CREDIT UNION AUCKLAND INCORPORATED

ANNUAL REPORT 2022-2023

Credit Union Auckland

Agenda:

Welcome to Members and guests

Apologies

Confirmation of Minutes of the AGM held 7 November 2022

Matters arising from the Minutes of the previous Annual General Meeting

Receipt and adoption of:

- a) Chairman's Report
- b) Chief Executive's Report
- c) Treasurer's Report & Approval of Annual Financial Statements •

Specific Business -

- Appointment of External Auditors
- Election of Directors

General Business

Minutes of the 57th Annual General Meeting of Credit Union Auckland Incorporated

Held in person at Danish Society Hall on Monday 7 November 2022 at 6.00pm and Online

Members Present:

Ana Leilua John Cumming Hika Dale Vilisi Buke Rob Collins Manoj De Silva Mukta Mukta
Sala Sheck Vimukthi Wijiesinghe Ruth Rogers Robin Stevens Mark Virtue Lisa Amoa Greg Carll
Chris West Lionel Pereira Pati Salanoa

Non-Members Present:

Daniel Wein Carol Cook Pat Wilson Chris Neves Keryn Corrigan

Quorum confirmed

Apologies:

No Apologies

The Chair Greg Carll welcomed members to the Board meeting.

Minutes of the 2022 Annual General Meeting:

The meeting resolved that the written minutes of the 2021 AGM on 29 November 2021 be accepted as presented.

Moved: Lionel Pereira

Seconded: Mark Virtue

Carried

Matters Arising:

There were no matters arising from the minutes of the 2020 AGM.

Chairman's Report:

The meeting resolved that the Chairman's Report as written in the Annual Report be accepted.

Moved: Ana Leilua

Seconded: Lionel Pereira

Carried

Chief Executive's Report:

The meeting resolved that the Chief Executive's Report as written in the Annual Report be accepted.

Moved: Mark Virtue

Seconded: Hika Dale

Carried

Treasurer's Report:

The meeting resolved that the Treasurer's Report and the Annual Financial Statements as written in the Annual Report be accepted.

Moved: Lionel Pereira

Seconded: John Cumming

Carried

Directors' Fees:

The meeting resolved that a total of $55,000 be approved for the 2022/23 year, to be allocated at the discretion of the Board to Directors based on their attendance at Directors' meetings.

Moved: John Cumming

Seconded: Ana Leilua

Carried

Appointment of Auditors

Members were advised the Board had approved the appointment of BDO as external auditors for the year ended June 2023.

Moved: Robin Stevens

Seconded: Greg Carll

Carried

Election of Officers

Directors

Keryn Corrigan term as independent director expires 2022 AGM 2022.

Keryn has decided to retire from the board. The committee thank Keryn for his service to the board particularly for his work with the Audit committee.

The meeting resolved to re-elect the following Members as Directors for 2 year terms:

- Lisa Amoa
- Pati Salanoa
- Greg Carll

Moved: Robin Stevens

Seconded: Lionel Pereira

Carried

General Business

No General Business

Chairman's Report Greg Carll

It is my pleasure as Chairman to present the 58th Annual Report for Credit Union Auckland Incorporated on behalf of my fellow Directors.

I am writing to provide an overview of the challenging financial year that we, at Credit Union Auckland (CUA), have navigated through. The year 2022-23 has undoubtedly been one of the most difficult in our history, marked by significant hurdles that tested our resilience and commitment to our members and communities.

Financial Struggles:

The financial challenges faced by CUA were profound, with capital expenses surpassing income, exacerbated by increasing regulation and compliance costs. These burdens, coupled with stiff competition in a struggling economy, posed a genuine threat to our survival. Despite these difficulties, we remained steadfast in our commitment to the members of Auckland and the firefighter industry, recognizing the crucial role we play in these communities.

Regulatory Landscape:

The evolving regulatory landscape has cast a shadow of uncertainty over the credit union movement, including CUA. While the new legislation aims to enhance customer and member protection, the associated compliance costs disproportionately impact smaller players, jeopardizing the diversity and inclusion that organizations like ours bring to the financial sector. As we face this uncertainty, we are dedicated to adapting and ensuring our continued existence.

Community Focus:

Our dedication to serving the Auckland community and the firefighter industry remains unwavering. Despite the challenges, we believe in the importance of our role in these communities. CUA's ethos of help has been evident throughout the year as we continue to prioritize the well-being of our members.

Member Support:

The future of CUA depends on the ongoing support of our Auckland members and the broader New Zealand firefighter community. We urge our current members to invite their family and friends to join us, as expanding our membership base is vital for our sustainability and growth.

Sovereign Banking System - Finzsoft:

Looking ahead, we are optimistic about the enhancements the Sovereign banking system provided by Finzsoft will bring to our member experience. This technology will not only improve efficiency but also empower our staff to be more productive, ensuring that we can better meet the evolving needs of our members.

Collaboration with First Credit Union:

We extend our gratitude to First Credit Union for their support during these challenging times. Our hallmark branch collaboration at the Penrose site and the financial assistance provided have been instrumental in helping us weather the storm.

Thanks

The board wishes to acknowledge the support we have received from the following people, Simon Scott, Stephen Hawkins, Simon Jensen, Emma Geard, Pat Wilson, Daniel Wein, and Morris Anderson.

Governance and Board Changes:

Throughout the fiscal year, the Board held 12 monthly meetings and a strategic planning session.
Committees, including Credit, Audit, Risk and Compliance, and Nomination, convened regularly to address pertinent issues.

I extend a special thanks to Robin Stevens, Mark Virtue, and Pati Salanoa, who have resigned from the board.

Robin, in particular, has been a valued member for 15 years, and their contributions are deeply appreciated.

Staff

I wish to extend my thanks to Rudolf and his team for the dedication to the credit union this year. It has been a difficult year but without your support in serving our members.

In conclusion, as we close the chapter on this challenging year, we look forward to a more positive and prosperous 2023-24.

CUA's commitment to its members and communities remains resolute, and with your continued support, we are confident in our ability to overcome challenges and thrive in the face of uncertainty.

Greg Carll
Board Chair

CEO Report - Rudolf Laumatia

The 2022/23 fiscal year proved to be one of the most challenging years for CUA. We must acknowledge that our financial performance was disappointing. Despite a commitment to providing exceptional service to our members, the confluence of three major capital issues, a challenging economic environment, increased regulatory costs, and additional financial burdens resulted in a recorded loss of $805,883 for the 2022-23 Financial Year.

Key Events Impacting Financial Performance

- Merger with NZFCU: The merger with NZFCU was a strategic move to enhance our presence and services. However, the integration process incurred significant financial costs and operational disruptions.

- Refurbishment of Penrose Branch: The refurbishment of our new Penrose branch, while essential for long-term growth, incurred substantial upfront costs. This impacted our short-term financial performance.

- Change in IT Systems: The transition to a new IT system was a crucial step for improved efficiency and member service. However, the initial investment and transitional challenges contributed to the financial strain.

- New Provisioning Standards - Provisioning standards for financial institutions in New Zealand refer to the rules and guidelines that dictate how these institutions set aside money to cover potential losses on loans and other financial assets. These standards are in place to ensure that banks and other financial institutions are financially stable and can handle unexpected events, such as borrowers being unable to repay their loans. This year CUA is required to provision more for it's lending book than in previous years.

The $805,883 loss in the 2022/23 year necessitated difficult decisions, including the closure of the NZFCU branch in Petone and staff reductions.

These decisions were made with the utmost consideration for the long-term viability of the organization.

The assistance from First Credit Union has helped stabilise our financial position and is greatly appreciated.

Highlights

School Scholarship Program:
CUA continued its commitment to community support by sponsoring 20 families through our school scholarship program. This reflects our dedication to the education and well-being of our members' families.

Delinquency Rate:
CUA successfully maintained a delinquency rate below 3.5%, surpassing the national average. This underscores our prudent lending practices and commitment to financial responsibility.

Collaboration with First Credit Union:

Sharing the Penrose site with First Credit Union is a strategic move that optimizes resources and strengthens our position in the market.

We are also partnering with First Credit Union in sharing their call centre and increasing the resource required to serve our members.

IT Partnership with Finzsoft:

The partnership with Finzsoft promises an improved banking system, enhancing our ability to serve members more efficiently, and making their banking easier.

Acknowledgments and Thanks

A huge thank you to our members who have remained loyal to the Credit Union in trying circumstances, we will keep striving to improve our service to you and ensure we put your needs first in all of our interactions.

I extend a heartfelt thanks to our dedicated staff who weathered the challenges of the year with resilience and commitment.

I also would like to thank those mentioned earlier by our Chair as well as Helen Hatchard and the team from Finzsoft and Colin Downing and the Redfire marketing team.

Treasurer's Report - Mark Virtue

I am pleased to present the Audited Annual Financial Statements of Credit Union Auckland Incorporated (trading as NZCU Auckland) for the year ended 30 June 2022.

I would like to express the gratitude of the Board to BDO for their efforts on our behalf in preparing the accounts for FY 2022/23.

This year has seen the adoption of new accounting standards which has provided challenges in terms of fulfilling the new requirements.

Our accounts have again been prepared under the Public Benefit Entity Standards adopted in New Zealand. We have continued to monitor our risk profile as required under the Financial Markets Conduct Act and made appropriate amendments to the Product Disclosure Statement as required. We also maintained our registration under the Financial Services Providers Act 2008.

The 2022/23 Financial Year has been one of the most challenging years faced by Credit Union Auckland.

Rising costs in all areas, a struggling economy and strict regulation has meant the Credit Union struggled to perform this financial year.

As reported already tonight, the Operating Loss for the full year was $805,883 for Credit Union Auckland. The 2021/2022 year saw CUA record a loss of $290,766.

The size of this loss has placed pressure on CUA's ability to survive and eventually thrive however as mentioned previously the 2022/23 year was extremely difficult for many businesses in NZ and this proved the case for Credit Union Auckland.

CUA and New Zealand Firefighter's Credit Union will only be able to survive with the on-going support of it's existing members and the acquisition of new members to the organisation.

I would like to acknowledge, that we are exceedingly fortunate to have the services of our Chief Executive during this challenging period. His work ethic, integrity and expertise have been exemplary, throughout this demanding time.

In summary, your Board is disappointed with the financial position of the Credit Union, however look forward to the new financial year with the hope of improved outcomes .

Mark Virtue
Treasurer

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Credit Union Auckland Incorporated
General Purpose Financial Report
For the year ended 30 June 2023

Credit Union Auckland Incorporated

Contents

For the year ended 30 June 2023

Credit Union Auckland Incorporated

Statement of Comprehensive Revenue and Expenses

For the year ended 30 June 2023

	Note	2023 NZ$	2022 NZ$
Revenue			
Interest revenue	3	2,302,146	1,654,216
Interest expense	4	(379,009)	(179,033)
Net interest revenue		**1,923,137**	**1,475,183**
Other revenue	3	959,795	954,739
		2,882,932	**2,429,922**
Other expenses			
Bad and doubtful loans	4	(255,690)	(111,607)
Employee benefits	4	(1,405,139)	(1,076,480)
Occupancy - operating leases		(229,532)	(332,259)
Depreciation and amortisation	4	(131,956)	(99,086)
Other administration expense	4	(1,666,499)	(1,101,256)
		(3,688,816)	**(2,720,688)**
Total deficit and comprehensive expense for the year		(805,884)	(290,766)

The accompanying notes form part of these financial statements.

Credit Union Auckland Incorporated

Statement of Financial Position

As at 30 June 2023

	Note	2023 NZ$	2022 NZ$
Assets			
Cash and cash equivalent	7	4,587,913	5,281,360
Short term deposits	7	414,635	2,708,041
Trade and other receivables	8	160,428	116,753
Prepayments	9	258,656	89,467
Loans to members	10	22,945,419	20,357,926
Property, plant and equipment	12	707,168	487,869
Intangible assets	13	113,281	162,353
Total assets		**29,187,500**	**29,203,769**
Liabilities			
Trade and other payables	14	382,282	587,808
Employee entitlements		196,536	153,452
Members' deposits	15	26,200,057	25,222,488
Total liabilities		**26,778,875**	**25,963,748**
Net assets		2,408,625	3,240,021
Members' funds			
Accumulated revenue and expenses		2,408,625	3,240,021
Total members' funds	6	2,408,625	3,240,021

Approved for and on behalf of the board of directors, dated _29 Nov *2023*

G. J. Coll

Chairman

`Director

The accompanying notes form part of these financial statements.

Credit Union Auckland Incorporated

Statement of Changes in Members' Funds

For the year ended 30 June 2023

	Note	Accumulated Revenue and Expenses NZ$	Total Member's Funds NZ$
Balance as at 1 July 2021		3,179,321	3,179,321
Operating deficit for the year		(290,766)	(290,766)
Total comprehensive revenue and expenses		2,888,555	2,888,555
Amalgamation of Fire Fighters Credit Union		351,466	351,466
Balance at 30 June 2022		3,240,021	3,240,021
Balance as at 1 July 2022		3,240,021	3,240,021
Adjustment on adoption of PBE IPSAS 41	2(q)	(25,512)	(25,512)
Adjusted opening retained earnings		3,214,509	3,214,509
Operating deficit for the year		(805,884)	(805,884)
Total comprehensive revenue and expenses		2,408,625	2,408,625
Balance at 30 June 2023		2,408,625	2,408,625

The accompanying notes form part of these financial statements.

Credit Union Auckland Incorporated

Statement of Cash Flows

For the year ended 30 June 2023

	Note	2023 NZ$	2022 NZ$
Cash flows from operating activities			
Interest received		2,276,969	1,639,541
Fees and commissions received		959,795	947,847
Bad and doubtful loans recovered		19,999	7,612
Net (increase) / decrease movement in members' loans		(2,818,006)	377,069
Net (decrease) / increase in members' deposits		1,043,558	(1,339,559)
Interest paid		(444,998)	(205,568)
Payments to suppliers and employees		(3,721,988)	(2,932,453)
Net cash used in operating activities	24	**(2,684,671)**	**(1,505,511)**
Cash flows from investing activities			
Net decrease in short term deposits over 3 months		2,293,406	-
Payments for property, plant and equipment		(287,296)	(336,143)
Payments for intangibles		(14,886)	-
Proceeds from sale of property, plant and equipment		-	53,314
Net cash (used in) / provided by investing activities		**1,991,224**	**(282,829)**
Total net decrease in cash and cash equivalents held		(693,447)	(1,788,340)
Cash received on combination with NZ Fire Fighters Credit Union		-	1,800,842
Cash and cash equivalents at the beginning of the year		5,281,360	5,268,858
Cash and cash equivalents at the end of the year	7	**4,587,913**	**5,281,360**

The accompanying notes form part of these financial statements.

1. General information

Reporting entity

Credit Union Auckland Incorporated ("the Credit Union") is a financial institution that is registered as a credit union under the Friendly Societies and Credit Unions Act 1982 (“the Act”) and licensed by the Reserve Bank of New Zealand under the Non-Bank Deposit Takers Act 2013. The Credit Union is an FMC reporting entity for the purposes of the Financial Markets Conduct Act 2013. The purpose of the Credit Union is to promote savings among its members and to use those savings for their mutual benefit. It operates primarily in the greater Auckland area in New Zealand and is incorporated in New Zealand with its registered office at 698 Great South Road, Penrose, Auckland. As the Credit Union is providing a community and social benefit, it is designated as a public benefit entity. The Credit Union is not a public entity defined in the Public Audit Act 2001 and hence is a not-for-profit public benefit entity for the purposes of complying with Generally Accepted Accounting Practice (“GAAP”).

The Credit Union is restricted in its borrowings and members contribute to the Credit Union by way of share subscriptions. The shares cannot be transferred or sold. Members are able to withdraw their funds subject to certain conditions. The Credit Union makes loans to members or invests funds on the members’ behalf. Interest and other income are received by the Credit Union and interest is paid to depositing members in the form of interest on shares. The Credit Union operates predominantly in one industry, being the investment of members’ funds.

Transfer of Engagements

For the purposes of section 135 of the Friendly Societies and Credit Unions Act 1982, in the event of a proposal being received for the transfer of a credit union's engagements to the Credit Union, the Board of Directors may, subject to the applicable requirements of the Trust Deed, on behalf of the Members agree to the Credit Union accepting such a transfer of engagements and undertake to fulfil the engagement of that Credit Union provided that such acceptance is by resolution passed by not less than 75 percent of the Directors voting in person.

In considering a transfer of engagements the Board of Directors shall have regard to the consequential effects on the Credit Union's common bond and the requirements of Section 135 (4) of the Act.

It shall be within the power of the Board when accepting a transfer of engagements to enter into an arrangement whereby the persons holding office as Directors on the board of the transferring credit union (or a simple majority thereof) at the time of the transfer will have the sole right to retain the appointment of one or more (but not exceeding 3) directors who shall then hold office as additional Directors of the Credit Union for an agreed period which shall not in any case exceed 4 years. Such appointments shall be formally advised in writing and are in addition to the number of Directors specified in Rule29(a) of these Rules.

During the prior year, on 20 June 2022, a process known as a transfer of engagement was completed, whereby NZ Firefighters Credit Union transferred all of their engagements to Credit Union Auckland Incorporated. The transfer of engagement means that Credit Union Auckland Incorporated assumed all assets and liabilities of NZ Firefighters Credit Union and now operates as a single entity, with NZ Firefighters de-registering.

Trust Deed

The Credit Union has appointed Covenant Trustee Services Limited as the Supervisor for the offer of shares as detailed in the Disclose Register for the purposes of the Financial Markets Conduct Act 2013 (“FMCA 2013”). The Supervisor’s appointment and the parties’ respective rights and obligations are recorded in the Trust Deed dated 4 December 2013 as modified by a Deed of Variation dated 1 January 2020.

The Supervisor 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 under the FMCA 2013, the Trust Deed and the Act. The Supervisor is under a duty to exercise reasonable diligence to ascertain whether or not the Credit Union has committed any breach of the Trust Deed or any of the conditions of issue of the shares, in which case the Supervisor must do all things it is empowered to do to cause any breach of those terms to be remedied (except if it is satisfied that the breach will not materially prejudice the members); and has sufficient assets to meet its obligations to members, as they fall due.

2. Statement of accounting policies

The following are the material accounting policies adopted by the Credit Union in the preparation of the financial statements. Except where stated, the accounting policies have been consistently applied to all periods presented.

(a) Basis of preparation

The Credit Union is a reporting entity for the purpose of the FMCA 2013. The financial report is a general-purpose financial report which has been prepared in accordance with part 7 of the FMCA 2013 and the Act.

The financial statements were authorised for issue by the board of Directors of the Credit Union on _____

These financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with Public Benefit Entity Standards ("PBE Standards") and notices that are applicable to entities that apply PBE Standards as appropriate for Tier 1 not-for-profit public benefit entities. The Credit Union is a Tier 1 not-for-profit public benefit entity.

The application of PBE Standards required management to make judgements, estimates and assumptions about the carrying values of assets and liabilities not readily available from other sources, the estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances.

The following critical accounting policies have been identified for which significant judgement, estimates and assumptions are made:
- the impairment allowance for loans to members (ref note 2 (i))
- the use of the going concern assumptions (ref note 2 (b)) below.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods. These financial statements have been prepared using the going concern assumption on the basis that the Directors believe that the Credit Union can continue to fulfil its financial obligations for at least 12 months from the date of signing these financial statements. Refer Note 2 (b) below.

The accounting policies detailed in the following notes have been applied consistently to all periods presented in these financial statements and have been applied consistently by the Credit Union, except as explained in Note 2(d), which addresses changes in accounting policies.

The measurement base adopted is historical cost. The presentational and functional currency is New Zealand dollars and figures are rounded to the nearest dollar.

(b) Going concern assessment for the Credit Union Auckland (CUA) - year ended 30 June 2023

The Credit Union reported a deficit of $805,884 and an operating cash outflow of $2,684,671 for the year ended 30 June 2023 (2022: deficit of $290,766 and operating cash outflow of $1,505,511). At this date the capital ratio was 7.75% which was a breach of the requirement of 8%. In accordance with the Credit Union's Trust Deed, a breach of this ratio leads to an 'event of review' by its supervisor. Potential outcomes of an event of review include remediation steps being put in place to address the breach, or an orderly cessation of the Credit Union's business by way of a transfer of engagement or wind up.

The Credit Union continued to be in breach of its capital ratio requirements from June 2023 to September 2023. In October 2023 the Credit Union gained assistance from First Credit Union in the form of a Capital Notes Agreement for $350,000 of which $320,000 is drawn down to date. This provided financial capital to stabilise the Credit Union's financial position. It also entered into a Shared Branch Agreement with First Credit Union whereby the Credit Union received a lump sum of $300,000 in exchange for the capitalised branch fitout costs of $342,000 at 30 June 2023. These actions in conjunction with cost-saving measures undertaken rectified the capital ratio breach and give the Directors confidence in the Credit Union continuing as a Going Concern. However, given the trading losses each year of Credit Union Auckland since 2019, the ability of the Credit Union to maintain its capital ratio above the minimum 8% requirement has been considered by the Directors in the adoption of the going concern assumption in the preparation of these financial statements by the use of a forecast.

2. Statement of accounting policies (continued)

(b) Going concern assessment for the Credit Union Auckland (CUA) - year ended 30 June 2023 (continued)

The Directors forecast that the capital ratio requirement can be managed at appropriate levels for the foreseeable future, being a period of no less than 12 months from the date of authorisation of these financial statements. In reaching this conclusion, the Directors have considered the following:

a) A forecast profit and loss and balance sheet from October 2023 to November 2024. The forecast shows the minimum capital ratio of 8% being achieved across each month of the forecast and a surplus for the entire 12 month period. The forecast is underpinned by a number of strategies and assumptions to be achieved which were approved by the Directors.

b) The key assumptions inherent in the forecast profit and loss were:

a. The key factor in the 2023-24 Financial Year is the capital support provided by First Credit Union by way of a Capital Notes Agreement.
   On 23 November 2023 there was an amendment to the Capital Note Agreement with First Credit Union to provide up to a further $700,000 on an "as needed" basis to ensure there is sufficient headroom for the Credit Union to maintain the capital ratio requirement over 8% and to operate in the 2023-24 year.

b. The Directors consider that the 2023-24 Financial Year is a year to focus on consolidation and stability. The growth in loan balances and deposits will be measured with focus on interest margin. Non-interest income will also be important to the Credit Union's revenue stream and aim to be profitable in the next 12 months.

The Directors acknowledge that, as with all forecasts, there are material uncertainties within the forecast assumptions and that the forecasts would need to be achieved for the Credit Union to continue operating with sufficient headroom in the First Credit Union capital note facility above the required capital ratio. As the Credit Union may find it difficult to recapitalise if required, the forecast level of available headroom in the First Credit Union capital note facility may be insufficient to prevent a breach, which may lead to an event of review by the Credit Union's supervisor. Therefore, any significant departure from the forecasts may cast significant doubt over the Credit Union's ability to continue as a going concern in the foreseeable future.

After taking into account all available information, the Directors have concluded that there are reasonable grounds to believe that the forecasts and plans are achievable, there is sufficient headroom to absorb unfavourable variances in the forecasts and still meet the capital ratio and other covenant reporting requirements, and therefore that the basis of preparation of the financial statements on a going concern basis is appropriate.

Should the Credit Union be unable to continue as a going concern it may be required to realise its assets and discharge it liabilities other than in the normal course of business and at amounts different to those stated in the financial statements. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the settlement amount of liabilities that might result should the Credit Union be unable to continue as a going concern.

(c) Revenue recognition

Interest revenue

Interest revenue is recognised on a time proportion basis using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset to the net carrying amount of the financial asset. When calculating the effective interest rate, the Credit Union estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs, fees, and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset.

2. Statement of accounting policies (continued)

(c) Revenue recognition (continued)

Loan application fee revenue

Loan application fee revenue that is integral to the effective yield of a loan held at amortised cost is capitalised as part of the amortised cost and deferred over the life of the loan using the effective interest method. Lending fees not directly related to the origination of a loan (account maintenance fee) are recognised over the period of service.

Fee income

Transaction and fee income and other income comprises other transaction fees, ATM fees, collection fees and commissions. It is 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.

(d) Expense recognition

Interest expense

Interest expense is recognised on a time proportional basis using the effective interest method. This is a method of calculating the amortised cost of a financial liability and allocating the interest expense over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability to the net carrying amount of the financial liability. When calculating the effective interest rate, the Credit Union estimates future cash flows considering all contractual terms of the financial instrument.

The calculation of the effective interest rate includes all transaction costs, fees, and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial liability.

Other expenses

Other expenses are recognised on an accrual basis and recorded in the period to which they relate.

(e) Income Tax

No amounts have been provided for income tax as the Credit Union's income from members is exempt under section CW 44 of the Income Tax Act 2007. Income derived other than from members does not result in a taxable profit.

(f) Goods and services tax (GST)

Revenues, expenses, and assets are recognised net of the amount of GST except:

• When the GST on a purchase of assets or services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable; and

• In the case of receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

(g) Leases

Leases of property, plant and equipment are operating leases as the substantial risks and benefits incidental to ownership of the asset, are retained by the legal owner. Lease payments for operating leases are charged as expenses in the periods in which they are incurred on a straight-line method.

(h) Financial instruments

Classification and measurement

Financial assets are measured and classified based on:

a) the business model within which the assets are managed, and

b) whether the contractual cash flows under the instrument represent solely payments of principal and interest ("SPPI').

All financial instruments are measured initially as their fair value plus transaction costs.

2. Statement of accounting policies (continued)

(h) Financial instruments (continued)

Financial assets: Debt instruments

The Credit Union assesses the business model at a portfolio level, information that is considered in determining the business model includes:

(a) policies and objectives for the relevant portfolio;
(b) how the performance and risks of the portfolio are managed, evaluated and reported to management; and
(c) the frequency, volume and timing of sales in prior periods, sales expectation for future periods, and the reasons for such sales.

Financial assets at amortised cost

Financial assets at amortised cost include cash and cash equivalents, short term deposits, trade and other receivables and loans to members.

In assessing whether contractual cashflows meet the SPPI test, the Credit Union considers the contractual terms of instrument. This includes assessing the contract for any terms that could change the timing of contractual cashflows such that they would not be consistent with a basic lending arrangement.

Such instruments at amortised cost are initially recognised at fair value, plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest rate method. They are presented net of provisions for ECL determined using the ECL model described above.

Interest income from these financial assets is recognised in the Statement of Comprehensive Surplus or Deficit using the effective interest rate method. Impairment gains or losses are presented in bad and doubtful loans in the Statement of Comprehensive Revenue and Expenses.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

Short-term deposits

All term deposits with original maturities of greater than three months are classified as short-term deposits. Short-term deposits are initially recognised at fair value and subsequently measured at amortised cost, less any impairment losses.

Trade and other receivables

These amounts represent amounts due for interest owing and other services performed by the Credit Union prior to the end of financial period which are not received. The amounts are expected to be received within a year of recognition. They are initially recorded at fair value and subsequently measured at amortised cost less any impairment provision.

Loans to members

Loans to members are loans which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at fair value plus transaction costs and subsequently measured at amortised cost, using the effective interest method, less provision for impairment.

Financial liabilities at amortised cost

Financial liabilities at amortised cost include trade and other payables and members' deposits.

Financial liabilities are measured at amortised cost if they are not held for trading or designated at fair value through the Statement of Comprehensive Revenue and Expenses.

Members deposits

Members' deposits are the members' shares in the Credit Union. For the purposes of financial reporting, members' shares are recognised as debt instruments. They are recorded initially at fair value, plus directly attributable transaction costs and subsequently at amortised cost. All payments of dividends on these shares are recorded as interest payments. Members have the right to one vote at the meetings of the Credit Union, regardless of the number of shares held. Interest on deposits is recognised on an accrual basis and is presented as a part of trade and other payables.

Trade and other payables

These amounts represent liabilities for goods and services provided to the Credit Union prior to the end of financial period which are unpaid as at reporting date. The amounts are unsecured and are usually paid within 30 days of recognition. Trade payables are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

2. Statement of accounting policies (continued)

(h) Financial instruments (continued)

Financial instruments accounting policy for the year ended 30 June 2022

Financial instruments are initially measured at fair value on trade date, which includes transactions costs, when the related contractual rights or obligations exist. After initial recognition these instruments are measured as set out below.

Financial assets at fair value through surplus or deficit

A financial asset is classified in this category only when the Credit Union becomes a party to the contractual provisions of the financial asset and if acquired principally for the purpose of selling in the short term or if so designated by management. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the Statement of Comprehensive Revenue and Expense in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised costs using the effective interest rate method.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation using the effective interest rate method. This category includes members' deposits and trade and other payables. Members' deposits meet the definition of financial liabilities under PBE IPSAS 29. They are secured by a first ranking registered Trust Deed over the Credit Union's assets and revenue.

(i) Impairment of loans

Impairment accounting policy for the year ended 30 June 2023

Measurement of expected credit loss (ECL) for the year ended 30 June 2023

The Credit Union calculates the provisions for ECL based on a three-stage approach. ECL are a probability-weighted estimate of cash shortfalls expected to result from defaults over the relevant timeframe of the asset. PBE IPSAS 41 requires the Credit Union to determine by evaluation a range of possible outcomes and taking into account the time value of money, past events, current conditions, and forecasts of future economic conditions. The model uses three main components to determine the ECL (as well as time value of money) including: Probability of default ('PD'): the probability that a counterparty will default; - Loss given default ('LGD'): the loss that is expected to arise in the event of a default; and - Exposure at default ('EAD'): the estimated outstanding amount of credit exposures at the time of default.

i. Model stages

The three stages are as follows:

· Stage 1: 12 months ECL- performing:

For financial assets where there has been no significant increase in credit risk since origination, a provision for 12 months ECL is recognised. Interest revenue is calculated based on the gross carrying amount of the financial asset.

· Stage 2: Lifetime ECL- performing:

For financial assets where there has been a significant increase in credit risk since origination but where the asset is still performing, a provision for lifetime ECL is recognised. Increase in credit risk is presumed if the loan and advances are more than 30 days past due in making contractual repayment or when there is reasonable and/or supportable information that there is an increase in the risk of default occurring on the asset as at the reporting date. Interest revenue is calculated based on the gross carrying amount of the financial asset.

· Stage 3: Lifetime ECL - non-performing:

For financial assets that are non-performing, a provision for lifetime ECL is recognised. Loans and advances are deemed non-performing when they are over 90 days past due in making a contractual repayments and/or when there is objective evidence of the events that indicate the borrower is in significant financial difficulty. Interest revenue is recognised based on a carrying amount net of the provision for ECL rather than gross carrying amount.

2. Statement of accounting policies (continued)

(i) Impairment of loans (continued)

ii. Collective and individual assessment

Financial assets that are in Stage 1 and 2 are assessed on a collective basis as are financial assets in Stage 3 below specified thresholds. Those financial assets in Stage 3 above the specified thresholds are assessed on an individual basis.

iii. Expected life

Expected credit losses are determined as a lifetime expected credit loss in Stage 2 and Stage 3. In considering the lifetime timeframe, PBE IPSAS 41 generally requires use of the remaining contract life adjusted where appropriate for prepayment, extension and other options available.

iv. Movement between stages

Assets may move in both directions through the stages of the impairment model. Assets previously classified in Stage 2 may move back to Stage 1 if it is no longer considered that there has been a significant increase in credit risk. Similarly, assets in Stage 3 may move back to Stage 2 if they are no-longer assessed to be non-performing.

v. Forward looking information

The measurement of ECL for each stage and the assessment of significant increase in credit risk consider information about past events and current condition as well as reasonable and supportable projection of future events and economic conditions. The macro-economic factors that the Credit Union considers in measuring ECL include (but are not limited to) unemployment rates, the consumer price index (CPI). Credit Union Auckland derives a forward looking "base case" economic scenario which reflects their view of the most likely future macro economic conditions.

The unpredictable nature of the macro-economic factors and other assumptions used in the ECL make estimates inherently uncertain and accordingly, actual results may differ from these estimates. In addition to the base case forecast Credit Union Auckland has forecast an "upside case" and a "downside case" where sensitivities are applied to the macro-economic factors in each case.

When ECL are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics such as branch (e.g. Credit Union Auckland or Fire Fighters Credit Union), arrears buckets, type of loan. The groupings are reviewed on a regular basis to ensure that each group is comprised of homogenous exposures.

Recognition of ECL

The ECL are recognised as follows:

·Members' loans: As a reduction of the carrying value of the financial asset through an offsetting impairment allowance.

·Loan commitments: As a separate provision in liabilities.

Write off policy

The Credit Union writes off a financial asset when there is information indicating that the borrower is in severe financial difficulty and there is no realistic prospect of recovery, e.g., when the borrower has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Credit Union’s recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in surplus or deficit.

vi. Critical accounting assumptions and estimates

Key judgements include when a significant increase in credit risk has occurred and the estimation of forward- looking macroeconomic information (per note 11 (e), in particular unemployment and CPI.

2. Statement of accounting policies (continued)

(i) Impairment of loans (continued)

Impairment accounting policy for the year ended 30 June 2022

An assessment is made at each reporting date whether there is objective evidence that loans are impaired. A loan is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the loan and can be reliably estimated. Objective evidence that a loan receivable is impaired includes observable data that comes to the attention of the directors about the following loss events:

- significant financial difficulty of the member.
- a breach of contract, such as a default or delinquency in interest or principal payments.
- a concession granted to the borrower that the lender would not otherwise consider for economic or legal reasons relating to the borrower's financial difficulty; or
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation.

The amount provided for impairment of loans is determined by management and the Directors. The Prudential Standards issued by Banzpay enable the minimum provision to be based on specific percentages of the loan balance, contingent upon the length of time the repayments are in arrears, and the security held. This approach is adopted by the Credit Union. In addition, the Directors make a provision for loans in arrears where the collectability of the debts is considered doubtful by estimation of expected losses in relation to loan portfolios where specific identification is impracticable.

The Credit Union first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. If the Credit Union determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment for impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced using an allowance account and the amount of the loss is recognised in the Statement of Comprehensive Revenue and Expense. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (that is, on the basis of the Credit Union's grading process that considers past-due status). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows for a group of financial assets that are collectively evaluated for impairment are estimated based on the contractual cash flows of the assets in the Credit Union and historical loss experience for assets with credit risk characteristics similar to those in the Credit Union. Historical loss experience is adjusted based on current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets reflect and are directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Credit Union and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Credit Union to reduce any differences between loss estimates and actual loss experience.

Loans which are known to be uncollectible are written off against the related allowance for impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

2. Statement of accounting policies (continued)

(i) Impairment of loans (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance amount, with the reversal being recognised in the Statement of Comprehensive Revenue and Expense.

The various components of impaired assets are as follows:

• Individually impaired loans are loans and advances for which there is reasonable doubt that the Credit Union will be able to collect all amounts of principal and interest in accordance with the terms of the agreement and for which an individual assessment of impairment is made.

• Collectively assessed loans are loans and advances that are not individually assessed for which a collective assessment of impairment is made based on the length of time the loan is in arrears.

• Restructured loans are loans where the original contractual terms have been modified to provide for concessions of interest, principal or repayment for reasons related to financial difficulties of the member.

• Assets acquired through the enforcement of security are assets acquired in full or partial settlement of a loan or similar facility through the enforcement of security arrangements.

• Past-due loans are loans or similar facilities in arrears when a member has failed to make payment when contractually due which are not impaired loans. 90 day past due loans are loans which have not been operated by the member within its key terms for at least 90 days and which are not impaired loans.

(j) Property, plant and equipment

All plant and equipment are stated at historical cost less depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's 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 Credit Union and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the surplus or deficit during the financial period in which they are incurred.

Plant and equipment are depreciated on a straight-line basis. Depreciation of plant and equipment is calculated using rates which are estimated to expense the cost of the assets over their useful lives. The rates are as follows:

• Motor Vehicles - 20% per annum on cost
• Plant, Equipment & Computer Equipment - 20-33% per annum on cost
• Leasehold Improvements - Term of Lease

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each financial reporting period.

Gains and losses on disposals are determined by comparing proceeds with carrying amount at date of disposal. These are included in the Statement of Comprehensive Revenue and Expense.

Capital WIP

If an asset is not completed at reporting date, all costs incurred on that asset up to reporting date are transferred to capital work in progress and included in property, plant and equipment. Capital work in progress in not depreciated.

(k) Intangible assets

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses.

Software

Software is amortised over the useful life to the Credit Union commencing from the time the asset is ready for use. Software is amortised on a straight-line basis. A summary of the rate used is:

• Computer Software - 10-50%

2. Statement of accounting policies (continued)

(l) Impairment testing of non-financial assets

At each reporting date, the Credit Union reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's 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 to the surplus or deficit.

(m) Employee benefits

Liabilities for wages and salaries, including non-monetary benefits and annual leave leave expected to be settled wholly within 12 months of the reporting date are recognised in employee benefits in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

(n) Critical estimates, judgements, and assumptions in applying the accounting policies

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. This has an impact on the two critical estimates, being the impairment of loans to members and the liquidity and funding structure of the Credit Union. The use of going concern assumptions have been outlined in note 2 (b).

Impairment of loans to members

Key judgements include determining when a significant increase in credit risk has occurred and the estimation of forward-looking macroeconomic information, in particular unemployment and CPI. When measuring ECL the Credit Union uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Refer note 11 (d).

(o) Comparatives

Where necessary, comparative information has been reclassified and repositioned for consistency with current year disclosures.

Refer note 2 (q) and 11 (c) for the impact on adoption of new standards during the year.

Other reclassification to the comparative disclosures are as follows:

- Prepayments of $89,467 has been separately disclosed on the face of the Statement of Financial Position. Previously they were included in Trade and Other Receivables
- Accrued interest of $61,860 has been included in Loans to Members. Previously it was included in Trade and Other Receivables.
- Accrued interest of $55,253 has been included in Members' Deposits. Previously it was included in Trade and Other Payables.
- Net movement in members' loans of 377,069 has been included in Cashflows form operating activities. Previously, it was included in Cashflows from investing activities.
- Net (decrease)/increase in members' deposits (1,339,559) has been included in Cashflows form operating activities. Previously, it was included in Cashflows from financing activities.

These reclassifications were made to better reflect the nature of the balances.

(p) Change in accounting estimates

As a result of the implementation of the new Sovereign core banking system, management conducted a review of the useful life of the Banzpay core banking system currently recorded in intangible assets. Previously, the expected useful life of the software was twelve years. However, management believe that thirteen months more accurately reflects the useful life of the software and the pattern in which the service potential in the form of the use of the software, will be used. The thirteen-month period covers the period from the date the decision to change software was formalised to the date the Banzpay software will no longer be utilised by the Credit Union. The effect of the change on actual and expected amortisation expense in the current and future years respectively is as follows:

Effect of change in amortisation expense	2023	2024	2025	2026	2027	2028
(Decrease) / increase in amortisation expense	33,618	68,056	(30,339)	(30,339)	(30,339)	(10,656)

2. Statement of accounting policies (continued)

(q) New and amended standards and interpretations

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

PBE IPSAS 41 Financial Instruments

In March 2019, the External Reporting Board (XRB) issued PBE IPSAS 41 Financial Instruments, which supersedes PBE IPSAS 29 Financial Instruments: Recognition and Measurement. The Credit Union has adopted PBE IPSAS 41 and the main changes between PBE IPSAS 29 and PBE IPSAS 41 are:

• New financial asset classification requirements for determining whether an asset is measured at fair value or amortised cost.

• A new impairment model for financial assets based on expected credit losses (ECL), which may result in earlier recognition of impairment losses.

In accordance with the transitional provisions in PBE IPSAS 41, the Credit Union has elected not to restate the comparative information. The comparative information continues to be reported under PBE IPSAS 29. Any adjustments arising from the adoption of PBE IPSAS 41 are recognised in opening equity at 1 July 2022 (the date of initial application).

Impact on adoption - classification and measurement

There has been no change in the classification or measurement of the Credit Unions financial assets, other than that financial assets previously classified as Loans and Receivables are now classified as At amortised cost. As both categories are subsequently measured at amortised cost, there is no change in measurement upon the adoption of PBE IPSAS 41. There was no impact of ECL on other assets. The risk of loss on Cash and Cash Equivalents is assessed as very low, as they are held with New Zealand banking institutions. The ECL impact on Loans to Members resulted in a $25,512 decrease of retained earnings at 1 July 2022 and a corresponding increase in the impairment provision (refer note 11 (d).

The below table summarises the change on adoption:

Financial assets	Previous category	New category
Cash and cash equivalents	Loan and receivables	At amortised cost
Short term deposits	Loan and receivables	At amortised cost
Loans to members	Loan and receivables	At amortised cost
Trade and other receivables	Loan and receivables	At amortised cost
Financial liabilities		
Trade and other payables	At amortised cost	At amortised cost
Member's deposits	At amortised cost	At amortised cost

PBE FRS 48 Statement of Service Performance

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

The adoption of PBE FRS 48 has resulted in preparation of the Credit Union's first statement of service performance which is included on page 40.

New standards and amendments and interpretation to existing stands that are not yet effective for the current accounting period beginning on 1 July 2022.

There are no new standards, amendments and interpretations that have been issued but are not yet effective that will materially impact the Credit Union.

3. Revenue and other income

	Note	2023 $	2022 $
Interest revenue			
Interest on loans		2,209,727	1,643,120
Interest on short term deposits		92,419	11,096
Total interest revenue - financial assets at amortised cost		2,302,146	1,654,216
Other revenue			
Fee income - ATM		104,995	103,359
Fee income - loan application fees		226,192	148,452
Fee income - cost recovery fees		444,663	430,431
Commissions earned		166,308	189,492
Other fees charged		16,406	11,006
Other income		1,231	65,107
Gain on disposal of property, plant and equipment		-	6,892
Total other revenue		959,795	954,739

4. Expenditure

The deficit for the year is stated after charging:

		2023 $	2022 $
Interest expense			
Interest on members' call shares		72,474	82,680
Interest on members' term shares		306,535	96,353
Total interest expense - financial liabilities at amortised cost		379,009	179,033
Depreciation			
Leasehold improvements	**12**	31,320	28,639
Plant and equipment	**12**	29,018	32,300
Motor vehicles	**12**	7,659	7,808
Total depreciation expense		67,997	68,747
Amortisation expense			
Intangible assets - computer software	**13**	63,959	30,339
Total amortisation expense		63,959	30,339
Total depreciation and amortisation expense		131,956	99,086
Bad and doubtful loans			
Bad loans written off	**11**	248,927	43,598
Movement in provision for loan impairment	**11**	26,762	75,621
Loans previously written off subsequently recovered	**11**	(19,999)	(7,612)
Total bad and doubtful loans		255,690	111,607

4. Expenditure (continued)

		2023	2022
Employee benefits		$	$
Salaries and wages		1,322,951	1,033,620
Kiwisaver contribution		30,258	22,791
Other staff costs		51,930	20,069
Total employee benefits		1,405,139	1,076,480
Other administration expenses			
Auditors' remuneration			
- External audit - BDO (2022: BDO)		152,495	71,398
- External audit - prior year under accrual (BDO)		37,460	-
- Register compliance assurance - BDO (2022: BDO)		2,100	2,100
ATM costs / Access card, AccessCredit		61,003	70,597
Advertising and marketing		132,641	39,128
Bank and cash delivery charges		1,665	1,686
Data processing costs / IT		903,465	534,750
Directors' fees	**25**	44,882	40,000
Directors' expenses and training		1,934	2,757
Donations made / community support		35,440	16,510
Lending and debt recovery costs		67,545	29,532
Training and seminars		720	790
Office and administration		137,975	209,574
Other occupancy costs		53,437	41,115
Other sundry expenses		33,737	41,318
Total other administration expenses		1,666,499	1,101,255

5. Interest rates

Interest rates

Interest is paid to depositing members and relates to the Credit Union's ability to pay the interest. At times during the period the Credit Union may offer depositors special accounts that have a pre-set interest rate. Interest rates to members' deposits at 30 June were (% per annum):

	2023	2022
Call shares		
Everyday Account	0.00%	0.00%
Bill Pay Account	0.00%	0.00%
Goal Saver	1.25%	0.25%
Loyalty Saver	0.75-1.00%	0.50-0.75%
Success Saver	2.25-3.00%	0.75-1.00%
Christmas Saver	3.50%	2.00%
Kids Cash Saver	3.00%	2.00%

5. Interest rates (continued)

	2023	2022
Term shares		
3 months term deposit	3.80%	0.60%
6 months term deposit	5.05%	1.05-1.10%
9 months term deposit	5.50%	1.05-1.10%
12 months term deposit	6.15%	1.10-1.15%
18 months term deposit	6.50%	1.10-1.15%
24 months term deposit	6.15%	1.20%

6. Reserves

Reserves as at 30 June 2023

	Accumulated Comprehensive revenue	Total reserves
Balance brought forward	**3,240,021**	**3,240,021**
Adjustment for PBE IPSAS 41	**(25,512)**	**(25,512)**
Deficit	**(805,884)**	**(805,884)**
Balance carried forward	**2,408,625**	**2,408,625**
Reserve % to total assets	**8%**	**8%**

Reserves as at 30 June 2022

	Accumulated Comprehensive revenue	Total reserves
Balance brought forward	**3,179,321**	**3,179,321**
Deficit	**(290,766)**	**(290,766)**
Amalgamation of Fire Fighters Credit Union	**351,466**	**351,466**
Balance carried forward	**3,240,021**	**3,240,021**
Reserve % to total assets	**10%**	**10%**

7. Cash and cash equivalents

(a) Cash and bank balances	2023 $	2022 $
Cash on hand	109,480	221,095
Bank balances	3,548,631	3,154,391
Total cash and bank balances	3,658,111	3,375,486

(b) Deposits under 3 months	2023 $	2022 $
Term deposits at Westpac (Banzpay - Card Settlement Bond)	529,802	469,506
Term deposits at Westpac	-	1,225,875
Term deposit Heartland	400,000	-
Term deposit BNZ	-	208,914
ASB	-	1,579
Total deposits under 3 months	929,802	1,905,874
Total cash and cash equivalents	4,587,913	5,281,360

7. Cash and cash equivalents (continued)

The Credit Union does not hold tradable securities. Effective interest rates are the original contracted values. Movements in market rates will not affect the recorded value of these investments. The Credit Union is required to keep a minimum level of deposits with Banzpay for card settlements. As at 30 June 2023 this was $529,801 (30 June 2022: $529,801).

(c) Deposits over 3 months	**2023** **$**	**2022** **$**
Term deposits at Westpac	-	825,324
Term deposit Heartland	414,635	1,162,107
Term BNZ	-	720,610
	414,635	2,708,041

8. Trade and other receivables

	2023 **$**	**2022** **$**
Sundry debtors	128,232	116,753
GST receivable	32,196	-
Total trade and receivables	**160,428**	**116,753**

All trade and other receivables are due within 1 year.

9. Prepayments

	2023 **$**	**2022** **$**
Current		
Prepayments - other	171,388	89,467
Finzsoft core banking software prepayment	7,272	-
	178,660	**89,467**
Non-current		
Finzsoft core banking software prepayment	79,996	-
	258,656	**89,467**

10. Loans to Members

	Note	2023 $	2022 $
(a) Members' Loans comprise:			
Personal loans		15,483,676	13,051,573
Home loans		7,750,027	7,567,539
Accrued interest		87,036	61,860
Gross loans receivable		23,320,739	20,680,972
Provision for impairment		(375,320)	(323,045)
Net loans receivable		22,945,419	20,357,927

(b) Loan maturity		
Current portion of loans	6,646,573	6,340,049
Non-current portion of loans	16,298,846	14,017,878
Net loans receivable	22,945,419	20,357,927

(c) Credit quality - security dissection

A breakdown of the quality of the security on a portfolio basis is as follows:

Secured by mortgages over real estate	2023 $	2022 $
over 80% LVR	532,470	1,501,684
under 80% LVR	7,304,593	5,706,640
	7,837,063	7,208,324

Secured by first mortgage over real estate	6,855,099	6,339,355
Secured by second mortgage over real estate	981,964	868,969
Secured by members' shares in the Credit Union	154,403	421,074
Partially secured by motor vehicle and other collateral	14,865,897	12,892,554
Unsecured loans	463,376	159,020
Gross loans receivable	23,320,739	20,680,972

The Credit Union uses various disposal methods (such as auctions) to convert an asset into cash where required. The decision on the method of disposal depends on management's view of the potential to generate the best value for the asset. It is impracticable to provide a valuation of all the collateral security held against loans (particularly for personal loans) because of the potential volatility of security values.

(d) Credit quality - Concentration of loans	Note	2023	2022
Loans to individual or related groups of members which exceed 10% of equity		12 loans	8 loans
Loans to members concentrated to individuals employed in the fire and emergency industry		4,745,545	5,072,899
Loans to members concentrated in the greater Auckland area		75%	74%
Loans drawn down by member type:			
Residential loans and facilities		7,837,063	7,629,399
Personal loans and facilities		15,483,676	13,051,573
		23,320,739	20,680,972

11. Impairment of Member's loans

(a) Impairment charges		**2023**
Provisions raised/(released) under PBE IPSAS 41:		
Performing		29,130
Non- performing		(2,368)
Movement in impairment provision	**4**	26,762
Bad debts written-off directly to the surplus or deficit	**4**	248,927
Bad debts recoveries	**4**	(19,999)
Total bad debts and impairment losses		255,690

Provisions raised/(released): (under PBE IPSAS 29)		**2022**
Individual impairment allowance		110,269
Collective impairment allowance		(34,648)
	4	75,621
Bad debts written-off directly to the surplus or deficit	**4**	43,598
Bad debts recoveries	**4**	(7,612)
Total bad debts and impairment losses		111,607

11. Impairment of Member's loans (continued)

(b) Net Members' Loans

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

CARRYING VALUE TOTAL MEMBER LOANS	Performing		Non-performing		Total
	Stage 1 Collective	Stage 2 Collective	Stage 3 Collective	Stage 3 Individual	
Total gross carrying amount as at 1 July 2022	19,979,798	174,173	-	465,141	20,619,112
Net transfers in/(out) of stages	(245,953)	111,657	-	134,296	-
Net further lending/repayment	847,681	-	-	-	847,681
New financial assets originated	5,226,291	32,128	-	43,487	5,301,906
Financial assets derecognised during the period	(2,980,624)	(28,675)	-	(190,661)	(3,199,960)
Amounts written off	(62,755)	(16,270)	-	(168,975)	(248,000)
Total gross carrying amount as at 30 June 2023	22,764,438	273,013	-	283,288	23,320,739
Provision for ECL as at 30 June 2023	(171,844)	(4,056)	-	(199,420)	(375,320)
Total net carrying amount as at 30 June 2023	22,592,594	268,957	-	83,868	22,945,419

CARRYING VALUE HOME LOAN MEMBER LOANS	Performing		Non-performing		Total
	Stage 1 Collective	Stage 2 Collective	Stage 3 Collective	Stage 3 Individual	
Total gross carrying amount as at 1 July 2022	7,567,539				7,567,539
Net transfers in/(out) of stages	-	-	-	-	-
Net further lending/repayment	977,172	-	-	-	977,172
New financial assets originated	482,749	-	-	-	482,749
Financial assets derecognised during the period	(1,190,397)	-	-	-	(1,190,397)
Amounts written off	-	-	-	-	-
Total gross carrying amount as at 30 June 2023	7,837,063	-	-	-	7,837,063
Provision for ECL as at 30 June 2023	-	-	-	-	-
Total net carrying amount as at 30 June 2023	7,837,063	-	-	-	7,837,063

11. Impairment of Member's loans (b) (continued)

CARRYING VALUE PERSONAL LOAN MEMBER LOANS	Performing		Non-performing		Total
	Stage 1 Collective	Stage 2 Collective	Stage 3 Collective	Stage 3 Individual	
Total gross carrying amount as at 1 July 2022	12,412,259	174,173	-	465,141	13,051,573
Net transfers in/(out) of stages	(245,953)	111,657	-	134,296	-
Net further lending/repayment	(129,490)				(129,490)
New financial assets originated	4,743,541	32,128	-	43,487	4,819,156
Financial assets derecognised during the period	(1,790,227)	(28,675)	-	(190,661)	(2,009,563)
Amounts written off	(62,755)	(16,270)	-	(168,975)	(248,000)
Total gross carrying amount as at 30 June 2023	14,927,375	273,013	-	283,288	15,483,676
Provision for ECL as at 30 June 2023 (Note 9)	(171,844)	(4,056)	-	(199,420)	(375,320)
Total net carrying amount as at 30 June 2023	14,755,531	268,957	-	83,868	15,108,356

(c) ECL Impairment on Members' Loans

ECL - TOTAL MEMBER LOANS	Performing		Non-performing		Total
	Stage 1 Collective	Stage 2 Collective	Stage 3 Collective	Stage 3 Individual	
Provision for impairment charges as at 1 July 22 under PBE IPSAS 29	50,469	70,788	-	201,788	323,045
Reversal of provision as per PBE IPSAS 29	(50,469)	(70,788)	-	(201,788)	(323,045)
Restatement for adoption of PBE IPSAS 41	145,031	1,739	-	201,788	348,558
Restated provision for ECL as at 1 July 2022	145,031	1,739	-	201,788	348,558
Increase/(Decrease) in recognised impairment charges	26,813	2,317	-	(2,368)	26,762
Provision for ECL as at 30 June 2023	171,844	4,056	-	199,420	375,320
Amounts written off from individually assessed provisions	-	-	-	-	-
Total provision for ECL as at 30 June 2023	171,844	4,056	-	199,420	375,320

11. Impairment of Member's loans (continued)

(d) Basis of inputs and assumptions in the modelled provision for ECL

The Credit Union's forecast assumes the following:

Key macroeconomic assumptions

Consumer price index	Upside case: Forecasted to be 5%
	Base case: Forecasted to be 7%
	Downside case: Forecasted to be 9%
Unemployment rate	Upside case: Forecasted to be 2%
	Base case: Forecasted to be 4%
	Downside case: Forecasted to be 6%

The forecasted assumptions cover 12 months as we are looking at 12 month probability of default and this is the most relevant time period for forecasting write-offs of current members loans. The base case scenario reflects what the Credit Union expects the economic outlook for consumer price index and unemployment to be. The Credit Union has forecasted a downside and upside scenario due to the inherent uncertainty in economic forecasts.

The following key judgements were used in the calculation of the macroeconomic scenario analysis:
- if unemployment decreases by 1% then the provision for ECL will decrease by 8%
- if unemployment increases by 1% then the provision for ECL will increase by 16%
- if the consumer price index decreases by 1% then the provision for ECL will decrease by 8%
- if the consumer price index increases by 1% then the provision for ECL will increase by 16%

Sensitivity to macroeconomics scenarios	**2023**
100% base case ECL scenario / Reported probability-weighted ECL	375,320
100% upside case ECL scenario	264,826
100% downside ECL scenario	653,958

12. Property, plant and equipment

	2023 $	2022 $
Leasehold improvements at cost	1,141,170	755,577
Accumulated depreciation	(628,153)	(596,172)
Net book value	513,017	159,405
Plant and equipment at cost	651,223	605,660
Accumulated depreciation	(584,663)	(556,304)
Net book value	66,560	49,356
Motor vehicles at cost	78,145	78,145
Accumulated depreciation	(52,615)	(44,956)
Net book value	25,530	33,189
Capital work in progress	102,061	245,919
Total property, plant and equipment	**707,168**	**487,869**

(a) Reconciliations

Reconciliation of the carrying amounts of property, plant and equipment at the beginning and end of the current financial year

		2023 $	2022 $
Leasehold Improvements			
Opening carrying amount		159,405	185,592
Transfer from capital WIP		245,919	
Additions		139,013	2,452
Depreciation expense	**4**	(31,320)	(28,639)
Closing carrying amount		513,017	159,405
Plant and equipment at cost			
Opening carrying amount		49,356	70,492
Additions		46,222	10,975
Depreciation expense	**4**	(29,018)	(32,111)
Closing carrying amount		66,560	49,356
Motor vehicles			
Opening carrying amount		33,189	10,811
Additions		-	76,797
Disposals		-	(45,969)
Depreciation expense	**4**	(7,659)	(8,450)
Closing carrying amount		25,530	33,189

12. Property, plant and equipment (continued)

Capital work in progress	2023 $	2022 $
Opening carrying amount	245,919	-
Transfer to leasehold improvements	(245,919)	
Additions	102,061	245,919
Closing carrying amount	102,061	245,919

All property, plant and equipment are non-current assets.

The capital work in progress relates to leasehold improvements that were under construction at reporting date. (2022: relates to the capital expenditure associated with the new Penrose branch relocation).

13. Intangible assets

	2023 $	2022 $
Software at cost	362,577	362,577
Accumulated amortisation and impairment	(264,182)	(200,224)
	98,395	162,353
Capital work in progress - intangibles	14,886	-
Net book value of intangible assets	**113,281**	**162,353**

(a) Reconciliations

Reconciliation of the carrying amounts of intangible assets at the beginning and end of the current financial year

Software			
Opening carrying amount		162,353	183,672
Amortisation expense	**4**	(63,959)	(21,319)
Closing carrying amount		98,394	162,353
Capital work in progress			
Opening carrying amount		-	-
Additions		14,886	-
Closing carrying amount		14,886	-

14. Trade and other payables

	2023 $	2022 $
Resident withholding tax	5,567	527
GST provision	-	5,282
Sundry creditors and accrued expenses	370,166	471,077
Accesscard - ATM and EFTPOS card settlement	6,549	110,922
Total trade and other payables	**382,282**	**587,808**

15. Members' deposits

Call shares	2023	2022
Current	$	$
Savings accounts	11,606,714	12,942,830
Christmas account	961,836	1,714,364
Loyalty account	2,222,155	2,600,702
Accrued interest payable	121,243	55,253
Total call shares	14,911,948	17,313,149
Term shares		
Original maturity terms		
Current		
0-3 months	2,623,797	1,034,999
4-6 months	1,660,983	1,256,329
7-12 months	5,036,442	3,976,191
Non-current		
Greater than 12 months	1,966,887	1,641,817
Total term shares	11,288,109	7,909,336
Total members' deposits	**26,200,057**	**25,222,485**

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 shares and unpaid capital (if any). The equitable assignment by way of security was granted in favour of Covenant Trustee Services Limited, the Supervisor of the Credit Union, under the Trust Deed which has been registered with the Registrar of Friendly Societies and Credit Unions.

As a consequence of and in addition to the first ranking equitable assignment by way of security, the Credit Union has granted to the Supervisor a security interest in all its present and after-acquired personal property and the Supervisor has registered a financing statement under the Personal Property Securities Act (PPSA) in respect of the same.

Refer to note 5 for details of interest rates paid on member deposits.

16. Commitments

(a) Future capital commitments	2023 $	2022 $
As at reporting date, the Credit Union has the following future capital commitments (2022: nil).	115,000	-

Commitments relate to Sovereign implementation costs and will be recorded in prepayments once invoiced.

(b) Operating lease commitments

As at reporting date, the Credit Union has entered into the operating lease agreements for the premises of all of its branches in the greater Auckland area.

Non-cancellable operating leases contracted for but not capitalised in the financial statements, payable:		
No longer than 1 year	211,751	259,602
Longer than 1 year and not longer than 5 years	338,388	726,544
Longer than 5 years	215,492	36,116
	765,631	1,022,262

The property leases are for varying terms, with rent payable a month in advance. They are non-cancellable leases. An option exists to renew the lease for some of the branches and usually new leases would be renegotiated at the end of the existing leases. Refer to note 26 for details of the intention to assign the lease of the Penrose Branch to First Credit Union subsequent to reporting date.

(c) Outstanding loan commitments

Loans and credit facilities approved but not paid out at the end of the financial period:		
Loans approved but not paid out	20,124	4,135
Undrawn overdrafts	32,043	12,285
	52,167	16,420

17. Contingent liabilities

There are no material contingent liabilities at 30 June 2023 (30 June 2022: Nil).

18. Financial risk management objectives and policies

The Board has endorsed a policy of compliance and risk management to match the risk profile of the Credit Union.

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

- Market risk and hedging policy management
- Credit risk management
- Liquidity risk management
- Capital adequacy management

The Credit Union has undertaken the following strategies to minimise the risks arising from financial instruments:

Market Risk Policy

The Credit Union is not exposed to currency risk, and other price risk. The Credit Union does not trade in the financial instruments it holds on its books.

The Credit Union is exposed to interest rate risk arising from changes in market interest rates.

The policy of the Credit Union to manage the risk is to maintain a balanced "on book" strategy by ensuring the net interest rate gaps between members' loans and members' shares are not excessive. The measured gap in each 3-month range is to be maintained between 8.0% and 11.00% of the difference between interest on loans and members' deposits. The gap is measured monthly to identify any large exposures to the interest rate movements and to rectify the excess through targeted fixed rate interest products available through investment assets, and term deposit liabilities to rectify the imbalance within acceptable levels. The Credit Union's exposure to interest rate risk is set out in Note 18 which details the contractual interest rate change profile.

18. Financial risk management objectives and policies

The following tables summarise the sensitivity of the Credit Union's financial assets and liabilities to 1% movement in interest rates on the Credit Union's financial position and results.

2023	Carrying amount	-1% Profit & equity	+1% Profit & equity
Financial assets	$	$	$
Cash and cash equivalents - bank balances	**5,002,548**	(50,025)	50,025
Loan receivables - Variable interest	**23,320,739**	(233,207)	233,207
		(283,232)	283,232
Financial liabilities			
Members' deposits	**26,200,057**	147,907	(147,907)
		147,907	(147,907)
Total (decrease) / increase		(135,325)	135,325

2022	Carrying amount	-1% Profit & equity	+1% Profit & equity
Financial assets	$	$	$
Cash and cash equivalents - bank balances	**7,989,402**	(79,894)	79,894
Loan receivables - Variable interest	**20,680,972**	(206,810)	206,810
		(286,704)	286,704
Financial liabilities			
Members' deposits	**25,222,485**	172,579	(172,579)
		172,579	(172,579)
Total (decrease) / increase		(114,125)	114,125

The Credit Union performs sensitivity analysis to measure market risk exposures. The method used in determining the sensitivity was to evaluate the profit based on the timing of the interest repricing on the loan book of the Credit Union for the next 12 months. In doing the calculation the assumptions applied were that:

- The interest rate change would be applied equally over the loan products.
- The rate change would be as at the beginning of the 12-month period and no other rate changes would be effective during the period.
- The term deposits would all reprice to the new interest rate at the term maturity or be replaced by deposits with similar terms and rates applicable.
- All loans would be repaid in accordance with the current average repayment rate (or contractual repayment terms).
- The value and mix of call savings to term deposits will be unchanged.

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

Credit Risk - Loans

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the Credit Union incurring a financial loss. This usually occurs when debtors fail to settle their obligations owing to the Credit Union. The majority of members are concentrated in the greater Auckland area so there is a major credit risk with respect to loans and receivables if there was to be a disaster affecting this area. The Credit Union minimises this risk by having a large number of customers. The credit policy is that loans are only made to members who are credit worthy.

18. Financial risk management objectives and policies (continued)

The Credit Union has established policies or 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, commercial lending 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; and
- Review of compliance with the above policies.

Regular reviews of compliance are conducted as part of the internal audit scope.
The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken. The Board policy is to maintain loans secured by first mortgage up to a maximum of 40% of the total loan book.
The Credit Union will limit unsecured credit to any one member individually or jointly to a maximum of $50,000. Daily reports monitor the loan repayments to detect delays in repayments and recovery action is undertaken after 7 days if not rectified. For loans where repayments are doubtful, external consultants are engaged to conduct recovery action prior to being 90 days in arrears.

The Credit Union has a concentration of credit risk in relation to loans within the fire and emergency industry. Approximately 25% of the loans are to members within this sector.

The significant accounting assumptions related to the determination of the provision for impairment of loans are set out in Note 2(i).

Credit Risk - Liquid Investments
The risk of losses from the liquid investments undertaken is reduced by the nature and quality of the independent rating of the investee and the limits to concentration on one entity.

Liquidity Risk
Liquidity risk is the risk that the Credit Union 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 Credit Union maintains adequate cash reserves so as to meet the member withdrawal demands when requested.

The Credit Union manages liquidity risk by:

- Continuously monitoring forecast and actual daily cash flows.
- Reviewing the maturity profiles of financial assets and liabilities.
- Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities, as required; and
- Regularly monitoring loan repayments and comparing to forecast cash flows.

The Credit Union's policy has a Trust Deed requirement under section 7.2(b) to maintain a Liquidity Coverage Ratio (LCR) of at least 1.2 or more. At 30 June 2023, LCR was 1.38 (30 June 2022: 1.60). This ratio is monitored and reported to management, the Credit Union Board and its Supervisor on a regular basis. Should the Liquidity Coverage Ratio fall below this level, the management and Board are to address the matter and ensure that the liquid funds are obtained from new deposits or borrowing facilities available.

The maturity profile of the financial liabilities, based on the contractual repayment terms, is set out in the specific note 19. Whilst there is liquidity deficiency for the within one month period of $10,410,545 as at 30 June 2023 (30 June 2022: $7,979,685), based on the contractual arrangements, the Directors can manage any potential mismatch and meet its obligations as they fall due, due to the continued reinvestment of shares at historical levels and as all loans to members are repayable on demand under certain conditions. In addition, the profile assumes that all members' shares are repaid when they mature however in the ordinary course of business, the Credit Union normally retains the members' deposits which are due within 1 month ensuring as they are renewed thereby that it does not need to demand repayment of the members' loans.

Although members' deposits typically are renewed in the ordinary course of events, contractually the Credit Union can demand repayment of members' loans which also provides the Credit Union with access to funds if some or all members' shares require repayment. The Credit Union also has the right at any time to require a 60-day notice period for repayment of members' shares.

18. Financial risk management objectives and policies (continued)

Capital Management

The Credit Union is regulated under the Friendly Societies and Credit Union Act 1982 and licensed by the Reserve Bank of New Zealand under the Non-Bank Deposit Takers Act 2013. It must also comply with the "Deposit Takers (Credit Ratings, Capital Ratios and Related Party Exposures) Regulations 2010" ('the Regulations') and the Trust Deed. During the year the Credit Union obtained a credit rating of CCC+ and is required to maintain a capital ratio of 8%. In the prior year the Credit Union was required to have a minimum of 10% capital ratio (equity to risk weighted assets) for the period in which the Credit Union had no credit rating from an approved credit rating agency.

18. Financial risk management objectives and policies (continued)

The Credit Union's capital is determined as follows:

	2023 $	2022 $
Tier 1		
Accumulated revenue	2,408,625	3,240,021
General reserves	-	-
Total Tier 1 reserves	2,408,625	3,240,021
Tier 1 capital ratio	7.75%	11.84%
Tier 2		
Tier 2 reserves	-	-
Total Tier 2 reserves	-	-
Tier 2 reserves	0.00%	0.00%
Total Tier 1 and 2 reserves	2,408,625	3,240,021
Tier 1 and 2 capital ratios	7.75%	11.84%

To manage the Credit Union's capital, which can be affected by excessive growth and by changes in total assets, the Credit Union regularly reviews the capital adequacy ratio and monitors major movements in the asset levels. Policies have been implemented to require reporting to the board and the supervisor if the capital ratio falls below 12%. 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. Refer also Note 2 (b) Going concern.

19. Maturity profile of financial liabilities

Monetary 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 liabilities held will mature and be eligible for renegotiation or withdrawal. Future interest payable represents the expected future interest cash flows arising from the contractual obligations of the underlying monetary liabilities respectively. Actual cash flows may differ significantly from the contractual cash flows presented below as a result of changes in market conditions and future actions of the Credit Union and its counterparties.

19. Maturity profile of financial liabilities (continued)

The Credit Union manages liquidity risk by:

- Continuously monitoring forecast and actual daily cash flows.
- Reviewing the maturity profiles of financial assets and liabilities.
- Maintaining adequate reserves, and reserve borrowing facilities.

As at 30 June 2023	Within 1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	Over 5 years	Total
Trade and other payables	376,715	-	-	-	-	-	-	376,715
Members' deposits	15,535,717	2,000,028	1,660,983	5,036,442	1,966,887	-	-	26,200,057
Future interest payable on members' deposits	11,633	17,469	9,312	52,058	24,107	-	-	114,579
Total financial liabilities payable	15,924,065	2,017,497	1,670,295	5,088,500	1,990,994	-	-	26,691,351

As at 30 June 2022	Within 1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	Over 5 years	Total
Trade and other payables	581,999	-	-	-	-	-	-	581,999
Members' deposits	17,313,152	1,034,999	1,256,329	2,056,389	1,919,802	1,641,817	-	25,222,488
Future interest payable on members' deposits	4,804	4,254	6,669	5,490	3,783	-	-	25,000
Total financial liabilities payable	17,899,955	1,039,253	1,262,998	2,061,879	1,923,585	1,641,817	-	25,829,487

20. INTEREST RATE RISK

The Credit Union's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rate on classes of financial assets and financial liabilities.

	Floating interest rate		Fixed Interest Rate Maturing in: 0 to 3 months		3 to 6 months		6 to 12 months		1 to 2 years		2 to 5 years		Over 5 years		No maturity		Non-interest sensitive		Total		Weighted average effective interest rate*	
	Jun-23	Jun-22	Jun-23	Jun-22	Jun-23	Jun-22	Jun-23	Jun-22	Jun-23	Jun-22	Jun-23	Jun-22	Jun-23	Jun-22	Jun-23	Jun-22	Jun-23	Jun-22	Jun-23	Jun-22		
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	Jun-23	Jun-22
Financial assets																						
Cash on hand	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	109	221	109	221	N/A	N/A
Bank balances	3,549	3,154	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,549	3,154	0.00%	0.00%
Term Deposits	-	-	1,345	4,614	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,345	4,614	4.55%	1.15%
Trade & other receivables	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	128	117	128	117	N/A	N/A
Loans to members	23,321	20,681	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	23,321	20,681	12.75%	10.88%
Total financial assets	26,870	23,835	1,345	4,614	-	-	-	-	-	-	-	-	-	-	-	-	237	338	28,452	28,787		
Financial liabilities																						
Members' deposits - call	14,912	17,313	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	14,912	17,313	1.00%	1.46%
Members' deposits - term	626	414	2,000	2,301	1,660	2,251	5,036	1,765	1,966	1,178	-	-	-	-	-	-	-	-	11,288	7,909	5.50%	3.12%
Other payables	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	377	582	377	582	N/A	N/A
Total financial liabilities	15,538	17,727	2,000	2,301	1,660	2,251	5,036	1,765	1,966	1,178	-	-	-	-	-	-	377	582	26,577	25,804		

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

21. Other credit risks

(a) Maximum Credit Risk Exposure
The Credit Union'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 assets as indicated in the Statement of Financial Position and loan commitments.

(b) Concentrations of Credit Risk
The Credit Union minimises concentrations of credit risk in relation to loans by undertaking transactions with a large number of customers. Credit risk is currently managed in accordance with the Credit Union's credit policy to reduce the Credit Union's exposure to potential failure of counterparties to meet their obligations under the contract or arrangement. All loans are to members of the Credit Union who are concentrated mainly within the both the fire and emergency industry as well as the greater Auckland area in New Zealand.

(c) Large counterparties
The Credit Union has exposure to counterparties in excess of 10% of equity as follows:

	Number of counterparties	
	2023	2022
Between 10% and 20% of equity	10	8
Between 20% and 30% of equity	3	-
Between 30% and 40% of equity	1	-
Between 70% and 80% of equity	1	-

In relation to loans to members, where a member has shares as security or deemed security, the security has not been taken into account when calculating the percentage of exposure.

(d) Loans to members
Loans can only be made to Credit Union members. Loan interest rates range from 8.85% to 19% p.a. (30 June 2022: 5.15% to 19.00% p.a.) The Credit Union has a lending policy that requires various levels and types of security for loans and includes that a portion of loans may be secured over the borrowing member's 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.

22. Concentration of funding

The Credit Union's source of funding is members' deposits. Accordingly, the funding is concentrated in and limited to the area of the 'common bond' and consequently the Credit Union funding is from individuals residing or working within New Zealand and primarily in the greater Auckland area as well as within the fire and emergency industry. The funding from members is recorded as members' deposits in the Statement of Financial Position.

23. Fair value of financial assets and liabilities

All financial assets and liabilities, with the exception of loans to members are short-term instruments where their carrying amount in the Statement of Financial Position equates to their fair values. As detailed in the accounting policies, loans are carried at estimated realisable value after providing for impairments. The Directors believe that any differences between carrying value and fair value are not material because the loan periods are relatively short and can be changed to "on demand" by the Credit Union or Supervisor. In addition, interest rate differences between lending dates and reporting date are not significant.

The Credit Union did not hold any financial instruments at fair value at reporting date.

24. Cash flow reconciliation

Reconciliation of net cash flow from operating activities to operating profit	2023 $	2022 $
Operating deficit for the year	(805,884)	(290,766)
Non-cash items:		
Depreciation and amortisation	131,956	99,086
Bad loans written off	248,927	43,598
Increase / (decrease) in provision for loan impairment	26,762	75,621
Reversal of bad loans previously written off	(19,999)	(7,612)
Profit on disposal of assets	-	(6,892)
Amalgamation balances from NZ Fire Fighters Credit Union	-	(609,051)
	387,646	(405,250)
Changes in assets and liabilities:		
Decrease / (increase) in trade and other receivables	(43,676)	14,452
Increase / (decrease) in trade and other payables and other accruals	(162,442)	131,373
Decrease / (increase) in prepayments	(169,189)	(33,411)
Decrease / (increase) in net movement in members' loans	(2,868,695)	(5,550,830)
Increase / (decrease) in members' deposits	977,569	4,628,921
	(2,266,433)	(809,495)
Net cash used in operating activities	(2,684,671)	(1,505,511)

25. Related parties

(a) Remuneration of Directors and Key Management Persons

The Credit Union deals with Directors and other key management persons ('KMP') on the same terms and conditions applied to all members (including interest rates on loans and shares):

Directors' and other KMP holdings at reporting date are:	2023 $	2022 $
Owing to Directors and other KMP (shares)	19,216	104,299
Owing by Directors and other KMP (loans)	86,988	61,490
Interest expense to Directors and other KMP (on shares)	217	727
Interest income from Directors and other KMP (on loans)	8,655	7,143

There are no shares from Directors exceeding 12 months at 30 June 2023, (30 June 2022: Nil) and all Directors' loans are repayable on demand. The Directors received fees for the year to 30 June 2023 of $44,882 (30 June 2022: $40,000) for their services.

Key management persons are those with authority and responsibility for planning, directing and controlling the activities of the Credit Union, directly or indirectly, including any Director (whether executive or otherwise) of the entity. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Key management persons are as defined in the Non-bank Deposit Takers Act 2013 for the financial and operational governance and management of the Credit Union.

25. Related parties (continued)

Key management remuneration for the year ended:

	2023 $	2022 $
Short term employee benefits	194,395	179,953
Total remuneration	**194,395**	**179,953**
Number of persons recognised as Key Management Persons (FTE's)	1	1
Number of Directors	8	8

Remuneration shown as short-term benefits means (where applicable) wages, salaries, paid annual leave, directors' fees, sick leave, bonuses and the value of fringe benefits received, but excludes out of pocket expense reimbursements.

(b) Other related parties

Other related parties are those relatives of the Directors or key management persons, spouses of relatives and any other entity under the control/significant influence of the Directors or key management persons.

Other related parties' holdings at balance date are:	2023 $	2022 $
Owing to other related parties (shares)	16,681	-
Owing by other related parties (loans)	-	70
Interest expense to other related parties (on shares)	567	11
Interest income from other related parties (on loans)	-	-
Purchases of goods and services from entities controlled by directors	207,292	-

No Director or related party loans have been written off for loan impairment during the year (30 June 2022: Nil)
and no amounts are included in the provision for impairment at 30 June 2023 (refer to note 10) (30 June 2022: Nil).

26. Events occurring after balance date

The Credit Union has signed an agreement with First Credit Union to sell capital work in progress relating to the Penrose Branch to First Credit Union amounting to $300,000. It is the intention that First Credit Union and Credit Union Auckland will both share the Penrose branch office premises. Credit Union Auckland is in the process of assigning the lease to First Credit Union and costs will be shared gong forward.

First Credit Union entered into a capital note arrangement with Auckland Credit Union for $350,000 of which $320,000 has been drawn down. The Capital Notes have the following terms:

- The coupon rate is non-cumulative and payable at the discretion of the Issuer.
- Capital Notes will remain in existence until acquired by the Issuer or the winding up of the Issuer.

There was a breach at 30 June and subsequent to reporting date the Supervisor was concerned that the Credit Unions capital ratio limit of 8% may be in breach. The Supervisor issued an Event of Review notice requesting the Credit Union explain how it would operate post the breach and the actions required to ensure the Credit Union was able to return the capital ratio to the minimum requirement. The risk was subsequently mitigated once the capital work in progress and capital note transactions with First Credit Union were completed (as described above)

There has been no other matter or circumstance, which has arisen since 30 June 2023 that has significantly affected or may significantly affect:
(a) the operations, in financial years subsequent to 30 June 2023, of the Credit Union, or
(b) the results of those operations, or
(c) the state of affairs, in financial years subsequent to 30 June 2023, of the Credit Union.

Credit Union Auckland Incorporated

Statement of Service Performance

For the year ended 30 June 2023

Who are we?

Credit Union Auckland is a financial co-operative and has a Non-Bank Deposit Taker (NBDT) license and is prudentially supervised by the Reserve Bank of New Zealand.

We offer a range of financial services tailored to our members' needs. Whether it's transactional banking, savings accounts, or low-cost lending, our focus is on providing cost-effective solutions that go beyond what traditional banks offer. As a member-owned institution, we believe in the power of ordinary people coming together to do better for each other and themselves. Our dedicated team, consisting of directors, management, and staff, upholds a philosophy of delivering the highest quality banking services to our members. We strive to act in their best interests, putting their needs first and demonstrating our values on a daily basis.

Our diverse staff, representing the multicultural fabric of South Auckland, is passionate about making a positive impact in the communities we serve. Together, we are united in our goal to provide a better banking experience for our members.

Why do we exist?

We are here to offer a compassionate and caring approach, ensuring our members fully understand the products and services we provide. We appreciate the cultural significance of important events in our members' lives, such as weddings, funerals, and religious ceremonies, and we strive to be there for them during these significant moments. We listen to their needs and offer sensible, practical solutions, that can help our members manage their finances.

We offer sensible and practical solutions to help our members effectively manage their finances. Unlike some finance companies, we do not price for risk or overcharge for our services. Our personal loan rates range from 9.95% to 16%, providing affordable options for our members.

Our objectives

In 2022/23 Credit Union Auckland had 4 main objectives:
(a) Help more members! Increase membership by min 650 members in 2022/2023
(b) To make a surplus in 2022/23
(c) Increase number of online loan applications to make the lending process easier for our members.
(d) Support the welfare of our members and our community

How we measure our performance

Objective	Measure	What we have done this year (FY 2023)	What we did last year - unaudited (FY 2022)
(a) Help more members! Increase membership by min 650 members in 2022/2023	Number of new members in 2022 – net growth	(111)	(65)
(b) To make a surplus in 2022/23	Surplus / (deficit) for the year reported in the financial statements	($805,884)	($290,766)
(c) Increase number of online loan applications to make the lending process easier for our members	Number of loans received via online portal on CUA website	2007	880
(d) Supporting the welfare of our members and the community	$ value of scholarships granted through the School Scholarship programme	$7,500	$7,500

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF CREDIT UNION AUCKLAND INCORPORATED

Opinion

We have audited the general purpose financial report of Credit Union Auckland Incorporated ("the Credit Union"), which comprise the financial statements on pages 3 to 38, and the statement of service performance on page 39. The complete set of financial statements comprise the statement of financial position as at 30 June 2023, and the statement of comprehensive revenue and expenses, statement of changes in members' funds and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies

In our opinion, the accompanying general purpose financial report presents fairly, in all material respects:

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

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

Basis for Opinion

We conducted our audit of the financial statements in accordance with International Standards on Auditing (New Zealand) ("ISAs (NZ)") and the audit of the statement of service performance in accordance with the ISAs and New Zealand Auditing Standard (NZ AS) 1 *The Audit of Service Performance Information (NZ)*. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the General Purpose Financial Report* section of our report. We are independent of the Credit Union 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 provide reporting to the Credit Union's Supervisor under a tripartite engagement with the Credit Union, Covenant Trustee Services Limited and BDO Auckland. We have no other relationships with, or interests in, the Credit Union.

Material Uncertainty Related to Going Concern

We draw attention to Note 2(b) to the financial statements, which indicates that the Credit Union incurred a net loss of $805,884 during the year ended 30 June 2023, breached its capital ratio required as at 30 June 2023 and subsequent to reporting date the Credit Union's Supervisor has declared an event of review. As stated in Note 2(b), these events or conditions, along with other matters as set forth in Note 2(b), indicate that a material uncertainty exists that may cast significant doubt on the Credit Union's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the general purpose financial report of the current period. These matters were addressed in the context of our audit of the statement of service performance and financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Expected Credit Loss Provision	
Key Audit Matter	**How The Matter Was Addressed in Our Audit**
The Credit Union's gross loans to members balance was $23,320,739 and expected credit loss provision of $375,320 as at 30 June 2023. These balances are further discussed in Notes 10 and 11 to the financial statements. We considered the accuracy of the expected credit loss provision to be a key audit matter based on the materiality of the loans to members balance and the significant judgements and estimation required to calculate this provision. The Credit Union adopted and applied PBE IPSAS 41 – *Financial Instruments* for the first time this year. The adoption was completed with the assistance of an expert to formulate the expected credit loss methodology which required the Credit Union to: - identify circumstances could indicate when there is a significant increase in credit risk; and - incorporate identified circumstances and forward-looking macroeconomic information to reflect current or external factors into the credit loss provision. Note 2(i) of the financial statements describes the key assumptions in determining the expected credit loss provision. These disclosures include key judgements and assumptions in relation to the expected credit loss provision and highlights the estimation uncertainty around the provision at 30 June 2023.	We performed the following procedures on the expected credit loss provision: • We gained an understanding of the design and implementation of the control environment in regard to loans to members and the assessment of the expected credit loss provision; • We examined a sample of loans from the loan portfolio listing and verified loan details to source documentation. This included verification of collateral held, original loan balance, whether repayment terms are being met and whether loans had been approved within the credit control policy to determine that the key loan data inputs were correctly input into the loans system; • We reviewed the Credit Union's expected credit loss model methodology against the requirements of PBE IPSAS 41; • We evaluated management's judgements and assumptions in relation to the expected credit loss provision; • We examined and analysed the factors considered by management to impact the credit risk of loans including the calculation of past due days at balance date; • We assessed the security of the loan and considered how external economic factors may have affected the security; • We assessed management's judgement involved stage 3 individual provisioning; • We reviewed the Credit Union's approach to incorporating forward looking macroeconomic factors into the credit loss provision;

As described in Note 2(i), the underlying forecasts and assumptions are subject to uncertainties which are often outside the control of the Credit Union. Actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected.	• We developed expectations based on historical data and trends, looked at macroeconomic data publicly available and performed sensitivity analysis over a variety of scenarios to assess the adequacy of the provision; and • We evaluated the extent and appropriateness of disclosures in Note 11 in relation to the specific assumptions, sensitivities and uncertainties on this year's expected credit loss provision.

Other Matter

The statement of service performance for the corresponding year 30 June 2022 is unaudited.

Other Information

The directors are responsible for the other information. The other information comprises the Annual Report (but does not include the statement of service performance and the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Annual Report, which is expected to be made available to us after that date.

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

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

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, 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.

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

Directors' Responsibilities for the General Purpose Financial Report

The directors' are responsible on behalf of the Credit Union for:

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

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

c) such internal control as those charged with governance determine is necessary to enable the preparation of the financial statements and statement of service performance that are free from material misstatement, whether due to fraud or error.

In preparing the general purpose financial report, the directors are responsible on behalf of the Credit Union for assessing the Credit Union'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 Credit Union or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the General Purpose Financial Report

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole, and the statement of service performance are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) and NZ AS 1 will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of this general purpose financial report.

A further description of the auditor's responsibilities for the audit of the general purpose financial report is located at the XRB's website at:
https://www.xrb.govt.nz/standards/assurance-standards/auditors-responsibilities/audit-report-10/

This description forms part of our auditor's report.

Who we Report to

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

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

BDO Auckland

BDO Auckland
Auckland
New Zealand
30 November 2023