Annual Report 2019

Our Vision:

To help everyday kiwis succeed.

Our Values:

Honesty, Transparency, Fairness, Supportive

Position:

You come first. Not profits, not large corporate buildings, but you and the community that's around you.
We are a real alternative that will stand by you for life.

Our Belief:

We can help Kiwis achieve their goals within their means.

Proof:

- We are a world-class Credit Union who was the first in New Zealand to be affiliated to the worldwide Credit Union movement
- We have been "people helping people" for over 60 years
- We give back to the community by sponsoring and getting involved in local events

How we Behave:

Professional/Trust-Worthy, Proactive, Open/Genuine, Community Minded/Involved, Thrifty

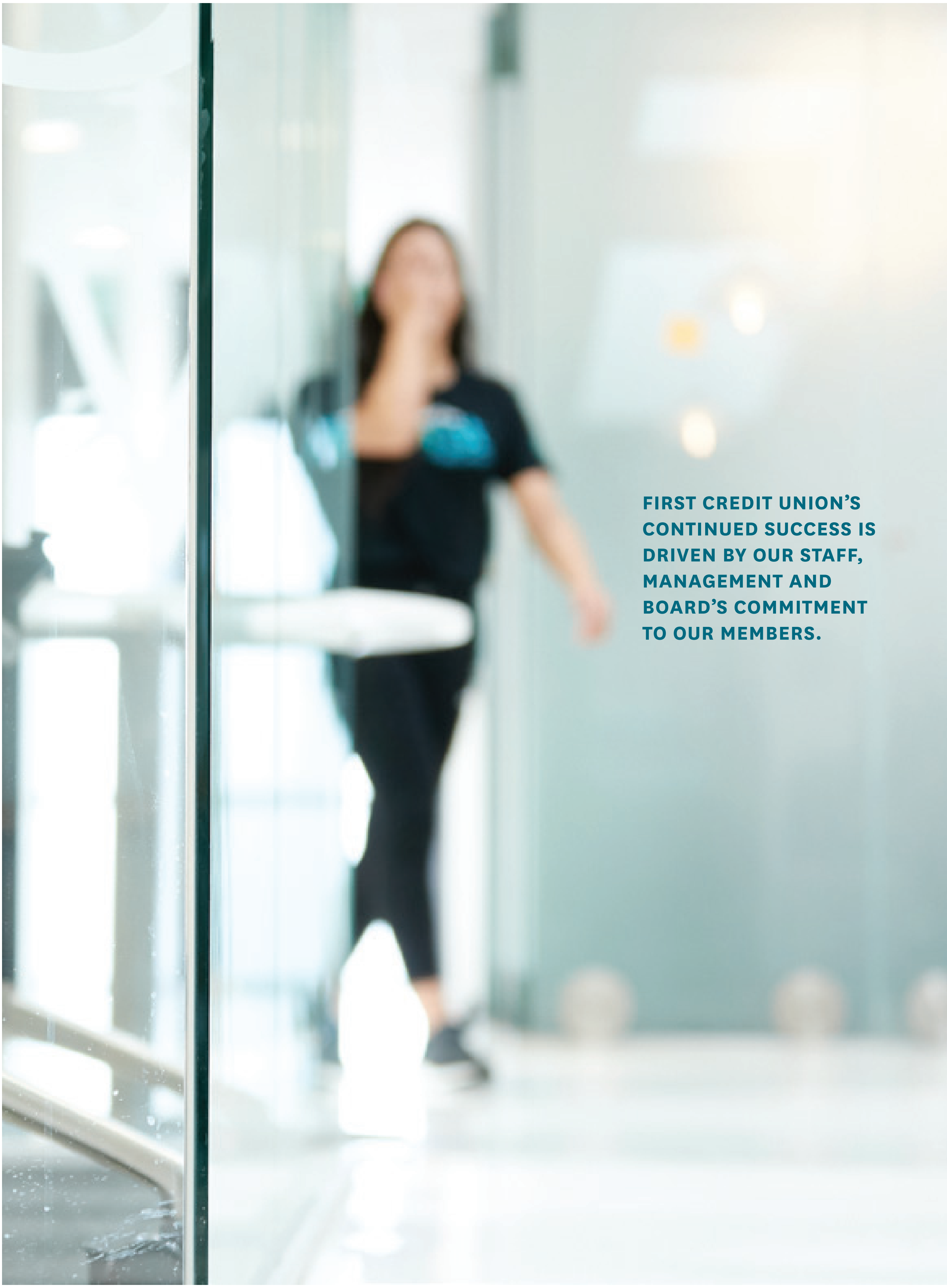
How we Talk:

Welcoming/friendly, Considerate, Straight-Forward, Knowledgeable

How we Look:

Modern, Fresh, Welcoming, Clear, Human, Kiwi

first credit union



FIRST CREDIT UNION'S CONTINUED SUCCESS IS DRIVEN BY OUR STAFF, MANAGEMENT AND BOARD'S COMMITMENT TO OUR MEMBERS.

2019

A look inside

Introduction

YOU, OUR MEMBERS AND THE COMMUNITIES WE SERVE COME FIRST.

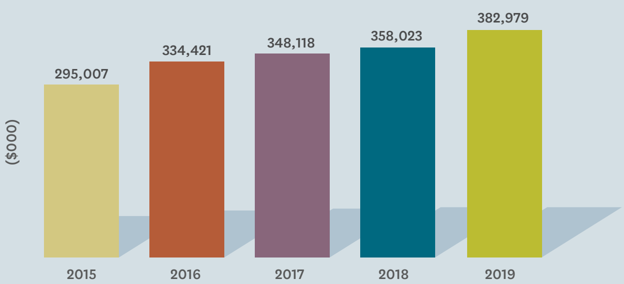
First Credit Union's continued success is driven by our staff, Management and Board's commitment to our members. Strong financial results allow us to have a greater impact on our local communities.

The year at a glance

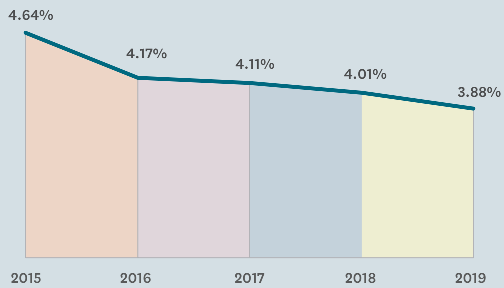
Operating surplus	$2,956,000
Total assets	$382.979 million
Number of loans disbursed	15,803
Total loans disbursed	$69.59 million
Total loans	$205.065 million
Interest paid to members	$9.522 million
Member Shares	$319.929 million
Staff	118

Key performance indicators

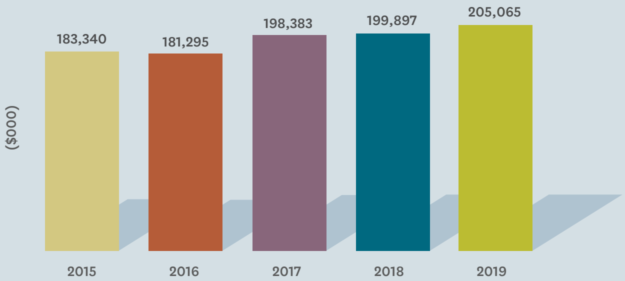
TOTAL ASSETS



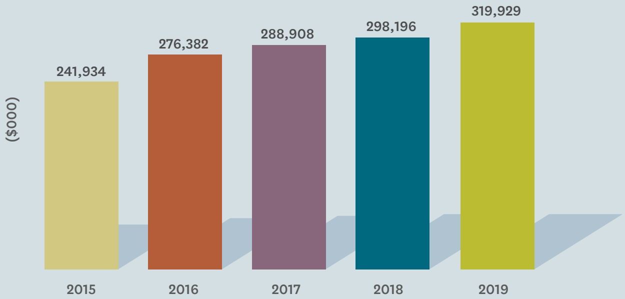
NET INTEREST MARGINS



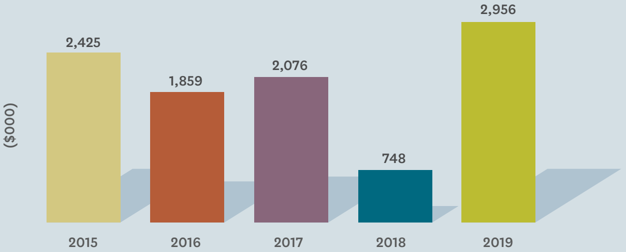
TOTAL LOANS



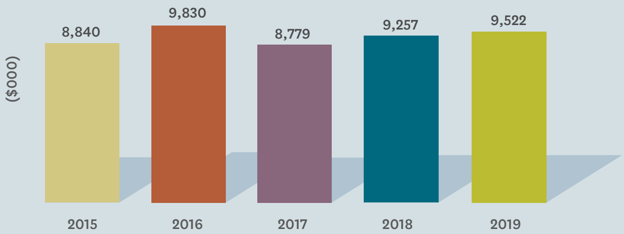
MEMBER SHARES



OPERATING SURPLUS



INTEREST PAID TO MEMBERS



Chair's Report

WE'VE BEEN FOCUSSED ON GETTING THE BASICS RIGHT, AND THIS CAN BE SEEN IN THIS YEAR'S FINANCIAL RESULTS.

Judith Taane *Chair*

FINANCIAL AND OPERATING PERFORMANCE

As Chair, I am proud of the year that your Credit Union has had. We've been focussed on getting the basics right, and this can be seen in this year's financial results. Thank you to the Board, Management and Staff for their work this year to achieve these results.

As at 30 June 2019 First Credit Union:

- Had an operating surplus of $2,956,000
- $382.979 million in assets
- Member shares of $319.929 million
- A loan book totalling $205.065 million
- Paid $9.522 million worth of interest on member shares

LEADERSHIP

A great leader can see the potential in others and Simon has worked hard this past year to facilitate and grow his leadership team to achieve the organisation's goals.

Your Board attended First Credit Union's inaugural two-day leadership summit alongside senior management and branch managers in March. The summit was a great forum to share ideas, hear from others in the community and identify areas where we as a Credit Union could make a significant impact on those in our communities.

I would like to thank Simon for arranging such a thought-provoking summit. It became clear to the Board and I that the leadership team at First Credit Union are committed to making a difference in our member's lives and I look forward to seeing what they can achieve in the next twelve months.

HEALTH AND SAFETY

The Health and Safety of our staff continues to be a priority for the Board of First Credit Union.

The Health and Safety Committee, chaired by Peter Iles meets quarterly and I am pleased to report that the committee is making progress in targeting organisation wide health and safety matters.

Training is provided to all staff to ensure that they are able to actively manage the personal health and safety of themselves and our members as required.

FRIENDLY SOCIETIES AND CREDIT UNION AMENDMENT ACT

Amendments made to the Friendly Societies and Credit Union Act came into force on 01 April 2019.

As a result of these amendments, First Credit Union is required to make changes to its Trust Deed and Rules.

Management have been working alongside Covenant (Trustees) and the Registrar to ensure that we are compliant with the amended Act in the timeframe given.

Any changes required will be put to our members by way of a Special General Meeting, to be held in July 2019 and the Annual General Meeting held in September.

GOVERNANCE

The number of Directors sitting on the First Credit Union Board is seven.

I would like to welcome Phil Todd to the First Credit Union Board. Phil was elected to our Board at the 2018 Annual General Meeting, replacing Natasha Grainger.

Phil was the Chief Executive of United Credit Union, that merged with First Credit Union in 2015.
Phil brings over 25 years of valuable Credit Union experience to the Board.

I would like to take this opportunity to thank Natasha for her work on the First Credit Union Board.

GOVERNANCE

Director	*Board Meetings Eligible to Attend*	*Board Meetings Attended*
Judith Taane	11	11
Malcolm Blair	11	11
Simon Scott	11	11
John Harvey	11	9
Peter Iles	11	11
Natasha Grainger	3	3
Rob Pascoe	11	10
Phil Todd	8	5

Lastly, I would like to thank my fellow Directors, Management and Staff for all their work this past year.

J a Taane.

Judith Taane ***Chair***

Treasurer's Report

TREASURER'S REPORT

As at 30 June 2019, First Credit Union reported a pleasing operating surplus of $2,956,000. Our Total Assets were $382.979 million, an increase of 6.97% and member shares rose by 7.29% to $319.929 million.

Our total reserves sat at $59.6 million and our Risk Weighted Capital Ratio is 18.35%, well above our regulatory requirement of 8% and policy requirement of 10%.

I would like to take this opportunity to thank the Directors, Trustees, Management and Staff for another year of excellent results.

Peter Iles

Treasurer

Trustee's Report

TRUSTEE'S REPORT

As at 30 June 2019, First Credit Union's cash assets stood at $157.9 million or 41.2% of total assets, this is an increase from the previous year.

During the year First Credit Union advanced $69.59 million. Of this, we disbursed $48.34 million in personal loans and $21.25 million in mortgages. Our loan book sits at 53.69% mortgages and 46.31% personal loans.

Judith Taane

Chair/Trustee

General Manager's Report

Brenda Mareroa

Our members are at the centre of our world. Every strategic and operational decision is made with the best interests of our members at heart.

We exist to help our members achieve their financial goals, within their means. We stand by our members, and we like to celebrate all their milestones.

HIGHLIGHTS

As at 30 June 2019 we had:

- A $2,956,000 surplus
- Grown our loans book by $5.2 million
- Increased member shares to $21.73 million

A year of firsts

The year ended 30 June 2019, was a year of many firsts for your Credit Union.

AWARDS NIGHT

On Saturday 17th of November, First Credit Union staff and family came together to celebrate the successes of fellow colleagues at the Inaugural First Credit Union Gala Awards.

On the night six awards were presented to staff in recognition of the work they do at First Credit Union. The three major award winners were:

- **Sovereign User of the Year**- Brenda Mareroa
- **Emerging Leader**- Rachel Sweetman
- **Rockstar of the Year-** Rangi Huriwai (read more about the difference Rangi is making in her community on page 14).

Rachel Sweetman

Rangi Huriwai

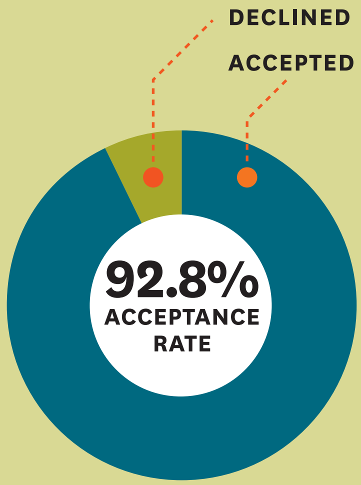
Our staff work hard for our members, and having their work recognised in front of their peers was very rewarding. I look forward to this year's awards night.

FIRST INSURANCE LIMITED

On 1st June 2019 our fully-owned insurance company, First Insurance Limited, celebrated its first birthday. Initially offering Loan Protection Insurance (LPI) to our membership, First Insurance Limited has performed well in its first full year of operation and since December 2018 we have also been offering members Funeral Plan Insurance (FP).

First Insurance Limited exclusively provides these insurance products to First Credit Union members and operates with a 'unique' insurance philosophy of looking for reasons to accept claims not decline them, as shown in the headline numbers taken at the end of the financial year below.

Members with First Insurance covers	11,700 (LPI and FP)
FUNERAL PLAN INSURANCE CLAIMS	*LOAN PROTECTION INSURANCE CLAIMS – FY18/19*



"We are committed to providing insurance products for our members that are fit for purpose and offer value for money. The ultimate test of any insurer is their claim acceptance and I believe we lead the market in that respect for LPI and FP covers. We challenge other insurers, and the regulators of the NZ insurance market, to ensure this information is provided to the public on a regular basis and in a standard format so that informed decisions can be made by the purchasing public".

Michael Cathro
Insurance Manager

EVERY STRATEGIC AND OPERATIONAL DECISION IS MADE WITH THE BEST INTERESTS OF OUR MEMBERS AT HEART.

Simon Scott • *General Manager*

Char Sears and Gigi Gardener from Unitus Community Credit Union on their visit in March 2019.

Simon with Tawera Nikau

UNITUS COMMUNITY CREDIT UNION STAFF EXCHANGE

First Credit Union is proud to be part of a worldwide movement that exists to improve the lives and communities of 260,000,000 Credit Union members globally.

In November 2018, we formalised our desire to work alongside and exchange ideas with Unitus Community Credit Union from Portland, Oregon in USA, implementing an employee exchange programme.

In March 2019, we hosted Char Sears (Assistant Vice President and Remote Experience Manager) and Gigi Gardener (Organisational Development Consultant) from Unitus Community Credit Union.

Char and Gigi immersed themselves into life at First Credit Union, attending our two-day leadership summit with the Board and Management team and helped at the First Credit Union Friday Festival morning as part of the Balloons Over Waikato festival.

Char and Gigi noted the similarities between the two Credit Unions and shared with the team at First Credit Union the challenges and successes they are experiencing at Unitus Community Credit Union.

In October we will be sending Rachel Sweetman and Melissa Hay to Unitus Community Credit Union and I look forward to learning more about how our two Credit Unions can work together to share knowledge and improve our member experience.

KNOWLEDGE IS POWER!

I firmly believe that knowledge is power.

The more knowledge we hold collectively as a Board, Management and Staff can only be in the best interest of our members and will allow us to give the best service to our members.

In addition to weekly Senior Management meetings, our Full Management team meets every six weeks. These meetings provide the leadership team with the opportunity to listen and be heard by their peers in an environment that encourages and fosters growth of the Credit Union.

In addition to regular meetings with the Management team, in May I visited every branch to present to every staff member First Credit Union's strategic objectives for the coming 12 months.

EMPLOYEE FINANCIAL WELLNESS

Listening to our community about the challenges they currently face is important to First Credit Union and allows us the opportunity to help those in need.

This past year we have been working alongside local businesses to get an understanding of the financial challenges their employees are faced with and we have been able to help these employees gain freedom from financial stress.

As an employer, improving the financial wellness of employees can lead to improved physical health, improved productivity and increased engagement as they spend less time stressing about their financial woes.

WE'RE TELLING OUR STORY TO ANYONE THAT WILL LISTEN

Credit Unions worldwide say the same thing: Credit Unions are the best-kept secret.

At First Credit Union we are proud of the difference we have been making to everyday kiwi's lives for over 60 years, and we have been working hard in the last 12 months to spread the word about First Credit Union.

In August 2018 we worked with local Kiwi legend Tawera Nikau to produce a series of advertisements and on 01 June we launched the first of a series of advertising campaigns across the Waikato and Bay of Plenty region.

Our members come FIRST and are our biggest advocates, so keep telling your friends and family about First Credit Union – we are a real alternative to the banks.

NEW AND IMPROVED!

The team work hard to ensure that the products and services offered to our membership are relevant to our members' needs and enable you to easily manage your finances.

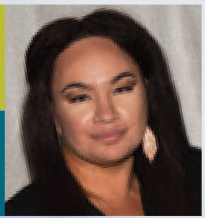
Our Mobile Banking App was updated in May this year and in June we successfully launched our new website. If you haven't checked it out yet, make sure you do, you will find it much easier to navigate around, there's a new loan calculator and a news section.

In addition to our Social Media pages, we are now able to use the homepage of our website to notify members of important news- make sure you check the website regularly to stay up to date with what is happening at your credit union.

Simon Scott

General Manager

Rockstar of the year



RANGI'S COMMITMENT TO HELPING OUR MEMBERS AND HER DRIVE TO SUPPORT THE COMMUNITY ARE SOME OF THE REASONS SHE WAS CHOSEN FOR THIS AWARD.

RANGI HURIWAI

As Branch Manager of our Ngaruawahia Branch, Rangi Huriwai is heavily involved in her community and is passionate about providing our members with a positive experience.

Rangi's commitment to living by FCU's values – to be honest, transparent, fair and supportive - earned her the Rockstar of the Year award at the 2018 First Credit Unions Gala Awards.

The Rockstar of the Year award recognises staff that have gone above and beyond for First Credit Union. Rangi's commitment to helping our members and her drive to support the community are some of the reasons she was chosen for this award.

This year Rangi has been involved in a local program called Oho Mauri to support rangatahi between the ages of 16-18 that still attend school. Students participating in the program graduate with a range of skills that will get them ready for the future.

"Winning this award was a humbling experience. I am one of the lucky ones, fortunate enough to be able to do what I love as a fulltime job."

L-R: Simon, Anne Ramsay from Ngaruawahia Community House and Rangi

Staying true to ourselves

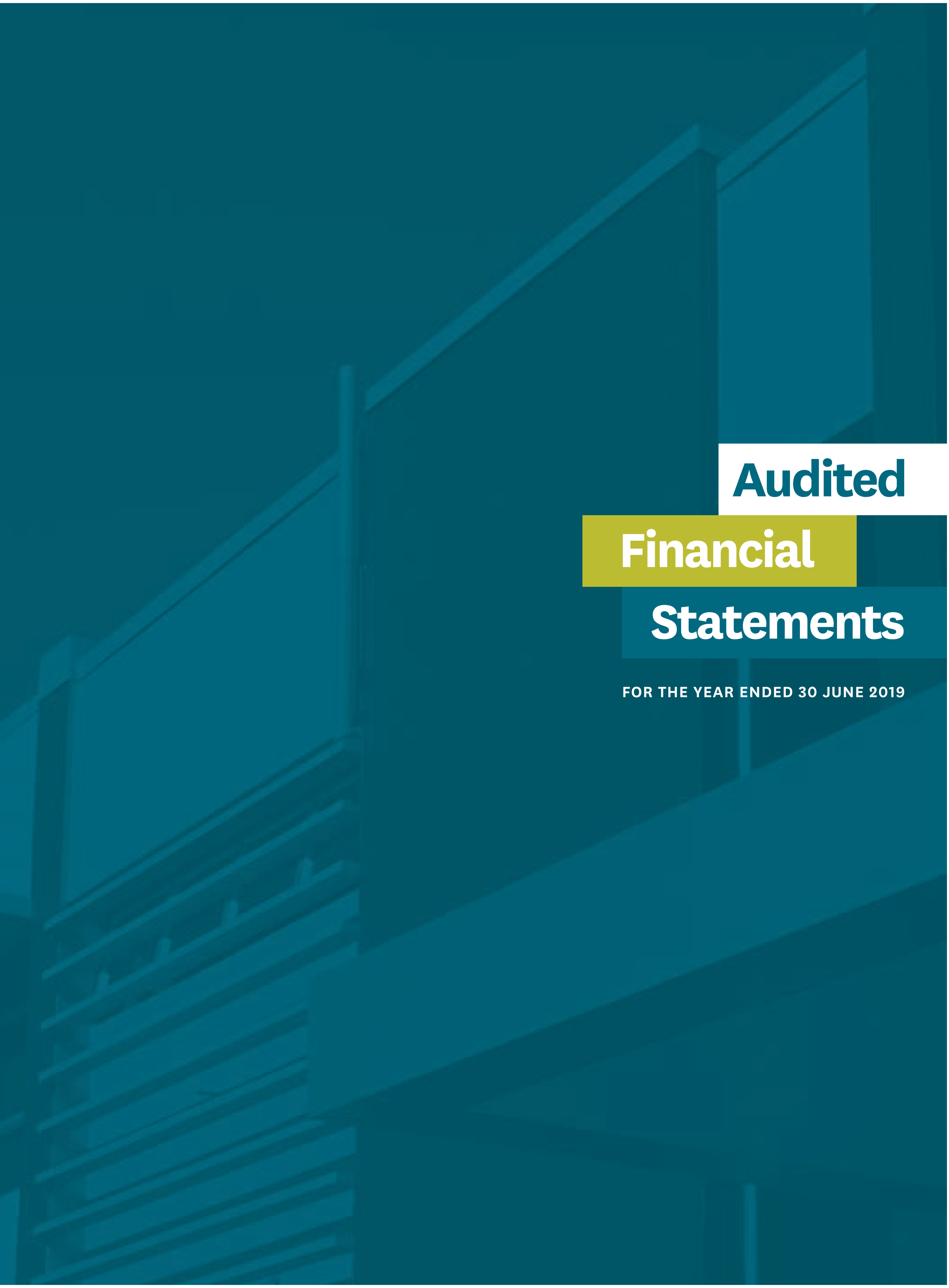
As a member-owned organisation, it is only fitting that our members are at the core of who we are and what our brand represents to the Board, Management and Staff.

The First Credit Union Molecule (prominently displayed on the front cover) helps us as an organisation remain true to ourselves and acts as a touch point for our Staff to refer to.

Board of Directors

L-R: Rob Pascoe, Peter Iles, John Harvey, Judith Taane, Phil Todd, Malcolm Blair, Simon Scott


statements



Audited Financial Statements

FOR THE YEAR ENDED 30 JUNE 2019

Contents

Directory

For the year ended 30 June 2019

BOARD OF DIRECTORS	
Chair	Judith Taane
Deputy Chair	Malcolm Blair
Directors	John Harvey
	Peter Iles
	Rob Pascoe
	Simon Scott
	Phil Todd
Secretary /Treasurer	Peter Iles
Trustees	John Harvey
	Rob Pascoe
	Judith Taane
General Manager	Simon Scott
SENIOR MANAGEMENT TEAM	
Business Development Manager	Hannah Goodhue
Call Centre Manager	Ana Braunias
Chief Financial Officer	Stephen Hawkins
Chief Information Officer	Jarrod Dowd
Collections Manager	Michelle Arundel
Insurance Manager	Michael Cathro
Lending Manager	Richard O'Regan
Marketing & Communications Manager	Melissa Hay
Member Experience Manager	Tieri Carswell
Risk & Compliance Manager	Asenaca Kaloumaira
Treasury & Agency Banking Manager	Herb Wulff
Auditor	BDO Wellington
Bankers	Westpac, BNZ, ANZ
Affiliations	New Zealand Association of Credit Unions trading as Coop Money NZ
	NZ World Council of Credit Unions

First Credit Union

Statement of Comprehensive Revenue and Expense

For the year ended 30 June 2019

	Note	2019	2018
REVENUE		**$000**	**$000**
Interest Revenue	2.1	22,613	22,430
Interest Expenditure	2.1	(9,522)	(9,257)
Net Interest Revenue		**13,091**	**13,173**
Other Income	2.2	8,752	6,796
Insurance Underwriting Surplus	6.1(a)	1,109	0
		22,952	**19,969**
EXPENDITURE			
Operating Expenses	2.3	(8,690)	(8,594)
Employee Benefits	2.3	(6,657)	(7,226)
Loan Impairment Expenses	4.2	(1,072)	(1,257)
Depreciation	5.1	(837)	(819)
Amortisation Expenses	5.2	(671)	(495)
Capital Notes Impairment Expense	5.6	(1,461)	0
Occupancy		(579)	(830)
Total Operating Expenditure		**(19,967)**	**(19,221)**
Surplus before Taxation		**2,985**	**748**
Income Tax Expense	2.4	(29)	0
Surplus for the Year Attributable to Members		**2,956**	**748**
Other Comprehensive Revenue and Expense			
Revaluation of Property	5.1	95	0
Total Comprehensive Revenue and Expense for the Year		**3,051**	**748**

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

First Credit Union

Statement of Changes in Net Assets/Equity

For the year ended 30 June 2019

	Note	Accumulated Revenue and Expense	Property Revaluation Reserve	Total
		$000	$000	$000
Balance as at 30 June 2017		**52,552**	**3,207**	**55,759**
Surplus or Deficit for the Year		748	0	748
Other Comprehensive Revenue and Expense				
Balance as at 30 June 2018		**53,300**	**3,207**	**56,507**
Surplus or Deficit for the Year		2,956	0	2,956
Other Comprehensive Revenue and Expense				
Revaluation of Property	**5.1**	0	95	95
Transfer of Revaluation Reserve upon Sale of Property		1,268	(1,268)	0
Balance as at 30 June 2019		**57,524**	**2,034**	**59,558**

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

First Credit Union

Statement of Financial Position

As at 30 June 2019

	Note	2019	2018
		$000	$000
MEMBERS' FUNDS			
Retained Earnings		57,524	53,300
Property Revaluation Reserve		2,034	3,207
Total Members' Funds		**59,558**	**56,507**
ASSETS			
Cash and Cash Equivalents	**3.1**	15,663	11,633
Term Deposits	**3.2**	142,235	124,434
Loans to Members	**4.1**	202,295	197,227
Property, Plant and Equipment	**5.1**	12,514	12,597
Intangible Assets	**5.2**	5,654	6,343
Other Assets	**5.4**	669	379
Capital Notes	**5.6**	3,949	5,410
Total Assets		**382,979**	**358,023**
LIABILITIES			
Trade and Other Payables	**5.5**	3,088	2,563
Employee Entitlements		404	757
Members' Deposits	**5.7**	319,929	298,196
Total Liabilities		**323,421**	**301,516**
Net Assets / Equity		**59,558**	**56,507**

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

DIRECTOR
Judith Taane

J. a. Taane.

Date 28 August 2019

DIRECTOR
Peter Iles

Peter Iles

Date 28 August 2019

First Credit Union

Statement of Cash Flows

For the year ended 30 June 2019

	Note	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		**$000**	**$000**
Interest Received		22,590	22,429
Fees, Commissions and Other Income		9,312	6,387
Bad Loans Recovered		405	438
Interest Paid		(9,449)	(9,286)
Payments to Suppliers and Employers		(15,896)	(16,674)
Net Cash Provided by Operating Activities		**6,962**	**3,294**
CASH FLOWS FROM INVESTING ACTIVITIES			
Net Movement in Members' Loans		(5,018)	(2,491)
Payments for Property, Plant, Equipment and Intangibles		(1,745)	(7,938)
(Increase) in Term Deposits		(17,828)	-
Decrease in Term Deposits		-	5,626
Net Cash Used in Investing Activities		**(24,591)**	**(4,803)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Net Increase (Decrease) in Member Deposits		21,659	9,343
Net Cash provided by Financing Activities		**21,659**	**9,343**
Total Net Increase (Decrease)in Cash and Cash Equivalents Held		4,030	7,834
Cash and Cash Equivalents at the Beginning of the Period		11,633	3,799
Cash and Cash Equivalents at the End of the Period	**3.1**	**15,663**	**11,633**

Reconciliation of Cash Flow from Operating Activities with Operating Surplus

Surplus for the Year Attributable to Members		**2,956**	**748**
NON CASH ITEMS			
Depreciation, Amortisation and Loss on Sale		1,621	1,314
Bad Debts Written off		972	977
Bad Debt Provision		100	280
Capital Notes Impairment Expense		1,461	0
		4,154	2,571
CHANGES IN ASSETS AND LIABILITIES			
Movement in Accounts Receivable		(177)	29
Movement in Prepayments		(113)	132
Movement in Accounts Payable		(115)	(147)
Movement in Employee Benefits		353	(11)
Movement in Accrued Interest Receivable		(23)	(5)
Movement in Accrued Interest Payable		(73)	(23)
		(148)	(25)
Net Operating Cash Flows		**6,962**	**3,294**

First Credit Union

Notes to the Financial Statements

For the year ended 30 June 2019

First Credit Union

Notes to the Financial Statements

For the year ended 30 June 2019

1. Corporate Information

1.1 *Reporting Entity*

The financial statements comprising First Credit Union ("the Credit Union") and its controlled entity First Insurance Limited ("the Insurer"), together comprise the Group ("the Group"). First Credit Union 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 plan 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 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 was entered into on the 2 November 2000 between the Trustees of the Credit Union and Trustees Executors Limited. During 2013 a new Trustee, Covenant Trustee Services Limited (formerly Foundation Corporate Trust), was appointed to act as Trustee from 28 June 2013. Covenant Trustee Services Limited as the Prudential Supervisor was 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.

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; note 5.6 for the carrying value of the capital notes; 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.

Functional and Presentation Currency

The presentation and functional currency is New Zealand dollars, rounded to the nearest thousand.

First Credit Union

Notes to the Financial Statements

For the year ended 30 June 2019

2. Financial Performance

2.1 Net Interest Revenue	**2019**	**2018**
	$000	**$000**
Interest Revenue - Interest on Loans and Receivables		
Interest on Loans to Members	18,392	18,544
Interest on Term Deposits	4,035	3,747
Interest On Cash and Cash Equivalents	186	139
Total Interest Revenue	**22,613**	**22,430**
Interest Expenditure - Liabilities at Amortised Cost		
Interest on Members Call Shares	(3,037)	(3,319)
Interest on Members Term Shares	(6,485)	(5,938)
Total Interest Expenditure	**(9,522)**	**(9,257)**

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

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	**2019**	**2018**
	$000	**$000**
ATM/Eftpos Card Recoveries	4,417	4,172
Costs Recovered and Other Fees Charged	1,736	1,429
Bad Debts Recovered	405	438
Commissions Received	197	733
Gain on Sale of Property, Plant and Equipment	1,883	6
Other Income	114	18
Total Other Income	**8,752**	**6,796**

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.

First Credit Union

Notes to the Financial Statements

For the year ended 30 June 2019

2. Financial Performance (continued)

2.3 Expenditure	**Note**	**2019**	**2018**
		$000	**$000**
Operating Expenses includes:			
External Audit of Financial Statements			
- BDO Audits		144	90
- BDO Other Services (Internal Control Reviews)		13	10
Directors Fees	**6.4**	228	180
Employee Benefits includes:			
Wages and Salaries		5,845	6,521
Defined Contribution Expense		321	177

2.4 Taxation		**2019**	**2018**
		$000	**$000**
Income Tax Recognised in Statement of Comprehensive Income			
Net Operating Surplus before Taxation		2,985	748
Less: Exempt Income and Expenses		(2,882)	(748)
Operating Surplus before Taxation		103	0
Income Tax Expense at Current Rate of 28%		29	0
Current Tax Receivable			
Taxation Expense		(29)	0
Resident Withholding Tax Paid		62	0
Taxation Refund		**33**	**0**

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.

First Credit Union

Notes to the Financial Statements

For the year ended 30 June 2019

3. Deposits and Liquidity

3.1 Cash and Cash Equivalents	*Interest Rates*	*2019*	*2018*
		$000	**$000**
Cash on Hand	0.00%	832	739
Bank Balances - On Call	1.25%	14,831	10,894
Total Cash and Cash Equivalents		**15,663**	**11,633**

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*	*2019*	*2018*
		$000	**$000**
Westpac Bank	2.70% to 3.40%	112,978	86,248
ANZ	2.38% to 3.01%	29,257	19,939
BNZ		0	18,247
Total Term Deposits		**142,235**	**124,434**

RECOGNITION AND MEASUREMENT

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

3.3 Reconciliation of Cash Flows from Operating Activities

RECOGNITION AND MEASUREMENT

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

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

First Credit Union

Notes to the Financial Statements

For the year ended 30 June 2019

4. Loans and Receivables

4.1 Loans to Members	Note	2019	2018
		$000	$000
Mortgages		110,107	108,637
Personal Loans		94,958	91,260
Gross Loans to Members		**205,065**	**199,897**
Less: Allowance for Impairment	4.2	(2,770)	(2,670)
Net Loans to Members		**202,295**	**197,227**

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	2019	2018
	$000	$000
Secured by Mortgage Over Real Estate with LVR < 80%	85,163	71,058
Secured by Mortgage Over Real Estate with LVR > 80%	24,944	37,579
Partially Secured by Motor Vehicles or Other Collateral	62,428	60,042
Secured by Members Shares	20,586	21,504
Unsecured Loans	11,944	9,714
Credit Quality of Gross Loans to Members	**205,065**	**199,897**

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	2019	2018
Performing Loans	$000	$000
Neither Past Due Nor Impaired	180,827	178,600
Past Due But Not Impaired		
1 to 30 days	10,738	10,946
31 to 90 days	1,777	523
over 90 days	2,960	1,240
Total Performing Loans	**196,302**	**191,309**
Impaired loans		
Specifically Impaired	189	193
Collectively Impaired	3,707	4,792
Restructured	4,867	3,603
Gross Loans	**205,065**	**199,897**
Interest Revenue Recognised on Impaired Loans	**604**	**581**
Interest Revenue Foregone on Impaired Loans	**592**	**435**

First Credit Union

Notes to the Financial Statements

For the year ended 30 June 2019

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 section 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:	2019	2018
	$000	$000
Provision for Impairment - Increase / (decrease) in the Year	100	280
Bad Loans written off	972	977
Loan Impairment Expenditure	**1,072**	**1,257**

The following movements in provision for doubtful debts arrears occurred during the year:

	Individually Impaired	Collectively Impaired	Restructured	2019 Total	2018 Total
	$000	$000	$000	$000	$000
Opening Balance	**40**	**1,378**	**1,252**	**2,670**	**2,390**
Increase/(Decrease) in the Provision	0	(153)	855	**702**	728
Transfer to Bad Debts Written Off	0	0	(602)	**(602)**	(448)
Closing Balance	**40**	**1,225**	**1,505**	**2,770**	**2,670**

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. 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.

Key Assumptions in Determining the Allowance for Impairment

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. Thereafter, on the balance of loans not assessed individually, the Group makes a collective assessment of impairment using 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 the decrease 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.

First Credit Union

Notes to the Financial Statements

For the year ended 30 June 2019

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 2018	**3,012**	**9,136**	**1,508**	**1,670**	**251**	**15,577**
Additions	916	715	414	34	31	2,110
Revaluations	762	(667)	0	0	0	95
Reclassification of Assets	919	(919)	0	0	0	0
Disposals or Written off	(780)	(994)	0	0	(53)	(1,827)
Closing Balance 30 June 2019	**4,829**	**7,271**	**1,922**	**1,704**	**229**	**15,955**
Accumulated Depreciation						
Opening Balance 1 July 2018	0	**1,089**	**881**	**883**	**127**	**2,980**
Depreciation for the Period	0	294	318	189	36	837
Reclassification of Assets	0	0	0	0	0	0
Disposals or Written off	0	(304)	(19)	0	(53)	(376)
Closing Balance 30 June 2019	**0**	**1,079**	**1,180**	**1,072**	**110**	**3,441**
Net Book Value at 30 June 2019	**4,829**	**6,192**	**742**	**632**	**119**	**12,514**
Net Book Value at 30 June 2018	**3,012**	**8,047**	**627**	**787**	**124**	**12,597**

RECOGNITION AND MEASUREMENT

Land and Buildings

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

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

Revaluation

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

Upon disposal or sale of property, any revaluation reserve for that asset is transferred into retained earnings.

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

Other Assets

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.

First Credit Union

Notes to the Financial Statements

For the year ended 30 June 2019

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	2-7% SL
Motor Vehicles	20% SL
Computer Equipment	10-33% SL
Furniture and Fittings	5-33% SL

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

5.2 Intangible Assets	*Computer Software*
	$000
Cost Opening Balance 1 July 2018	**7,176**
Additions	24
Disposals or Written Off	(42)
Cost Closing Balance 30 June 2019	**7,158**
Accumulated Amortisation Opening Balance 1 July 2018	833
Amortised During the Year	671
Disposals or Written Off	0
Accumulated Amortisation Closing Balance 30 June 2019	**1,504**
Intangible Assets Net Book Value at 30 June 2019	**5,654**
Intangible Assets Net Book Value at 30 June 2018	**6,343**

RECOGNITION AND MEASUREMENT

Intangible assets comprise Computer Software. Computer Software is capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over their expected lives on a straight line basis of 10-20% amortisation.

First Credit Union

Notes to the Financial Statements

For the year ended 30 June 2019

5. Other Financial Position Notes (continued)

5.3 *Impairment Testing of Non Financial Assets*

The carrying amounts of the Groups non-financial assets (Property, Plant and Equipment and Intangibles) 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	Note	2019	2018
		$000	$000
Income Tax Receivable		33	0
Sundry Debtors		216	72
Prepayments		420	307
Total Other Assets		**669**	**379**

5.5 Payables	Note	2019	2018
		$000	$000
Trade Payables		1,100	1,520
Card Settlement		1,333	923
Sundry Creditors and Accrued Expenses		161	120
GST Payable		79	0
Insurance Contract Liabilities	6.1(b)	415	0
Total Trade and Other Payables		**3,088**	**2,563**

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.

First Credit Union

Notes to the Financial Statements

For the year ended 30 June 2019

5. Other Financial Position Notes (continued)

5.6 Capital Notes	***2019***	***2018***
	$000	**$000**
Capital Notes	**3,949**	5,410

RECOGNITION AND MEASUREMENT

Capital Notes are classified as "available for sale" financial assets and issued by the New Zealand Association of Credit Unions' (trading as "Co-op Money") Business Services Division Trust as Base Capital Notes (Capital Notes). These represent monies invested with Co-op Money and rank equally and without priority or preference among themselves. The Capital Notes rank after creditors in the event of the winding up of Co-op Money. Capital Notes may only be sold or transferred to another Credit Union that is a member of Co-op Money and with consent of the Co-op Money Board of Directors.
As the Capital Notes are classified as available-for-sale, a significant or prolonged decline in the fair value of the investment below its cost is considered in determining whether the investment is impaired.

There is no active market for these securities, and they have no guaranteed rate of return. Due to the variability in the rate of return and estimation uncertainty related to other intrinsic benefits obtained from holding the notes, the Credit Union has concluded that the variability in any discounted cash flow fair value estimate would be too significant and too judgemental to utilise as a reliable measure of fair value.

The Credit Union stopped using Co-op Money's services (for the supply of banking services) on the 9th of September 2017. The Credit Union has given notice to Co-op Money that since it no longer uses the services of the Association, the Credit Union is seeking repayment of the Capital Notes. During 2018 Co-op Money proposed a two-stage process: a) the Credit Union negotiate directly with Co-op Money member Credit Unions for the sale of some, or all, of the Capital Notes; b) If the negotiations are inconclusive, the Credit Union negotiate directly with Co-op Money.
At the date of authorisation of the financial statements, the Credit Union has not received a satisfactory offer from Co-op Money nor any member Credit Union. At this time there is no certainty as to whether an offer will materialise.

The Directors of the Credit Union are aware of a proposal to restructure Co-op Money due to Co-op Money's ongoing capital and liquidity concerns. To the extent that the restructure results in the repayment of the Capital Notes to the Credit Union, the Directors of the Credit Union would be supportive of this. A pre-requisite to proceeding with restructuring is the negotiated exit of First Credit Union as a Base Capital Notes holder.

At the time of this report there was no certainty as to whether the restructure would proceed and in what format. Co-op Money has not published Audited financials for 30 June 2019, however latest estimates put Co-op Money's net assets at 73%. Whilst the Credit Unions Directors believe there is additional value in certain assets of Co-op Money, there is significant uncertainty over any realisable value.

All of the above issues point to significant uncertainties in regard to the repayment of Capital Notes.
The Directors are of the opinion that impairing the carrying value of the Capital Notes to mirror Co-op Money net assets of 73% is appropriate.

First Credit Union

Notes to the Financial Statements

For the year ended 30 June 2019

5. Other Financial Position Notes (continued)

5.7 Members' Deposits	*2019*	*2018*
	$000	**$000**
Call Shares	135,476	139,887
Term Shares	184,453	158,309
Total Members' Deposits	**319,929**	**298,196**

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 plan insurance product.

6.1.a Insurance Underwriting Surplus	*2019*	*2018*
	$000	**$000**
Premium Revenue	2,013	0
Claims Expense	(904)	0
Insurance Underwriting Surplus	**1,109**	**0**

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.

First Credit Union

Notes to the Financial Statements

For the year ended 30 June 2019

6. Other Notes (continued)

6.1 Insurance Activities of the Insurer (continued)

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 plan insurance policies provided to members are insurance contracts.
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 (2018: claim provisions were based on an assumed loss ratio).

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.
- Previous year – claim provisions were based on an assumed claim ratio of 50% of net premiums.

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

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

- The effective date of the assessment in the actuarial report was 30 June 2019.
- 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 2019, nor would such a liability be required if there were an unearned premium liability at reporting date.

First Credit Union

Notes to the Financial Statements

For the year ended 30 June 2019

6. Other Notes (continued)

6.1 Insurance Activities of the Insurer (continued)

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. During the year, the parent contributed $2,000,000 to the insurer in order to meet the additional solvency requirements required by the life insurance licence.
The Insurer's financial strength rating issued by Fitch is BB+ with a Stable Outlook.

	2019	2018
	$000	$000
Actual Solvency Capital	**6,132**	4,057
Minimum Solvency Capital	**5,000**	3,000
Solvency Margin	**1,132**	1,057
Solvency Ratio	**123%**	135%

During the year ended 30 June 2019, 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 2019 was $5,903,203 relative to an actual solvency capital of $6,131,782.

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:

	2019	2018
	$000	$000
Base assumptions	**415**	52
Claims provision if assumed development/reporting pattern 10% longer	**474**	58
Claims provision if assumed development/reporting pattern 10% shorter	**331**	46

The Insurer's insurance risk is concentrated to within the loan protection and funeral plan 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.

First Credit Union

Notes to the Financial Statements

For the year ended 30 June 2019

6. Other Notes (continued)

6.2 Commitments

Capital Expenditure Commitments

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

	2019	2018
	$000	**$000**
Not longer than 1 Year	225	159
Total Future Capital Commitments	**225**	**159**

Outstanding Loan Commitments

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

	2019	2018
	$000	**$000**
Loans Approved but not Funded	160	359
Undrawn Overdraft and Line of Credit	241	295
Total Outstanding Loan Commitments	**401**	**654**

6.3 Contingent Liabilities

The Group has no contingent liabilities as at 30 June 2019 (2018 nil).

6.4 Related Parties

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

	2019 Directors	2019 KMP	2018 Directors	2018 KMP
	$000	**$000**	**$000**	**$000**
Short-Term Employee Benefits	**228**	**726**	230	645

RECOGNITION AND MEASUREMENT

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

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

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

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

Short Term Employee benefits

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

First Credit Union

Notes to the Financial Statements

For the year ended 30 June 2019

6. Other Notes (continued)

6.4 Related Parties (continued)	2019 Shares	2019 Loans	2018 Shares	2018 Loans
	$000	$000	$000	$000
Related Party Holdings:				
Directors	2,794	455	1,075	483
KMP	6	2,467	6	1,833
Connected Parties	1,088	1,637	1,123	1,646
Total Related Party Holdings:	**3,888**	**4,559**	**2,204**	**3,962**

RECOGNITION AND MEASUREMENT

The Group deals with Directors, Trustees and key management personnel on the same conditions applied to all members. During the year under review new loan advances to Directors, Trustees and Key Management Personnel totalled $0.68 million (2018 $0.26 million)

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

No loans to related parties have been impaired in the period. (2018: $NIL)

6.5 Events Occurring After Reporting Date

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

7. Other Accounting Policies

7.1 Changes to Accounting Policies

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 2019, 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 IFRS 9 - Financial Instruments effective 1 January 2021
PBE IPSAS 35 - Consolidated Financial Statements effective 30 June 2020
PBE FRS 48 - Service Performance Reporting effective 30 June 2022

The impact of these standards is yet to be assessed.

First Credit Union

Notes to the Financial Statements

For the year ended 30 June 2019

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 2019 reporting date.

8. Financial Advisors Act 2008

On 18 March 2011 the Credit Union was registered as a Qualifying Financial Entity (QFE).

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 14 March 2019 (2018: 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

First Credit Union

Notes to the Financial Statements

For the year ended 30 June 2019

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, 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 2019 Fixed Interest Rate Maturing in:				
	*Weighted average effective interest rate**	*Floating Interest Rate*	*Within 6 months*	*6 months to 1 Year*	*1 to 5 Years*	*Non-interest sensitive*	*Total*
		$000	**$000**	**$000**	**$000**	**$000**	**$000**
Monetary Assets							
Cash & Bank	1.25%	15,663	0	0	0	0	**15,663**
Term Deposits	2.94%	0	138,101	4,135	0	0	**142,236**
Trade & Other Receivables	n/a	0	0	0	0	155	**155**
Loans to Members - Fixed	4.68%	0	16,362	27,790	20,501	0	**64,653**
Loans to Members - Floating	10.94%	137,642	0	0	0	0	**137,642**
Base Capital Notes	0.00%	0	0	0	0	3,949	**3,949**
Total Monetary Assets		**153,305**	**154,463**	**31,925**	**20,501**	**4,104**	**364,298**
Monetary Liabilities							
Members' Deposits	3.07%	135,476	104,087	60,666	19,700	0	**319,929**
Other Payables	n/a	0	0	0	0	3,055	**3,055**
Total Monetary Liabilities		**135,476**	**104,087**	**60,666**	**19,700**	**3,055**	**322,984**

			Repricing period at 30 June 2018 Fixed Interest Rate Maturing in:				
	*Weighted average effective interest rate**	*Floating Interest Rate*	*Within 6 months*	*6 months to 1 Year*	*1 to 5 Years*	*Non-interest sensitive*	*Total*
		$000	**$000**	**$000**	**$000**	**$000**	**$000**
Monetary Assets							
Cash & Bank	1.50%	11,633	0	0	0	0	**11,633**
Term Deposits	3.18%	0	101,945	22,489	0	0	**124,434**
Trade & Other Receivables	n/a	0	0	0	0	72	**72**
Loans to Members - Fixed	4.73%	0	18,911	20,421	17,139	0	**56,471**
Loans to Members - Floating	11.07%	143,426	0	0	0	0	**143,426**
Base Capital Notes	0.00%	0	0	0	0	5,410	**5,410**
Total Monetary Assets		155,059	120,856	42,910	17,139	5,482	341,446
Monetary Liabilities							
Members' Deposits	3.17%	139,887	96,279	54,853	7,177	0	**298,196**
Other Payables	n/a	0	0	0	0	2,563	**2,563**
Total Monetary Liabilities		**139,887**	**96,279**	**54,853**	**7,177**	**2,563**	**300,759**

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

(a) *Capital notes do not have any pre determined rate of interest. Interest is payable subject to the profitability of the NZACU Business Services Division Trust. No interest was paid for the year ended 30 June 2019 (30 June 2018 : Nil).*

First Credit Union

Notes to the Financial Statements

For the year ended 30 June 2019

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 2019 it is estimated that a general increase of one percentage point in interest rates on bank deposits, loan receivables and Members' deposits would increase the Groups surplus before income tax and equity by $310,000 (30 June 2018: $441,000).
A decrease in interest rates would have the opposite impact on surplus than that described above.

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

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

10.2 Credit Risk

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

Recognition and Measurement

The Group has established policies and procedures over the:

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

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

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

Impairment of Loans and Advances - refer to Note 4.2.

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

All trading banks used have Fitch or Standard & Poor's credit ratings of AA-.

First Credit Union

Notes to the Financial Statements

For the year ended 30 June 2019

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 2019	Number of counterparties 2018
Over 100%	**1**	1
Between 40% and 50% of equity	**1**	0
Between 30% and 40% of equity	**0**	2

(b) Loans to Members

Loans can only be made to Credit Union members. Loan interest rates range from 4.15% to 26% p.a. (2018 3.8% to 26.0% 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.

	2019	2018
Proportion of Loans with Repayments in Arrears in Excess of 90 Days:	**4.6%**	3.1%
Proportion of Loans owed in Aggregate by the Six Largest Debtors:	**3.7%**	3.4%
Weighted Average Maturity of Loans (in Months) is:	**156**	158

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.

First Credit Union

Notes to the Financial Statements

For the year ended 30 June 2019

10. Financial Risk Management Objectives and Policies (continued)

10.2 *Credit Risk (continued)*

The Credit Union offers an overdraft facility.

	2019	2018
	$000	**$000**
The Amounts Drawn Down are as follows:	**546**	378

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 $64,652,469 is $63,599,121 assuming an average floating mortgage interest rate of 5.85% at 30 June 2019.

Base Capital Notes - see note 5.6 for discussion on fair value of Base Capital Notes.

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 Base Capital Notes 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.

First Credit Union

Notes to the Financial Statements

For the year ended 30 June 2019

10. Financial Risk Management Objectives and Policies (continued)

10.3 Liquidity Risk (continued)

	On Call	Within 6 Months	6 Months to 1 Year	1 to 5 Years	Over 5 Years	No Maturity	Total
	$000	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
Financial Assets							
Cash and Bank	15,663	0	0	0	0	0	**15,663**
Trade and Other Receivables	0	155	0	0	0	0	**155**
Investments - Base Capital Notes	0	0	0	0	0	3,949	**3,949**
Term Deposits	0	138,101	4,135	0	0	0	**142,236**
Future Interest Receivable	0	8,669	7,555	27,345	59,888	0	**103,457**
Loans to Members	0	18,695	17,284	70,457	98,629	0	**205,065**
Total Financial Assets 30 June 2019	**15,663**	165,620	28,974	97,802	158,517	3,949	470,525
Total Financial Assets 30 June 2018	**11,633**	130,889	47,247	92,337	150,189	5,410	437,705
Financial Liabilities							
Payables	0	3,055	0	0	0	0	**3,055**
Future Interest Payable	0	2,321	2,034	1,094	0	0	**5,449**
Members Call Shares	135,476	0	0	0	0	0	**135,476**
Members Term Shares	0	104,087	60,666	19,700	0	0	**184,453**
Total Financial Liabilities 30 June 2019	**135,476**	**109,463**	**62,700**	**20,794**	**0**	**0**	**328,433**
Total Financial Liabilities 30 June 2018	**139,887**	**101,210**	**56,416**	**7,633**	**0**	**0**	**305,146**
Liquidity (Shortfall)/Surplus 30 June 2019	**(119,813)**	**56,157**	**(33,726)**	**77,008**	**158,517**	**3,949**	**142,092**
Liquidity (Shortfall)/Surplus 30 June 2018	**(128,254)**	**29,679**	**(9,169)**	**84,704**	**150,189**	**5,410**	**132,559**

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 2019 is 18.35% (2018: 16.77%) , as calculated under the Deposit Takers (Credit Ratings, Capital Ratios, and Related Party Exposures) Regulations 2017.

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

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

BDO Wellington Audit Limited

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

Opinion

We have audited the consolidated financial statements of First Credit Union ("the Credit Union) and its subsidiary (together, "the Group"), which comprise the consolidated statement of financial position as at 30 June 2019, 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 2019 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 (Revised) *Code of Ethics for Assurance Practitioners* 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.

BDO Tauranga provided assurance services in regards to compliance with Anti Money Laundering legislation to the Group during the year. The firm has no other relationship with, or interests in the Credit Union.

Key Audit Matters

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

Key Audit Matter	
Carrying Value of Base Capital Notes (BCN's)	**How The Matter Was Addressed In Our Audit**
First Credit Union holds an investment in Co-Op Money NZ, by way of Base Capital Notes ("BCN's"). At 30 June 2019 the carrying value of BCNs was impaired from $5,410,000 to $3,949,000, which represents 6.6% of the Credit Unions reported Net Assets. As disclosed in Note 5.6 to the financial statements, the BCNs are measured at fair value. The Credit Union assesses at reporting date whether there is objective evidence that the BCNs are impaired. Note 5.6 outlines certain indicators of impairment of the BCN's. The determination of whether to adjust the carrying value of	We performed the following procedures over the carrying value of BCN's: • Agreed cost to third party confirmation. • Assessed the board's impairment assessment of BCN's. • Verified key facts within the board's assessment to third party or publicly available information. • Assessed the extent to which any impairment would be required, to be material to the organisation in relation to the net asset position of the Credit Union.

BDO Wellington Audit Limited

BCN's for impairment requires the Board to exercise judgement and apply assumptions. Management undertake the following procedures in determining whether to impair the value of BCN's: Document and consider the carrying value of BCN's against any observed transactions Document relevant facts compiled from available information to assess the financial position, historic and forecast financial performance of Co-Op Money NZ and associated risks relating to these forecasts Determine and document whether the available facts lead the Board and management to conclude whether the BCNs are materially impaired Document key facts and any material uncertainties relating to the assessment which require disclosure in the financial statements. It is considered to be a key audit matter, due to the significant judgements involved by the Board and management in assessing whether to adjust the BCN's carrying value for impairment.	• Critically assessed the key points raised by the board in their documented position against publically available information relating to Co-Op Money NZ and our knowledge of the industry. • Assessed the appropriateness of disclosures in the financial statements.

Impairment of Loans to Members	How The Matter Was Addressed in Our Audit
The Credit Union's gross loans to members balance was $205,065,000 as at 30 June 2019. The Credit Union's impairment allowance was $2,770,000 for the year ended 30 June 2019. 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, amongst others, over the impairment allowance: • We gained an understanding of the design and implementation of the control environment in regard to loans to members and assessment of impairment. • We tested a sample of loans and verified that they were appropriately authorised and approved. • We obtained a loan portfolio listing and reconciled this to the members loan balance included in the financial statements. • We tested a sample of loans, from the loan portfolio listing, which had not been identified as impaired. We agreed a sample of loan details to source documentation including verification of collateral held, original loan balance and whether repayment terms are being met. • 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 on the provision based on historical data and trends and compared this to the current year provision to determine whether the provision is consistent and accurate.

BDO Wellington Audit Limited

IT Environment	How The Matter Was Addressed in Our Audit
First Credit Union is dependent on complex IT systems for the processing and recording of significant volumes of transactions and other core banking activity. First Credit Union migrated to a new system in the 2018 financial year. The implementation did not go as intended and resulted in issues which we had to consider from an audit perspective. 12 months following the migration, some deficiencies still persist however there has been significant improvement. We consider this a key part of our audit because of the: • Deficiencies in the control environment from initial implementation of the new IT system during the 2018 year. • Complex IT environment supporting diverse business processes. • Mix of manual and automated controls. • Multiple internal and outsourced support arrangements.	Our audit procedures, amongst others, included the following: • We performed substantive testing, on a sample basis over the generation of certain reports to ensure we could rely on these reports for our audit testing, as well as obtaining evidence that key controls within the system were operating as intended. We engaged our BDO Information System experts to perform the following procedures, amongst others: • Gain an understanding of the IT environment, particularly around the key controls in place within the system that were relevant to financial statement balances, such as the member loans and member shares account balances. • Assess the design and operating effectiveness of the IT control environment, including core banking IT systems, key automated controls and reporting. Where control deficiencies were noted, the impact on the financial statements was assessed.

Other Information

The directors are responsible for the other information. The other information comprises the Annual Report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do 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 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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 cue 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.

BDO Wellington Audit Limited

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.

As part of an audit in accordance with ISAs (NZ), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

BDO Wellington Audit Limited

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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
28 August 2019

first credit union