at Amortised Cost		
Interest on Members Call Shares	(1,009)	(1,031)
Interest on Members Term Shares	(3,212)	(4,152)
Total Interest Expenditure	**(4,221)**	**(5,183)**

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.

2.2 Other Income

	2022 $000	2021 $000
ATM/Eftpos Card Recoveries	4,267	4,319
Costs Recovered and Other Fees Charged	1,665	1,721
Bad Debts Recovered	290	270
Commissions Received	173	87
Gain on Sale of Property, Plant and Equipment	0	15
Other Income	96	127
Total Other Income	**6,491**	**6,539**

Recognition and Measurement

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

2. Financial Performance (continued)

2.3 Expenditure

	Note	2022 $000	2021 $000
Operating Expenses includes:			
External Audit of Financial Statements			
- BDO Audits		176	145
- BDO Other Services		0	0
Directors Fees	6.4	216	216
Loss on Sale of Property, Plant and Equipment		10	0
Employee Benefits includes:			
Wages and Salaries		5,761	5,902
Defined Contribution Expense		148	130

2.4 Taxation

	2022 $000	2021 $000
Income Tax Recognised in Statement of Comprehensive Revenue and Expense		
Net Operating Surplus before Taxation	3,060	1,867
Less: Exempt Income and Expenses	(3,055)	(1,882)
Operating Surplus before Taxation	**5**	**(15)**
Income Tax Expense at Current Rate of 28%	**1**	**0**
Current Tax Receivable		
Taxation Expense	(1)	0
Resident Withholding Tax Paid	31	35
Taxation Refund	**30**	**35**

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	2022 $000	2021 $000
Cash on Hand	0.00%	603	971
Bank Balances - On Call	0.55%	26,007	19,953
Total Cash and Cash Equivalents		**26,610**	**20,924**

Recognition and Measurement

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

3.2 Term Deposits

	Interest Rates	2022 $000	2021 $000
ANZ	1.55% to 3.35%	20,739	29,948
Heartland	1.75% to 3.36%	15,406	15,177
Westpac Bank	1.44% to 3.70%	57,962	50,500
Total Term Deposits		**94,107**	**95,625**
Current		88,943	95,625
Non-Current		5,164	0
Total Term Deposits		**94,107**	**95,625**

Recognition and Measurement

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

3.3 Reconciliation of Cash Flow from Operating Activities with Operating Surplus

	2022 $000	2021 $000
Surplus for the Year Attributable to Members	**3,059**	**1,867**
Non Cash Items		
Depreciation, Amortisation and Loss on Sale	576	700
Bad Debts Written off	1,494	1,500
Bad Debt Provision Increase/(Decrease)	(105)	(80)
Share of Surplus of an Equity Accounted Associate	(687)	(227)
Changes in Assets and Liabilities		
Movement in Accounts Receivable	3	161
Movement in Prepayments	675	5,582
Movement in Accounts Payable	491	444
Movement in Employee Benefits	(62)	1
Movement in Accrued Interest Receivable	(207)	471
Movement in Accrued Interest Payable	155	(611)
Net Movement in Members' Loans	(26,055)	(51,766)
Net Increase (Decrease) in Member Deposits	21,987	15,409
Net Operating Cash Flows	**1,324**	**(26,549)**

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 and Receivables

4.1 Loans to Members

	Note	2022 $000	2021 $000
Mortgages		228,959	188,179
Personal Loans		72,098	88,262
Gross Loans to Members		**301,057**	**276,441**
Less: Allowance for Impairment	4.2	(2,775)	(2,880)
Net Loans to Members		**298,282**	**273,561**
Current		60,780	51,561
Non-Current		240,277	224,880
Total Gross Loans to Members		**301,057**	**276,441**

Recognition and Measurement

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

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

4.1(a) Credit Quality - Security Dissection

	2022 $000	2021 $000
Secured by Mortgage Over Real Estate with LVR < 80%	203,534	145,591
Secured by Mortgage Over Real Estate with LVR > 80%	25,425	42,588
Secured by Members Shares	14,072	16,330
Partially Secured by Motor Vehicles or Other Collateral	44,798	56,276
Unsecured Loans	13,228	15,656
Credit Quality of Gross Loans to Members	**301,057**	**276,441**

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

4.1(b) Asset Quality of Loans to Members

	2022 $000	2021 $000
Neither Past Due Nor Impaired	284,070	259,377
Past Due But Not Impaired		
1 to 30 days	8,249	8,290
31 to 90 days	653	390
over 90 days	1,289	1,484
Impaired loans	6,796	6,900
Gross Loans	**301,057**	**276,441**
Interest Revenue Recognised on Impaired Loans	**333**	**433**
Interest Revenue Foregone on Impaired Loans	**551**	**622**

4. Loans and Receivables (continued)

4.1 Loans to Members (continued)

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

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

4.2 Provision for Impairment of Financial Assets

Impairment of Loans and Advances

Total doubtful debts and bad debt expense for the year was:	2022 $000	2021 $000
Provision for Impairment - Increase / (decrease) in the Year	(105)	(80)
Bad Loans written off	1,494	1,500
Loan Impairment Expenditure	**1,389**	**1,420**

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

	Individually Impaired $000	Collectively Impaired $000	2022 Total $000	2021 Total $000
Opening Balance	**2,334**	**546**	**2,880**	**2,960**
Increase/(Decrease) in the Provision	1,273	(2)	**1,271**	1,395
Transfer to Bad Debts Written Off	(1,310)	(66)	**(1,376)**	(1,475)
Closing Balance	**2,297**	**478**	**2,775**	**2,880**

Recognition and Measurement

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. Loans are subject to regular management review to assess whether there is any objective evidence that any loan or group of loans is impaired. Mortgages are considered to be impaired if in the event of default, the net realisable value is not sufficient to cover the loan balance. Personal loans in arrears > 30 days, and all loans under-going or subject to Court action are considered to be impaired.

Impairment loss is measured as the difference between the loan's carrying amount and the value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loan's original effective interest rate. Loans which are known to be uncollectible are written off as an expense in surplus or deficit. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

4. Loans and Receivables (continued)

4.2 Provision for Impairment of Financial Assets (continued)

Key Assumptions in Determining the Allowance for Impairment

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

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

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

COVID-19 and the Current Economic Climate - The New Zealand and global economies continue to face challenges caused by the COVID-19 pandemic, ongoing supply chain issues and labour shortages which are creating additional costs for businesses and contributing to higher inflation and higher interest rates. The unpredictable nature of these future economic pressures make the Groups estimates inherently uncertain, accordingly, actual results may differ from these estimates.

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

Type/Event	Key Judgement or Assumption of the Group
Base Case Estimate	The standard provisioning model was considered the base case estimate.
Interest Rates and Inflation	Expectations of (further) increasing interest rates and high inflation are contributing towards weakening house prices. Industry estimates of house price impacts vary from decreases of 5% to 20%. Mortgages - the Group operates a very conservative mortgage book, LVR's are 45% overall; mortgages with an LVR > 90% total $4,291,000 or 1.9% of the total (2021: $1,934,000 or 1.0%). All mortgages have LVRs able to absorb a 5-10% decrease in house prices. In addition, modelling indicates that if there were a 20% decrease in house prices, a small number of Members would find themselves in negative equity, totalling $1,181,000. Being in negative equity does not necessarily mean the loan cannot be serviced, however it does heighten the risk of loss for the Group.
Member Composition	The Group predominantly operates in the Waikato and Bay of Plenty. The Membership base is broadly spread, with limited exposure to any one industry/employer/region, as such the Group does not believe its loan book is particularly exposed to high risk industries such as tourism, or centres such as Queenstown or Auckland.
Existing Provision Conservatism and Financial Strength	The Group has traditionally operated a conservative provision for impairment of loans and advances. The Group believes it has the financial strength and resources to withstand a sustained economic downturn and sustained high levels of bad debts.

5. Other Financial Position Notes

5.1 Property, Plant and Equipment

	Land	Buildings	Computer Equipment	Furniture & Fittings	Motor Vehicles	Total
Cost or Valuation	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
Opening Balance 1 July 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**
Net Book Value at 30 June 2021	**6,016**	**5,750**	**308**	**441**	**265**	**12,779**

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 Group 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.

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.

5. Other Financial Position Notes (continued)

5.1 Property, Plant and Equipment (continued)

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

Depreciation

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

Buildings	1-16% SL
Motor Vehicles	8-20% SL
Computer Equipment	7-48% SL
Furniture and Fittings	2-30% SL

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

5.2 Prepayments

	2022 $000	2021 $000
Trade Prepayments	403	
Prepaid Software Costs	2,094	3,172
Total Prepayments	**2,497**	**3,172**

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

	2022 $000	2021 $000
Income Tax Receivable	30	35
GST Receivable/(Payable)	11	10
Sundry Debtors	147	146
Total Other Assets	**188**	**191**

5. Other Financial Position Notes (continued)

5.5 Subordinated Debt Receivable

	2022 $000	2021 $000
Subordinated Debt Receivable	**0**	**2,750**

Recognition and Measurement

During the year Finzsoft Solutions Limited fully re-paid the loan. Interest received on the loan totalled $119,925 (2021: $44,089).

5.6 Investment in Joint Venture

	2022 $000	2021 $000
Investment - Opening Balance	6,311	6,084
Share of Surplus/(Deficit)	687	227
Equity Accounted Investment in Joint Venture	**6,998**	**6,311**

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

Summarised Financial Information of Finzsoft Solutions Limited	2022 $000	2021 $000
Ownership	48.86%	48.86%
Current Assets	7,642	3,843
Non-current Assets	7,509	9,722
Current Liabilities	8,834	8,612
Non-current Liabilities	1,187	1,229
Revenues	10,164	11,100
Income Tax Expense	516	454
Total Comprehensive Surplus/(Deficit)	1,405	1,282
Cash and Cash Equivalents (including short term investments classified as current assets)	6,351	2,830
Financial Liabilities	5,745	5,854
Non-Financial Liabilities	4,276	3,986

5. Other Financial Position Notes (continued)

5.6 Investment in Joint Venture (continued)

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.

Last year the investment in Finzsoft was accounted for as an Associate. This year it has been accounted for as a Joint Venture. There is no change in recognition criteria but there is slightly increased disclosure for a Joint Venture.

The financial statements of Group include a share of the surplus of Finzsoft of $687,081 (2021: $227,000). 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 (2021: nil).
- There were no contingent assets relating to interests in joint ventures to which FCU would benefit either jointly and/or severally (2021: nil).
- There were no capital or other commitments relating to interests in joint ventures to which FCU was jointly and/or severally liable (2021: nil).

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. Other Financial Position Notes (continued)

5.7 Trade and Other Payables

	Note	2022 $000	2021 $000
Trade Payables		2,690	2,419
Card Settlement		671	321
Sundry Creditors and Accrued Expenses		17	144
Financial Liabilities at Amortised Cost		**3,378**	**2,884**
Insurance Contract Liabilities	6.1(b)	391	394
Total Trade and Other Payables		**3,769**	**3,278**

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.

5.8 Members' Deposits

	2022 $000	2021 $000
Call Shares	188,804	176,349
Term Shares	185,494	175,807
Total Members' Deposits	**374,298**	**352,156**
Current	360,008	333,121
Non-Current	14,289	19,035
Total Members' Deposits	**374,297**	**352,156**

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

	2022 $000	2021 $000
Premium Revenue	1,725	1,880
Claims Expense	(909)	(935)
Insurance Underwriting Surplus	**816**	**945**

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.

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 2022.
• 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 2022, 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 (2021: BB+ with a Stable Outlook).

	2022 $000	2021 $000
Actual Solvency Capital	6,157	6,153
Minimum Solvency Capital	5,000	5,000
Solvency Margin	1,157	1,153
Solvency Ratio	**123%**	123%

During the year ended 30 June 2022, 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 2022 was $5,918,581 (2021: $5,994,715) relative to an actual solvency capital of $6,156,555 (2021: $6,153,171).

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:

	2022 $000	2021 $000
Base assumptions	391	394
Claims provision if assumed development/reporting pattern 10% longer	463	476
Claims provision if assumed development/reporting pattern 10% shorter	301	308

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

Capital Expenditure Commitments

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

	2022 $000	2021 $000
Not longer than 1 Year	30	365
Total Future Capital Commitments	**30**	**365**

Outstanding Loan Commitments

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

	2022 $000	2021 $000
Loans Approved but not Funded	10,382	22,190
Undrawn Overdraft and Line of Credit	235	211
Total Outstanding Loan Commitments	**10,617**	**22,401**

6.3 Contingent Liabilities

The Group has no contingent liabilities as at 30 June 2022 (2021 nil).

6. Other Notes (continued)

6.4 Related Parties

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

	2022 Directors $000	2021 Directors $000	2022 KMP $000	2021 KMP $000
Short-Term Employee Benefits	**216**	216	**834**	792

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 8 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:	2022 Shares $000	2021 Shares $000	2022 Loans $000	2021 Loans $000
Directors	3,224	2,982	342	353
KMP	39	15	1,336	3,104
Connected Parties	1,252	1,428	2,383	2,515
Total Related Party Holdings:	**4,515**	**4,425**	**4,061**	**5,972**

Recognition and Measurement

The Group deals with Directors and key management personnel on the same conditions applied to all members. During the year under review new loan advances to Directors or Key Management Personnel were nil (2021 $0.66 million). There are no shares from Directors and KMP exceeding 36 months and all Directors and KMP loans are repayable upon demand.

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 $226,000 (2021: $220,000);
- 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 $2,094,000 (2021: $3,172,000), refer note 5.2;
- total expenditure on Finzsoft services for the year was $1,811,282 (2021: $1,687,085);
- interest received from Finzsoft on the subordinated debt receivable, totalled $119,925 (2021: $44,089). This loan was fully repaid during the year, refer note 5.5;

No loans to related parties have been impaired in the period. (2021: $NIL)

6. Other Notes (continued)

6.5 Events Occurring After Reporting Date

Westforce Credit Union (Westforce) - effective 1 August 2022 Westforce will legally amalgamate with First Credit Union (First) by way of a transfer of engagements. The approval by Westforce Members was passed by special resolution on 16 June 2022.
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 Westforce Credit Union's engagements. The net assets of Westforce will be transferred into First on 1 August 2022, and as at 30 June 2022 Westforce's total assets were approximately $15m, with 4 branches in Auckland and 1 in Whangarei and 20 staff and 4,000 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

There were no significant changes to accounting policies during the reporting period.

7.2 New Accounting Standards Issued but not yet Effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2022, and have not been applied in preparing these financial statements. Those standards with the most significant potential impact on the financial statements that have been issued but are not yet effective are outlined below:

PBE IPSAS 41 - Financial Instruments effective 1 January 2022. First Credit Union will apply the standard for the year ending 30 June 2023. The standard will require a reassessment of financial asset classification which could lead to recognition and measurement changes, the expected credit loss provision may likely result in higher impairment provisions than under PBE IPSAS 29, when applying PBE IPSAS 41 as well as changes in the presentation and disclosures in the financial statements in relation to financial instruments. The impact of this is currently being assessed, and not expected to result in material changes.

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

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

The impact of these standards is yet to be assessed.

7. Other Accounting Policies (continued)

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 2022 reporting date.
First Insurance Limited is the only controlled entity which the Credit Union owns 100% of the shares.

8. Financial Advice Provider Licence and Disputes Resolution Scheme

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

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

9. Credit Rating

The Credit Union has been rated by Fitch Ratings. Fitch Ratings gives ratings from AAA through to C. The Credit Union has a long-term issuer default (IDR) rating of BB with a stable outlook, issued on 28 February 2022 (2021: 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.

	Weighted average effective interest rate *	Floating Interest Rate $'000	Repricing period at 30 June 2022 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**

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

* 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 2022 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 $1,319,000 (30 June 2021: decrease by $681,000).
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 2022 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 recovery is undertaken after 7 days if not rectified. For personal loans where repayments become doubtful the Group has internal processes in place to conduct recovery action once the loan is over 30 days in arrears. Debt recovery policies allow the Group to reset the maturity date of a loan where regular and consistent repayments have been resumed by the loan holder. These loans are considered to be past due loans. The exposures to losses arise predominantly in the personal loans and facilities.

Impairment of Loans and Advances - refer to Note 4.2.

For term investments, the Board policy is to place its investments with registered trading banks.
All registered banks used have Fitch or Standard & Poor's credit ratings of BBB or better (2021: BBB or better).

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 2022	Number of counterparties 2021
Over 100%	**1**	1
Between 40% and 50% of equity	**0**	1
Between 30% and 40% of equity	**1**	0
Between 20% and 30% of equity	**2**	1
Between 10% and 20% of equity	**3**	2

(b) Loans to Members

Loans can only be made to Credit Union members. Loan interest rates range from 2.65% to 18% p.a. (2021 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.

	2022	2021
Proportion of Loans with Repayments in Arrears in Excess of 90 Days:	**2.3%**	2.4%
Proportion of Loans owed in Aggregate by the Six Largest Debtors:	**16.7%**	10.5%
Weighted Average Maturity of Loans (in Months) is:	**163**	178

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.

10. Financial Risk Management Objectives and Policies (continued)

10.2 Credit Risk (continued)

The Credit Union offers an overdraft facility	2022 $000	2021 $000
The amounts drawn down are as follows:	**380**	523

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 $209,336,237 is $205,523,416 assuming an average floating mortgage interest rate of 5.85% at 30 June 2022.

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

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

10.3 Liquidity Risk

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

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

10. Financial Risk Management Objectives and Policies (continued)

10.3 Liquidity Risk (continued)

	On Call $000	Within 6 Months $000	6 Months to 1 Year $000	1 to 5 Years $000	Over 5 Years $000	No Maturity $000	Total $000
Financial Assets							
Cash and Bank	26,610	0	0	0	0	0	26,610
Trade and Other Receivables	0	188	0	0	0	0	188
Term Deposits	0	86,338	2,605	5,164	0	0	94,107
Future Loan Interest Receivable	0	8,968	7,866	33,112	101,839	0	151,785
Loans to Members	0	35,575	25,205	68,725	171,552	0	301,057
Total Financial Assets 30 June 2022	**26,610**	**131,069**	**35,676**	**107,001**	**273,391**	**0**	**573,747**
Total Financial Assets 30 June 2021	**20,924**	**122,763**	**41,455**	**108,742**	**274,005**	**2,750**	**570,639**
Financial Liabilities							
Payables	0	3,769	0	0	0	0	3,769
Members Shares Future Interest Payable	0	1,400	1,566	679	0	0	3,645
Members Call Shares	188,803	0	0	0	0	0	188,803
Members Term Shares	0	107,569	63,636	14,289	0	0	185,494
Total Financial Liabilities 30 June 2022	**188,803**	**112,738**	**65,202**	**14,968**	**0**	**0**	**381,711**
Total Financial Liabilities 30 June 2021	**176,349**	**107,827**	**53,904**	**19,472**	**0**	**0**	**357,552**
Liquidity (Shortfall)/Surplus 30 June 2022	**(162,193)**	**18,331**	**(29,526)**	**92,033**	**273,391**	**0**	**192,036**
Liquidity (Shortfall)/Surplus 30 June 2021	**(155,425)**	**14,936**	**(12,449)**	**89,270**	**274,005**	**2,750**	**213,087**

Recognition and Measurement

The Group manages liquidity risk by:
- Monitoring cash flows
- Reviewing the maturity profiles of financial assets and liabilities
- Maintaining adequate reserves and liquidity.

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

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

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 2022 is 14.55% (2021: 13.53%) , 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.

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

Opinion

We have audited the consolidated financial statements of First Credit Union ("the Credit Union") and its subsidiary (together, "the Group"), which comprise the consolidated statement of financial position as at 30 June 2022, and the consolidated statement of comprehensive revenue and expense, consolidated statement of changes in net assets/equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Public Benefit Entity Standards ("PBE Standards") issued by the New Zealand Accounting Standards Board.

Basis for Opinion

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

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

Key Audit Matters

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

Impairment of Loans to Members	How The Matter Was Addressed in Our Audit
The Credit Union's gross loans to members balance was $301,057,000 and impairment allowance of $2,775,000 as at 30 June 2022. 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 impairment provision.	Our audit procedures included the following: We obtained an understanding of the lending process and particularly the process for assessing the recoverability of members loans and the calculation of the provision for impairment and obtained an understanding of relevant controls for impairment assessment and provisioning of members loans, to ensure that impairment allowances are recognised in a timely manner.

Note 4.2 of the financial statements describes the key assumptions in determining the allowance for impairment as well as the increased estimation uncertainty arising from the potential impacts of Covid 19 on the Credit Union's impairment allowance. These disclosures include key judgements and assumptions in relation to the impairment provision and highlight the uncertainty around the provision at 30 June 2022. As described in note 4.2, the underlying forecasts and assumptions are subject to uncertainties which are often outside the control of the Credit Union. Actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected. We considered this to be a key audit matter based on the materiality of the loans to members' balance.	We obtained the loan portfolio listing generated from the Credit Union's Banking system and reconciled this to the members' loan balance included in the financial statements. From this listing, we selected a sample of loans, which had not been identified as impaired and performed the following: • We agreed loan details to source documentation including collateral held, original loan balance to determine whether key loan data were correctly input into the system, • For new loans, we checked whether the loans had been approved within the credit control policy to determine that the key loan data inputs were correctly input into the system. • We performed a recalculation of a sample of loans based on the details per loan agreements to gain assurance over the accuracy of the loan balances at balance date. • For property development loans and term loans, we performed additional testing over a sample of loans whereby we checked the monitoring and reporting process and security documentation to confirm if the loans were secured in the name of the Credit Union. In regard to the impairment assessment of member loan balances: • 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. • Examined and analysed the loans in arrears report to determine if management's allowance for impairment was sufficient. We developed expectations based on historical data and trends, looked at macroeconomic data publicly available and compared this to the current year provision to determine whether the provision is consistent and accurate. • Assessed the security of the loan and considered how external economic factors may have affected the security. We considered the implications of this on the loans that were in arrears to assess whether the allowance for impairment was sufficient

	• Performed an assessment of the movement in the loans in the arrears report subsequent to balance date. • We evaluated the extent and appropriateness of disclosures in note 4.2 in relation to the specific assumptions, sensitivities and uncertainties that Covid-19 has had on this year's provision.

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

Valuation of Claims Liability	How The Matter Was Addressed in Our Audit

The valuation of the claims liability is a key audit matter due to the significant judgement and complexity required by management and the directors in determining the estimate as at 30 June 2022. The liability as at 30 June 2022 was $391,092. Refer to note 10 for further information.
This is a significant estimate as the eventual outcomes of incurred but unsettled claims at the balance date are inherently uncertain.
The valuation of the outstanding claims relies on the quality of the underlying data. It involves complex and subjective judgements about future events, both internal and external to the business, for which small changes in assumptions can result in material impacts to the estimate.
In particular, there is greater judgement over the estimation of claims that have been incurred at the reporting date but have not yet been reported, as there is generally less information available in relation to these claims, and claims that have been reported but there is uncertainty over the amount which will be settled.
Management engaged their own independent actuary to determine the liability.
	Our audit procedures included, amongst others:
	• We checked that the data used by the Insurer's actuary was consistent with the data in the financial statements.
	• Claims data is a key input to the actuarial estimates. Accordingly, we:
	  ○ evaluated the design effectiveness and tested controls over claims processing;
	  ○ reviewed claims data reconciliations; and
	  ○ inspected a sample of claims paid and claims notifications during the year to confirm that they were supported by appropriate documentation.
	• We engaged an independent actuary to perform the following:
	  ○ Evaluate the actuarial models and methodologies used by the Appointed Actuary in determining the claims liability.
	  ○ Assess key actuarial judgements and assumptions including claim numbers, claims expense ratios, settlement periods, accident year loss ratios, and discount rate, and challenged these by comparing with our expectations based on experience of the entity and independently observable industry and economic trends.
	  ○ Recalculate the provision based on the claims data in the financial statements.
	• Assessed the disclosures in the financial report using our understanding obtained from our testing and against the requirements of the accounting standards.

Other Information

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

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

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

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

Directors' Responsibilities for the Consolidated Financial Statements

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

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

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

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

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

This description forms part of our auditor's report.

Who we Report to

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

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

BDO Wellington Audit Limited

BDO WELLINGTON AUDIT LIMITED
Wellington
New Zealand
5 October 2022