CELEBRATING

65

ANNUAL REPORT 2020

SERVING OUR COMMUNITY FOR 65 YEARS

first
credit union

CELEBRATING
65

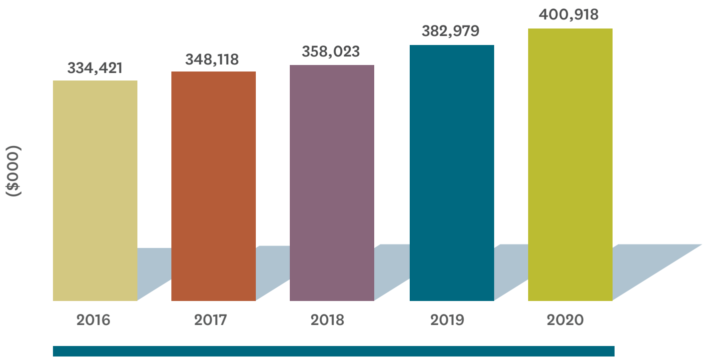
CONTENTS

THE YEAR AT A GLANCE

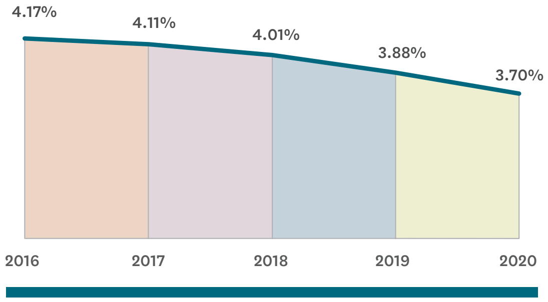
Operating surplus	**$784,000**
Total Assets	**$400.918 million**
Number of loans disbursed	**9,974**
Total loans disbursed	**$86.56 million**
Total Loans	**$226.184 million**
Interest Paid to members	**$8.828 million**
Member Shares	**$337.358 million**
Staff	**103**

KEY PERFORMANCE INDICATORS

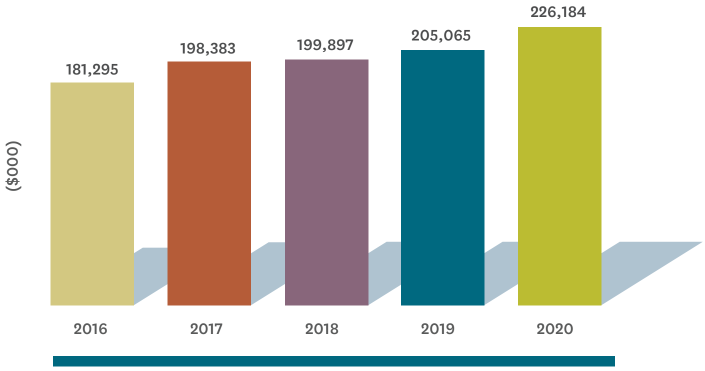
TOTAL ASSETS



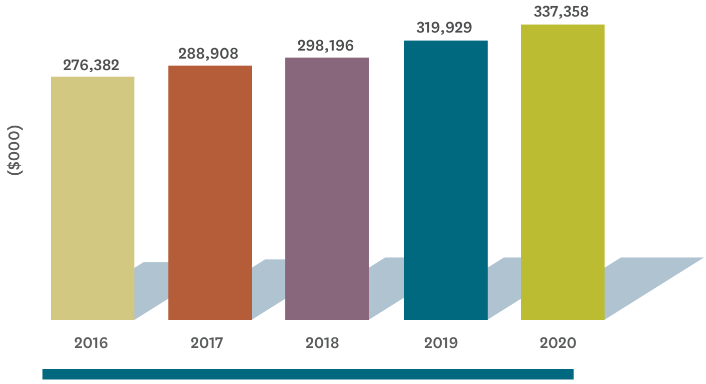
NET INTEREST MARGIN



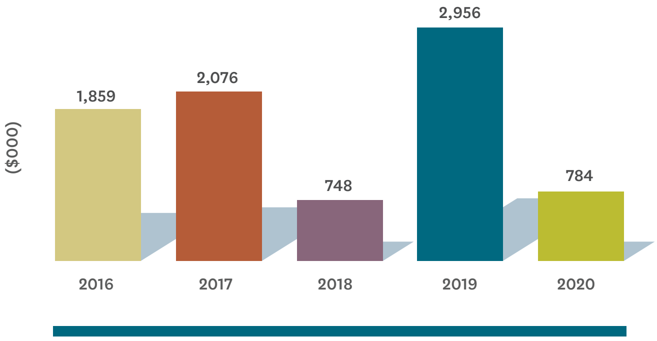
TOTAL LOANS



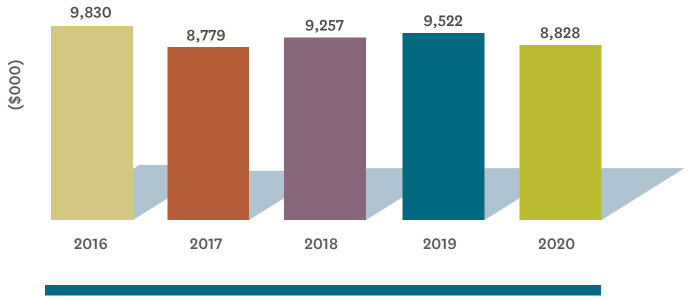
MEMBER SHARES



OPERATING SURPLUS



INTEREST PAID TO MEMBERS



CELEBRATING 65

REPORT

CHAIR'S REPORT

The year ended 30 June 2020 has been one of the most challenging in our 65 year history. Together we navigated unprecedented challenges due to COVID-19, the impacts of which have been widely felt by Staff, Members and our local communities. As Chair, I am proud of how we were able to work alongside our members to support them during this time.

Despite being a challenging year, I am pleased to report that as 30 June 2020 First Credit Union:

- Had an operating surplus of $784,000
- $400.918 million in assets
- Member shares of $337.358 million
- A loan book totalling $226.184 million
- Paid $8.828 million worth of interest on member shares

As at 30 June 2020:

- First Credit Union's cash assets stood at $152.760 million or 38.10% of total assets
- First Credit Union had advanced $86.56 million. Of this, we disbursed $42.99 million in personal loans and $43.57 million in mortgages. Our loan book sits at 59.44% mortgages and 40.56% personal loans

At last year's Annual General Meeting members voted and approved for First Credit Union's Rules to be amended to allow the Credit Union to apply to be incorporated. We needed to do this to comply with the amended Friendly Societies & Credit Union Act which came into force on 01 April 2019. First Credit Union became incorporated on 01 January 2020 enabling it to remove its internal trustees and transfer its powers to the board committees. Once we were incorporated, changes to our Rules, Trust Deed and Product Disclosure Statement were amended to comply with the amended Act.

Thank you to the Board, Management and staff for their work this year to achieve these results.

J. a Taane.

Judith Taane
Chair

TREASURER'S REPORT

First Credit Union has continued to perform well, despite the uncertainty that comes with a global pandemic and the low interest rate environment. As members (and owners) of First Credit Union you come first. The Board and Management continue to act in a prudent manner to protect the interests of our members. As at 30 June 2020, First Credit Union had:

- An operating surplus of $784,000
- Total assets of $400.918 million, representing an increase of 4.68%
- Loans outstanding to members totalling $226.184 million. This represents an increase of 10.30%
- Member shares totalling $337.358 million, representing an increase of 5.45%

Our total reserves sat at $60.34 mllion, and our Risk Weighted Capital Ratio is 15.65%, well above our regulatory requirement of 8% and policy requirement of 10%.

I look forward to another successful year and wish to thank our members for continuing to support First Credit Union.

Peter Iles
Treasurer

> For me it's really not about transactions. ***It's about building life-long relationships.*** I want our members to look forward to coming back into the branch.

TEAGAN

REPORT

GENERAL MANAGER'S REPORT

This year we proudly celebrate 65 years of putting our members and the communities we serve first. I think it's fair to say that we won't be forgetting this year any time soon.

On top of everything this year our members and staff had a global pandemic to contend with. I am proud of the way that our staff continued to put our members first even when they themselves were facing unprecedented challenges.

Celebrating 65 years of members first

On July 10th First Credit Union turned 65 years old.
We are incredibly proud of our journey over the last 65 years and while we have seen many changes in the banking and finance sector one thing has always remained the same: we put our members first.

Over our 65 years many other credit unions have voted to merge with us. This is testament to our strength of member benefits.

We may be old enough to officially retire, but there's no sign of us slowing down- quite the opposite really. As a 100% kiwi owned, member organisation we continue to be relevant and provide everyday kiwis with a real alternative to the banks. We continue to review our service and offerings to members, with a view to further develop and enhance where possible.

Our response to COVID-19

As the COVID-19 situation progressed our team were quick to implement a support package for members to help them through the unprecedented financial challenges faced. I am pleased to report that during this time we were able to successfully help hundreds of our members.

Deemed an essential service, First Credit Union was able to continue to provide support to our membership via our online channels, in particular the Call Centre. During this time we saw call volumes increase by 25%. I would like to thank our members for their patience over this time as we had staff from all departments assisting members on the phones.

It's often in times like this that we get the opportunity to pause and reflect on how we do things. COVID-19 meant that as an organisation we had to adapt quickly and change how we serve members and as a result we saw projects we had been working on brought forward. As such, we are now able to offer our members the ability to complete a loan from start to finish online, reducing the need for members to make a special visit to a branch.

Communication was key during lock down. Last year we updated our website with a news section and a banner on the homepage. This means we can quickly advise our members of what is happening and during the lock down period we implemented Mobile Banking text alerts.

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

First Credit Union Gala Awards

In November 2019 we held our second annual gala awards evening. The awards evening is a time for all staff and their families to come together to celebrate the hard work and success of colleagues.

Retirement

This year we have said goodbye to Sue Barlow, Wendy Smith, Jan Theobald, Jan O'Brien and Sue Paris as they retire to start the next chapter of their lives.

With over 130 years of service to First Credit Union and our members combined these ladies have seen many changes in their time and have always been our biggest advocates out and about in our communities. With a range of roles and experience between them we are incredibly grateful for all they have done for First Credit Union and our members over the years.

On behalf of the Board, Management, Staff and Members I would like to thank Sue, Wendy, Jan, Sue and Jan for their commitment to First Credit Union and our members. I wish you all the best for your retirement, you will be missed!

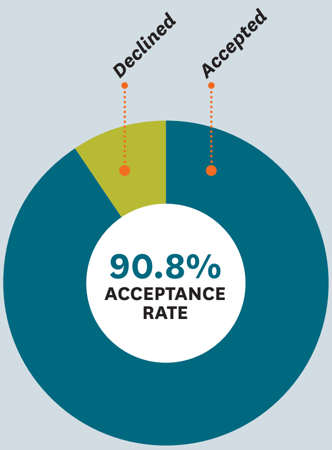
> "There is no success without commitment."
>
> **TONY ROBBINS** *Life Coach*

First Insurance Limited Update

First Insurance Limited (FIL) has now completed its second full year of operation and continues to make a solid contribution both operationally and financially.

I am pleased to report that over the last 12 months FIL has continued to perform above industry standards by approving 90.8% of Loan Protection claims and 100% of Funeral Plan claims.

Members with First Insurance covers	*10,400 (LPI and FP)*
FUNERAL PLAN INSURANCE CLAIMS	LOAN PROTECTION INSURANCE CLAIMS - FY19/20



Unitus Community Credit Union Employee Exchange

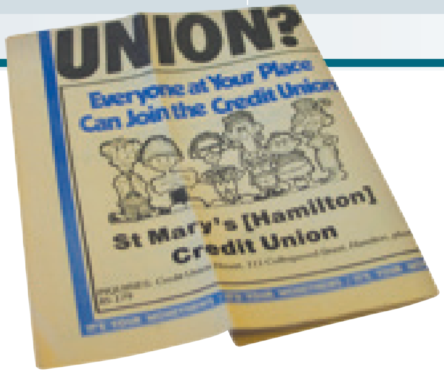
As reported last year, First Credit Union has partnered with Unitus Community Credit Union in Portland, Oregon USA. In October Rachel Sweetman and Melissa Hay spent a week with the team in Portland where they gained a valuable insight into how Unitus is serving its members and communities. Read more about this exchange on page 12.

Oceania Confederation of Credit Union Leagues

We have continued to support the South Pacific Credit Unions and Leagues by attending the Pacific Credit Union Congress held in Nadi in October 2019. Michelle Arundel, Asenaca Kaloumaira and I presented to the Congress.

On behalf of Management and Staff I would like to thank our members for continuing to choose First Credit Union. We look forward to working with you to achieve your financial goals for many more years to come.

Simon Scott
General Manager



> ***I am proud of the way our staff*** continued to put our members first even when they themselves were facing unprecedented challenges.

SIMON SCOTT *General manager*

CELEBRATING

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CELEBRATING 65 YEARS OF SERVING MEMBERS

We've come a long way in the last 65 years, and we couldn't have done it without our members! Here's to the next 65!

TIMELINE

1934 *Bank notes first introduced to New Zealand*

1955 *St Mary's Credit Union started*

1961 *NZ Credit Union League formed*

1961 *St Mary's Credit Union became the first NZ Credit Union affiliated to the worldwide movement*

1962 *School Banking first introduced to local Hamilton schools*

1971 *St Mary's purchased neighbouring premises - First Credit Union's current site.*

1985 *S6 loan provider account created to build the credit union loan pool*

1990 *Introduced 15 year mortgage with average pay-off being seven years*

credit union hamilton what's ours is yours

1992 *Name change to Credit Union Hamilton*

first credit union what's ours is yours

2007 *Name change to First Credit Union*

2007 *Website launched*

2017 *Rebrand*

first credit union

2018 *Established First Insurance Limited*

First Insurance Ltd

Proudly celebrating 65 years serving our community!

2020

CELEBRATING 65

> Applying our principle of ***"People helping People"*** in my work and being able to help others and our community is a great feeling. I've never been more proud to be a part of this movement.
>
> **BEN**

EXCHANGE

EMPLOYEE EXCHANGE PROGRAM

Credit Unions worldwide strive to provide access to affordable and reliable financial services to their members. As a member owned organisation First Credit Union goes one step further by ensuring that every decision it makes is in the best interests of its members – members come first in our world!

Following a visit from two staff members from Unitus Community Credit Union in March 2019, two First Credit Union employees, Rachel Sweetman and Melissa Hay were given the unique opportunity to visit Unitus Community Credit Union in October, as part of a newly developed employee exchange program.

Unitus Community Credit Union, based in Portland, Oregon, USA serves over 100,000 members and has 12 branches and like First Credit Union is heavily involved in their local communities.

Over a period of a week Rachel and Melissa immersed themselves in life at Unitus Community Credit Union, participating in their full management meeting, visiting several branches and spending time with each department.

One thing that became clear to both Rachel and Melissa was how similar our two credit unions were and that like First Credit Union, the staff at Unitus Community Credit Union were passionate about their Credit Union and helping their members succeed.

Simon Scott worked with Steve Stapp from Unitus Community Credit Union to implement this exchange, believing "an exchange of this nature is the perfect opportunity for our two Credit Unions to work together, share ideas and learn from each other".

"I am pleased with how well the first year of the exchange went. Rachel and Melissa came back with ideas that were able to be implemented at First Credit Union. I look forward to the time when we can restart the exchange when it is safe to travel again."

After an elderly member died, I helped his daughter close his estate. ***I didn’t realise how much it meant*** until she started crying and thanked me for all I did for her family. For me it’s about being able to assist our members at every stage of their life.

CAITLIN

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

> “It’s a great feeling when you are able to ***help a member out of a situation*** and seeing their relief makes it all worth it.”

NATHAN

CONTENTS

DIRECTORY

FOR THE YEAR ENDED 30 JUNE 2020

FIRST CREDIT UNION INCORPORATED **BOARD OF DIRECTORS**

Chair	Judith Taane
Deputy Chair	Malcolm Blair
Directors	John Harvey
	Peter Iles (Secretary/Treasurer)
	Phil Todd
	Robert Pascoe
	Simon Scott
Trustees	Judith Taane (ceased 1 January 2020)
(positions abolished 1 January 2020 upon Incorporation)	John Harvey (ceased 1 January 2020)
	Robert Pascoe (ceased 1 January 2020)

FIRST INSURANCE LIMITED **BOARD OF DIRECTORS**

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

EXECUTIVE MANAGEMENT

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

SENIOR MANAGEMENT TEAM

General Manager	Simon Scott
Chief Financial Officer	Stephen Hawkins
Marketing & Communications Manager	Melissa Hay
Collections Manager	Michelle Arundel
Lending Manager	Richard O'Regan
Insurance Manager	Michael Cathro
Call Centre Manager	Ana Braunias
Treasury & Agency Banking Manager	Herb Wulff
Risk & Compliance Manager	Asenaca Kaloumaira
Chief Information Officer	Jarrod Dowd
Business Development Manager	Hannah Goodhue

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

FIRST CREDIT UNION INCORPORATED

Statement of Comprehensive Revenue and Expense

FOR THE YEAR ENDED 30 JUNE 2020

	Note	2020	2019
REVENUE		**$000**	**$000**
Interest Revenue	2.1	21,900	22,613
Interest Expenditure	2.1	(8,828)	(9,522)
Net Interest Revenue		**13,072**	**13,091**
Other Income	2.2	6,622	8,752
Insurance Underwriting Surplus	6.1(a)	1,058	1,109
		20,752	**22,952**
EXPENDITURE			
Operating Expenses	2.3	(8,892)	(8,690)
Employee Benefits	2.3	(6,875)	(6,657)
Loan Impairment Expenses	4.2	(2,151)	(1,072)
Depreciation	5.1	(778)	(837)
Amortisation Expenses	5.2	(709)	(671)
Capital Notes Impairment Expense	5.7	0	(1,461)
Occupancy		(549)	(579)
Total Operating Expenditure		**(19,954)**	**(19,967)**
Surplus before Taxation		**798**	**2,985**
Income Tax Expense	2.4	(14)	(29)
Surplus for the Year Attributable to Members		**784**	**2,956**
Other Comprehensive Revenue and Expense			
Revaluation of Property	5.1	0	95
Total Comprehensive Revenue and Expense for the Year		**784**	**3,051**

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

FIRST CREDIT UNION INCORPORATED

Statement of Changes in Net Assets/Equity

FOR THE YEAR ENDED 30 JUNE 2020

	Note	Accumulated Revenue and Expense	Property Revaluation Reserve	Total
		$000	**$000**	**$000**
Balance as at 30 June 2018		**53,300**	**3,207**	**56,507**
Total Comprehensive Revenue and Expense for the Year		2,956	95	3,051
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**
Total Comprehensive Revenue and Expense for the Year		784	0	784
Balance as at 30 June 2020		**58,308**	**2,034**	**60,342**

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

FIRST CREDIT UNION INCORPORATED

Statement of Financial Position

AS AT 30 JUNE 2020

	Note	2020	2019
		$000	$000
MEMBERS' FUNDS			
Accumulated Revenue and Expense		58,308	57,524
Property Revaluation Reserve		2,034	2,034
Total Members' Funds		**60,342**	**59,558**
ASSETS			
Cash and Cash Equivalents	**3.1**	18,895	15,663
Term Deposits	**3.2**	133,865	142,235
Loans to Members	**4.1**	223,224	202,295
Property, Plant and Equipment	**5.1**	12,102	12,514
Intangible Assets	**5.2**	5,357	5,654
Other Assets	**5.4**	6,463	669
Investment in Associate	**5.6**	1,012	0
Capital Notes	**5.7**	0	3,949
Total Assets		**400,918**	**382,979**
LIABILITIES			
Trade and Other Payables	**5.5**	2,835	3,088
Employee Entitlements		383	404
Members' Deposits	**5.8**	337,358	319,929
Total Liabilities		**340,576**	**323,421**
Net Assets / Equity		**60,342**	**59,558**

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

CHAIR
Judith Taane

J a Taane.

DATE 26 AUGUST 2020

DIRECTOR
Peter Iles

Peter Iles

DATE 26 AUGUST 2020

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

FIRST CREDIT UNION INCORPORATED

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2020

	Note	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		$000	$000
Interest Received		22,227	22,590
Fees, Commissions and Other Income		7,109	9,312
Bad Loans Recovered		365	405
Interest Paid		(8,985)	(9,449)
Payments to Suppliers and Employees		(22,294)	(15,896)
Net Cash Provided by Operating Activities before changes in Operating Assets		**(1,578)**	**6,962**
Net (Increase) Decrease in Members' Loans		(22,933)	(5,018)
Net Increase (Decrease) in Member Deposits		17,586	21,659
Net Cash Provided by Operating Activities		**(6,925)**	**23,603**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for Property, Plant, Equipment and Intangibles		(784)	(1,745)
Sale of Capital Notes		4,057	0
Investment in Associate		(1,012)	0
Net (Increase) Decrease in Term Deposits		7,896	(17,828)
Net Cash Used in Investing Activities		**10,157**	**(19,573)**
Total Net Increase (Decrease) in Cash and Cash Equivalents Held		3,232	4,030
Cash and Cash Equivalents at the Beginning of the Period		15,663	11,633
Cash and Cash Equivalents at the End of the Period	**3.1**	**18,895**	**15,663**

Reconciliation of Cash Flow from Operating Activities with Operating Surplus

Surplus for the Year Attributable to Members		**784**	**2,956**
NON CASH ITEMS			
Depreciation, Amortisation and Loss on Sale		1,385	1,621
Bad Debts Written off		1,961	972
Bad Debt Provision		190	100
Capital Notes Impairment Expense		0	1,461
		3,536	4,154
CHANGES IN ASSETS AND LIABILITIES			
Movement in Accounts Receivable		(104)	(177)
Movement in Prepayments		(5,690)	(113)
Movement in Accounts Payable		(253)	(115)
Movement in Employee Benefits		(21)	353
Movement in Accrued Interest Receivable		327	(23)
Movement in Accrued Interest Payable		(157)	(73)
Net Movement in Members' Loans		(22,933)	(5,018)
Net Increase (Decrease) in Member Deposits		17,586	21,659
		(11,245)	16,493
Net Operating Cash Flows		**(6,925)**	**23,603**

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

FIRST CREDIT UNION INCORPORATED

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2020

FIRST CREDIT UNION INCORPORATED

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2020

1 Corporate Information

1.1 *Reporting Entity*

The financial statements comprising First Credit Union Incorporated ('the Credit Union') and its controlled entity First Insurance Limited ('the Insurer'), together comprise the Group ('the Group'). First Credit Union Incorporated is registered under the Friendly Societies and Credit Unions Act 1982 ('FSCU Act') and the Insurer is a licensed insurer under the Insurance (Prudential Supervision) Act 2010 ('IPS Act'). The Group is an FMC reporting entity for the purposes of the Financial Markets Conduct Act 2013 ('FMC Act'). As at 1 January 2020, First Credit Union has been incorporated by the Registrar of Friendly Societies and Credit Unions and, as such our assets are no longer held by the Trustees of the Credit Union but are held by the incorporated body.

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 and to other small to medium enterprises associated with members, or invests funds on the members' behalf. Interest and other income are received by the Credit Union and interest is paid to depositing members in the form of interest on shares.

1.3 *Trust Deed*

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

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

The current Trust Deed is dated 1 January 2020.

1.4 *Basis of Preparation*

Statement of Compliance

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

The financial statements are:

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

Use of Estimates and Judgements

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

FIRST CREDIT UNION INCORPORATED

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2020

2. Financial Performance

2.1 Net Interest Revenue	2020	2019
	$000	**$000**
Interest Revenue - Interest on Loans and Receivables		
Interest on Loans to Members	18,367	18,392
Interest on Term Deposits	3,453	4,035
Interest On Cash and Cash Equivalents	80	186
Total Interest Revenue	**21,900**	**22,613**
Interest Expenditure - Liabilities at Amortised Cost		
Interest on Members Call Shares	(2,367)	(3,037)
Interest on Members Term Shares	(6,461)	(6,485)
Total Interest Expenditure	**(8,828)**	**(9,522)**

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	2020	2019
	$000	**$000**
ATM/Eftpos Card Recoveries	4,128	4,417
Costs Recovered and Other Fees Charged	1,550	1,736
Bad Debts Recovered	365	405
Commissions Received	228	197
Gain on Sale of Property, Plant and Equipment, Capital Notes	108	1,883
Other Income	243	114
Total Other Income	**6,622**	**8,752**

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 INCORPORATED

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2020

2. Financial Performance (continued)

2.3 Expenditure	***Note***	***2020***	***2019***
		$000	**$000**
Operating Expenses includes:			
External Audit of Financial Statements			
- BDO Audits		137	144
- BDO Other Services		0	13
Directors Fees	**6.4**	217	228
Employee Benefits includes:			
Wages and Salaries		6,233	5,845
Defined Contribution Expense		158	321

2.4 Taxation		***2020***	***2019***
		$000	**$000**
Income Tax Recognised in Statement of Comprehensive Income			
Net Operating Surplus before Taxation		798	2,985
Less: Exempt Income and Expenses		(747)	(2,882)
Operating Surplus before Taxation		**51**	**103**
Income Tax Expense at Current Rate of 28%		**14**	**29**
Current Tax Receivable			
Taxation Expense		(14)	(29)
Resident Withholding Tax Paid		53	62
Taxation Refund		**39**	**33**

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 INCORPORATED

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FOR THE YEAR ENDED 30 JUNE 2020

3. Deposits and Liquidity

3.1 Cash and Cash Equivalents	***Interest Rates***	***2020***	***2019***
		$000	**$000**
Cash on Hand	0.00%	1,202	832
Bank Balances - On Call	0.05%	17,693	14,831
Total Cash and Cash Equivalents		**18,895**	**15,663**

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***	***2020***	***2019***
		$000	**$000**
Westpac Bank	1.33% to 2.70%	131,938	112,978
ANZ	1.85% to 1.92%	1,927	29,257
Total Term Deposits		**133,865**	**142,235**

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 members shares.

At reporting date the presentation of cash flows from members' loans and members shares has changed to include both under operating cash flows. Prior years financial statements had members' loans under investing activities and members shares under financing activities.
The change better reflects the operations of the Group.

4. Loans and Receivables

4.1 Loans to Members	Note	2020	2019
		$000	**$000**
Mortgages		134,440	110,107
Personal Loans		91,744	94,958
Gross Loans to Members		**226,184**	**205,065**
Less: Allowance for Impairment	**4.2**	(2,960)	(2,770)
Net Loans to Members		**223,224**	**202,295**

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	2020	2019
	$000	**$000**
Secured by Mortgage Over Real Estate with LVR < 80%	98,616	85,163
Secured by Mortgage Over Real Estate with LVR > 80%	35,824	24,944
Secured by Members Shares	18,558	20,586
Partially Secured by Motor Vehicles or Other Collateral	59,896	62,428
Unsecured Loans	13,290	11,944
Credit Quality of Gross Loans to Members	**226,184**	**205,065**

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	2020	2019
	$000	**$000**
Neither Past Due Nor Impaired	183,709	180,827
Past Due But Not Impaired		
1 to 30 days	9,305	10,738
31 to 90 days	155	1,777
over 90 days	3,187	2,960
Loans with Covid Concessions	20,862	0
Impaired Loans	8,966	8,763
Gross Loans	**226,184**	**205,065**
Interest Revenue Recognised on Impaired Loans	**530**	**604**
Interest Revenue Foregone on Impaired Loans	**662**	**592**

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.

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

At reporting date $20,861,633 of loans to Members were under one of these initiatives, with $15,260,769 being mortgages and $5,600,864 personal loans.

4.2 Provision for Impairment of Financial Assets

Impairment of Loans and Advances

Total doubtful debts and bad debt expense for the year was:	*2020*	*2019*
	$000	**$000**
Provision for Impairment - Increase / (decrease) in the Year	190	100
Bad Loans written off	1,961	972
Loan Impairment Expenditure	**2,151**	**1,072**

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

	Individually Impaired	*Collectively Impaired*	*Restructured*	*2020 Total*	*2019 Total*
	$000	**$000**	**$000**	**$000**	**$000**
Opening Balance	**40**	**1,225**	**1,505**	**2,770**	**2,670**
Transfer between Provision Types	2,460	(955)	(1,505)	**0**	0
Increase/(Decrease) in the Provision	863	12	0	**875**	702
Covid Provisioning	0	744	0	**744**	0
Transfer to Bad Debts Written Off	(1,429)	0	0	**(1,429)**	(602)
Closing Balance	**1,934**	**1,026**	**0**	**2,960**	**2,770**

RECOGNITION AND MEASUREMENT

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

At reporting date the Group has implemented a new methodology for estimating the provision for impairment of loans and advances. Whilst the new methodology has not altered the opening balance of the provision, the sub-classifications have changed and these changes are shown in the 'Transfer between Provision Types' above. The most significant change is in what were referred to as Restructured loans, which are loans under-going some form of Court action. These loans are now individually assessed for impairment, as such the provision associated with these loans has transferred from Restructured to Individually Impaired.

4. Loans and Receivables (continued)

4.2 Provision for Impairment of Financial Assets (continued)

Key Assumptions in Determining the Allowance for Impairment

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

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

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

COVID-19 - The impact and duration of COVID-19 on the global economy and how governments, businesses and consumers respond is uncertain. The provision for impairment of loans and advances as at 30 June 2020 is therefore largely based on management judgement with respect to the impacts of COVID-19 on the Group's exposures. The judgements and assumptions made by management are based on a variety of internal and external information.

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

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

TYPE/EVENT	KEY JUDGEMENT OR ASSUMPTION OF THE GROUP
Base Case Estimate	The standard provisioning model was considered the base case estimate.
Loans with Covid Concessions	Acceptance is conditional upon eligibility criteria, thus restricting Covid concessions to those Members in employment and whose loans, Covid aside, were not in arrears (over 30 days). Mortgages - all mortgages have LVRs able to absorb a 5-10% decrease in house prices. Personal Loan loss ratio - a moderate downside of 2% approximates $130,000 in additional bad debts, and a severe downside of 15% approximates $840,000 in additional bad debts. A mid-point of $485,000 was used and is included in the Collectively Impaired provision.
Loans with no known Covid Impacts	*Mortgages* - the Group operates a very conservative mortgage book, LVR's are 51% overall; Mortgages with an LVR > 90% total $5,230,000 or 3.9% of the total. *Personal Loans with no indicators of impairment* - the base case collective provision for these personal loans has been tripled to provide for uncertainty around Covid.
Member Composition	The Group predominantly operates in the Waikato and Bay of Plenty. The Membership base is broadly spread, with limited exposure to any one industry/employer/region, as such the Group does not believe its loan book is particularly exposed to high risk industries such as tourism, or centres such as Queenstown or Auckland. The regions appear to be holding up well, with the Waikato in particular seen as able to withstand the downturn better than most with its key industries of farming and health.
Existing Provision Conservatism and Financial Strength	The Group has traditionally operated a conservative provision for impairment of loans and advances. The Group believes it has the financial strength and resources to withstand a sustained economic downturn and sustained high levels of bad debts.

FIRST CREDIT UNION INCORPORATED

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FOR THE YEAR ENDED 30 JUNE 2020

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 2019	**4,829**	**7,271**	**1,922**	**1,704**	**229**	**15,955**
Additions	0	117	41	59	149	366
Closing Balance 30 June 2020	**4,829**	**7,388**	**1,963**	**1,763**	**378**	**16,321**
Accumulated Depreciation						
Opening Balance 1 July 2019	0	**1,079**	**1,180**	**1,072**	**110**	**3,441**
Depreciation for the Period	0	302	293	143	40	778
Closing Balance 30 June 2020	**0**	**1,381**	**1,473**	**1,215**	**150**	**4,219**
Net Book Value at 30 June 2020	**4,829**	**6,007**	**490**	**548**	**228**	**12,102**
Net Book Value at 30 June 2019	**4,829**	**6,192**	**742**	**632**	**119**	**12,514**

RECOGNITION AND MEASUREMENT

Land and Buildings

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

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

Revaluation

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

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

Management have assessed the impact of Covid-19 on the Property, Plant & Equipment at reporting date and have determined that there has not been a material change in the fair value therefore a revaluation as at 30 June 2020 has not been performed. This is based on review of available commercial estimates which indicate that there is unlikely to be a material change in the valuation of land and buildings.

Other 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.

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 2019	**7,158**
Additions	412
Cost Closing Balance 30 June 2020	**7,570**
Accumulated Amortisation Opening Balance 1 July 2019	**1,504**
Amortised During the Year	709
Accumulated Amortisation Closing Balance 30 June 2020	**2,213**
Intangible Assets Net Book Value at 30 June 2020	**5,357**
Intangible Assets Net Book Value at 30 June 2019	**5,654**

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.

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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*	*2020*	*2019*
		$000	**$000**
Income Tax Receivable		39	33
Sundry Debtors		314	216
Prepayments		6,110	420
Total Other Assets		**6,463**	**669**

5.5 Payables	*Note*	*2020*	*2019*
		$000	**$000**
Trade Payables		992	1,100
Card Settlement		1,185	1,333
Sundry Creditors and Accrued Expenses		127	161
GST Payable		1	79
Insurance Contract Liabilities	**6.1(b)**	530	415
Total Trade and Other Payables		**2,835**	**3,088**

RECOGNITION AND MEASUREMENT

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

GST Payable and Insurance Contract Liabilities are not financial liabilities.

5. Other Financial Position Notes (continued)

5.6 Investment in Associate	*2020*	*2019*
	$000	**$000**
Investment at Cost	1,012	0
Share of Surplus/(Deficit)	0	0
Equity Accounted Investment in Associate	**1,012**	**0**

RECOGNITION AND MEASUREMENT

In 2020 the Group acquired a 9.99% shareholding in Finzsoft Solutions Limited (Finzsoft). Finzsoft is a key supplier to the Group, providing the core banking system and as such Finzsoft is considered a strategic investment that will secure ongoing provision of that key system. Finzsoft was a publicly listed company prior to the purchase of shares by the Group, however on 1 May 2020 Finzsoft was de-listed from the New Zealand Stock Exchange and is now a privately owned company registered in New Zealand.

Finzsoft is considered an Associate for accounting and reporting purposes. Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity, or there are other indicators of significant influence, individually or in aggregate when shareholding is below 20%. The Group has significant influence due to having representation on the Board and providing finance through several years of prepaid licence fees.

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

The 30 June 2020 financial year audit of Finzsoft is currently in progress. The Group has not recognised a share of any surplus or deficit due to the uncertainty over the numbers. The Directors have determined that any share of surplus or deficit will not have a material impact on the Group.

Finzsoft has the same reporting date as the Group.

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

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

The Group has recognised as an asset prepaid licence fees to Finzsoft totalling $5,995,000 through to September 2026. The prepaid licence fees are secured by General Security Agreement over Finzsoft.

5.7 Capital Notes	*2020*	*2019*
	$000	**$000**
Capital Notes	-	3,949

RECOGNITION AND MEASUREMENT

The Capital Notes were sold 21 November 2019 for $4,057,676 resulting in a gain on sale of $108,676.
The Credit Union no longer has any financial interest, nor any operational reliance on the New Zealand Association of Credit Unions (trading as 'Co-op Money'), except for a 3rd party supplier whose ATM systems sit with Co-Op Money.
The Credit Union considers these ATM's a convenience tool, and any outage would be of minor operational importance considering cards can be used at any Bank ATM in New Zealand.

5. Other Financial Position Notes (continued)

5.8 Members' Deposits	2020	2019
	$000	$000
Call Shares	154,050	135,476
Term Shares	183,308	184,453
Total Members' Deposits	**337,358**	**319,929**

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	2020	2019
	$000	$000
Premium Revenue	2,130	2,013
Claims Expense	(1,072)	(904)
Insurance Underwriting Surplus	**1,058**	**1,109**

RECOGNITION AND MEASUREMENT

Premium Income

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

Claims Expense

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

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

Provision for Outstanding Claims

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

Key Assumptions

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

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

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

- The effective date of the assessment in the actuarial report was 30 June 2020.
- 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 2020, nor would such a liability be required if there were an unearned premium liability at reporting date.

FIRST CREDIT UNION INCORPORATED

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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.

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

	2020	2019
	$000	**$000**
Actual Solvency Capital	**6,169**	6,132
Minimum Solvency Capital	**5,000**	5,000
Solvency Margin	**1,169**	1,132
Solvency Ratio	**123%**	123%

During the year ended 30 June 2020, 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 2020 was $6,089,171 (2019: 5,903,203) relative to an actual solvency capital of $6,168,627 (2019: $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:

	2020	2019
	$000	**$000**
Base assumptions	**530**	415
Claims provision if assumed development/reporting pattern 10% longer	**606**	474
Claims provision if assumed development/reporting pattern 10% shorter	**423**	331

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.

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:

	2020	2019
	$000	**$000**
Not longer than 1 Year	178	225
Total Future Capital Commitments	**178**	**225**

Outstanding Loan Commitments

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

	2020	2019
	$000	**$000**
Loans Approved but not Funded	53	160
Undrawn Overdraft and Line of Credit	325	241
Total Outstanding Loan Commitments	**378**	**401**

6.3 Contingent Liabilities

The Group has no contingent liabilities as at 30 June 2020 (2019 nil).

6.4 Related Parties

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

	2020 Directors	2020 KMP	2019 Directors	2019 KMP
	$000	**$000**	**$000**	**$000**
Short-Term Employee Benefits	**217**	**764**	228	726

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.

6. Other Notes (continued)

6.4 Related Parties (continued)	2020 Shares	2020 Loans	2019 Shares	2019 Loans
	$000	$000	$000	$000
Related Party Holdings:				
Directors	2,824	435	2,794	455
KMP	8	2,532	6	2,467
Connected Parties	1,384	1,815	1,088	1,637
Total Related Party Holdings:	**4,216**	**4,782**	**3,888**	**4,559**

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 $1.35 million (2019 $0.68 million).

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

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

- At reporting date the Group has prepaid licence fees to Finzsoft totalling $5,995,000 through to September 2026. The prepaid licence fees are secured by General Security Agreement over Finzsoft; subject to a 4.96% discount; and the remaining portion of the unamortised prepayment can be repaid by Finzsoft;
- Excluding the above prepayment, $816,740 was paid to Finzsoft during the year.

No loans to related parties have been impaired in the period. (2019: $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

New standards impacting the Group that have been adopted in the annual financial statements for the year ended 30 June 2020 and which have given rise to changes in the Group's accounting policies are:

PBE IPSAS 34 - Separate Financial Statements
PBE IPSAS 36 - Investments in Associates and Joint Ventures
PBE IPSAS 38 - Disclosure of Interests in Other Entities

These standards were adopted in the current financial year as a result in the Group investing into Finzsoft in the current financial year (note 5.6). The adoption of these new standards has had no other impact on the Group upon adoption.

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 2020, and have not been applied in preparing these financial statements. Those standards with the most significant potential impact on the financial statements that have been issued but are not yet effective are outlined below:

PBE IPSAS 41 - Financial Instruments effective 1 January 2022
PBE FRS 48 - Service Performance Reporting effective 30 June 2022

The impact of these standards is yet to be assessed.

7. Other Accounting Policies (continued)

7.3 Basis of Consolidation

Controlled entities are all those entities over which the controlling entity has the power to govern the financial and operating policies so as to benefit from its activities. The controlled entities are consolidated from the date on which control is transferred and are de-consolidated from the date that control ceases. In preparing the consolidated financial statements, all inter entity balances and transactions, and unrealised gains and losses arising within the consolidated entity are eliminated. The accounting policies of the controlled entity are consistent with the policies adopted by the Group and have a 30 June 2020 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 negative outlook, issued on 18 May 2020 (2019: 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 INCORPORATED

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2020

10. Financial Risk Management Objectives and Policies (continued)

10.1 Market Risk

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

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

			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**

* *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 2020 (30 June 2019 : Nil).*

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 2020 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 $102,000 (30 June 2019: $310,000).
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-.

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 2020	Number of counterparties 2019
Over 100%	**1**	1
Between 40% and 50% of equity	**0**	1
Between 10% and 20% of equity	**2**	0

(b) Loans to Members

Loans can only be made to Credit Union members. Loan interest rates range from 3.15% to 19% p.a. (2019 4.15% 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.

	2020	2019
Proportion of Loans with Repayments in Arrears in Excess of 90 Days:	**4.3%**	4.6%
Proportion of Loans owed in Aggregate by the Six Largest Debtors:	**7.4%**	3.7%
Weighted Average Maturity of Loans (in Months) is:	**173**	156

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

10. Financial Risk Management Objectives and Policies (continued)

10.2 *Credit Risk (continued)*

The Credit Union offers an overdraft facility.

	2020	2019
	$000	$000
The Amounts Drawn Down are as follows:	**438**	546

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 $100,924,852 is $99,076,082 assuming an average floating mortgage interest rate of 5.85% at 30 June 2020.

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

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

10.3 *Liquidity Risk*

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

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

FIRST CREDIT UNION INCORPORATED

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2020

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	18,895	0	0	0	0	0	18,895
Trade and Other Receivables	0	271	0	0	0	0	271
Term Deposits	0	133,265	600	0	0	0	133,865
Future Interest Receivable	0	8,628	7,767	30,060	73,736	0	120,191
Loans to Members	0	17,911	17,149	71,224	119,900	0	226,184
Total Financial Assets 30 June 2020	**18,895**	**160,075**	**25,516**	**101,284**	**193,636**	**0**	**499,406**
Total Financial Assets 30 June 2019	**15,663**	**165,620**	**28,974**	**97,802**	**158,517**	**3,949**	**470,525**
Financial Liabilities							
Payables	0	2,835	0	0	0	0	2,835
Future Interest Payable	0	2,025	1,525	749	0	0	4,299
Members Call Shares	154,050	0	0	0	0	0	154,050
Member Term Shares	0	107,404	58,723	17,181	0	0	183,308
Total Financial Liabilities 30 June 2020	**154,050**	**112,264**	**60,248**	**17,930**	**0**	**0**	**344,492**
Total Financial Liabilities 30 June 2019	**135,476**	**109,463**	**62,700**	**20,794**	**0**	**0**	**328,433**
Liquidity (Shortfall)/Surplus 30 June 2020	**(135,155)**	**47,811**	**(34,732)**	**83,354**	**193,636**	**0**	**154,914**
Liquidity (Shortfall)/Surplus 30 June 2019	**(119,813)**	**56,157**	**(33,726)**	**77,008**	**158,517**	**3,949**	**142,092**

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 2020 is 15.65% (2019: 16.41%) , as calculated under the Deposit Takers (Credit Ratings, Capital Ratios, and Related Party Exposures) Regulations 2017.

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

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

11. Covid-19

The outbreak of COVID-19 and the subsequent measures imposed by the New Zealand and other governments as well as the travel and trade restrictions imposed by New Zealand and other countries in during 2020 have caused disruption to businesses and economic activity. The financial effects of COVID-19 have been reflected in the Group's financial statements at 30 June 2020 where applicable.

COVID-19 was characterised as a pandemic by the World Health Organisation on 11 March 2020. The Group was deemed an essential service and continued to offer access to banking and call centre services during all alert levels. Services within Branches were limited during levels 3 and 4 however. Staff working from home were available by telephone or email and were able to respond to member needs. The Group was able to provide support to members by offering loan repayment holidays or interest only to qualifying members.

The ongoing pandemic has increased the estimation uncertainty in the determination of the provision for impairment of loans and advances. The Group has made additional provision for impairment of loans and advances based on economic forecasts, historical experience and other factors that are considered to be relevant, please refer to Note 4 for details.

Given the inherent unpredictability associated with the COVID-19 outbreak, the actual impairment loss could be significantly different to the estimates disclosed. The economic effects arising from the COVID-19 outbreak are expected to affect the results of the Group for the year ending 30 June 2021.

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 2020, 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 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Public Benefit Entity Standards ("PBE Standards") issued by the New Zealand Accounting Standards Board.

Basis for Opinion

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

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

Key Audit Matters

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

Impairment of Loans to Members	How The Matter Was Addressed in Our Audit
The Credit Union's gross loans to members balance was $226,184,000 as at 30 June 2020. The Credit Union's impairment allowance was $2,960,000 for the year ended 30 June 2020. The Credit Union estimates the impairment allowance by relying on internal and external data as well as a number of estimates including the impact of different economic scenarios and other assumptions such as defining an increase in credit risk. We considered this to be a key audit matter due to the subjective judgments made by the Credit Union in determining when to recognise allowances for impairment. *Impact of COVID-19* Note 4.2 of the financial statements describes the increased estimation uncertainty arising from the potential impacts of Covid 19 on the Credit Union's impairment provision. These disclosures include key judgements and assumptions in relation to the impairment provision and highlight the uncertainty around the provision at 30 June 2020 given the judgments rely on forward looking information.	• We gained an understanding of the design and implementation of the controls relevant to our audit in regard to loans to members and assessment of impairment of member loans. • We obtained a loan portfolio listing and reconciled this to the members loan balance included in the financial statements to assess the reliability and accuracy of the underlying data used in the impairment allowance calculations. • We considered the Credit Union's judgments including the reasonableness of forward looking information by examining trends and macroeconomic data publicly available. • We assessed the appropriateness of adjustments to the allowance provision by agreeing to internal and external supporting information as appropriate and performing sensitivity analysis. • We sampled member loans, 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 evaluated the extent and appropriateness of disclosures in note 4.2 in relation to the specific assumptions, sensitivities and uncertainties that Covid-19 has had on this years provision.

Investment in Finzsoft Solutions Limited	How The Matter Was Addressed in Our Audit
First Credit Union purchased 9.99% of Finzsoft Solutions Limited during the financial year at a cost of $1,012,000. Refer to note 5.6. In addition to the share purchase, the Credit Union prepaid a significant amount of future levies.	We performed the following procedures over the Investment in Finzsoft Solutions Limited: • Read and gained an understanding of the takeover documentation. • Read and understood the key terms in the documentation and assessed whether the Credit Union had significant influence in line with PBE IPSAS 36.

This was considered to be a key part of the audit due to significant judgement required in assessing the terms of the agreement in determining whether the Credit Union had significant influence which dictates the accounting treatment under PBE IPSAS. This impacts on the disclosures in the financial statements, as well as an impact on the Credit Union's related party exposure covenant as per their Trust Deed.	• Engaged with our internal technical specialists to assess the appropriateness of the accounting treatment for the transaction. • Verified the Credit Union's shareholding of Finzsoft Solutions Limited to the Companies Office. • Assessed the carrying value of the investment in the financial statements. • Ensured the transaction was disclosed in accordance with PBE IPSAS 36 & 38. • Assessed the differences in the definition of a related party under PBE IPSAS and the Non-Bank Deposit Takers Act. • Engaged with legal experts around the treatment of the investment under the Non-Bank Deposits Taker Act.

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. 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 integral to the operation of the Credit Union. • Mix of manual and automated controls • Multiple internal and outsourced support arrangements.	Our audit procedures, amongst others, included the following: • We performed substantive testing, on a sample basis over the generation of certain reports to ensure we could rely on these reports for our audit testing, as well as obtaining evidence that key controls within the system were operating as intended. We engaged our BDO Information System experts to perform the following procedures, amongst others: • Gain an understanding of the IT environment, particularly around the key controls in place within the system that were relevant to financial statement balances, such as the member loans and member shares account balances. • Assess the design and operating effectiveness of the IT control environment, including core banking IT systems, key automated controls and reporting. Where control deficiencies were noted, the impact on the financial statements was assessed.

Other Information

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

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 due to fraud or error.

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

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

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

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

This description forms part of our auditor's report.

BDO
BDO Wellington Audit Limited

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
26 August 2020

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credit union