POLICE CREDIT UNION

Te Uniana Whakanama Pirihimana

POLICE HELPING POLICE

General Purpose Financial Report

Year end 30 June 2023

Police and Families Credit Union

Statement of Comprehensive Revenue and Expense

For the year ended 30 June 2023

	Note	*2023*	*2022*
		$ 000	**$ 000**
REVENUE			
Interest Revenue	**2.1**	6,387	4,600
Interest Expenditure	**2.1**	2,546	772
Net Interest Revenue		**3,841**	**3,828**
Other Income		72	75
Total Revenue		**3,913**	**3,902**
EXPENDITURE			
Operating Expenses	**2.2**	2,286	2,478
Employee Benefits	**2.2**	1,561	1,335
Loan Impairment Expenses		9	3
Depreciation	**5.1a**	19	18
Amortisation Expenses	**5.2**	20	20
Occupancy		78	63
Total Operating Expenditure		**3,974**	**3,917**
Share of Equity Accounted Joint Venture Surplus for the year	**5.5**	627	687
Surplus for the Year Attributable to Members		**566**	**672**
Other Comprehensive Revenue and Expense		-	-
Total Comprehensive Revenue and Expense for the Year Attributable to Members		**566**	**672**

Police and Families Credit Union

Statement of Changes in Net Assets/Equity

For the year ended 30 June 2023

	Note	*Accumulated Revenue and Expense* $ 000	*Total* $ 000
Balance as at 30 June 2021		**27,001**	**27,001**
Total Comprehensive Revenue and Expense for the Year Attributable to Members		672	672
Balance as at 30 June 2022		**27,673**	**27,673**
Total Comprehensive Revenue and Expense for the Year Attributable to Members		566	566
Balance as at 30 June 2023		**28,239**	**28,239**

Police and Families Credit Union

Statement of Financial Position

As At 30 June 2023

	Note	2023 $ 000	2022 $ 000
MEMBERS' FUNDS			
Accumulated Revenue and Expense		28,239	27,673
Total Members' Funds		**28,239**	**27,673**
ASSETS			
Cash and Cash Equivalents	**3.1**	7,990	8,509
Term Deposits	**3.2**	104,559	102,822
Loans to Members	**4.1**	34,281	31,066
Prepayments		829	381
Property, Plant and Equipment	**5.1a**	39	20
Investment Property	**5.1b**	289	-
Intangible Assets	**5.2**	16	36
Investment in Joint Venture	**5.5**	7,650	7,023
Subordinated debt	**5.6**	1,000	5,500
Total Assets		**156,653**	**155,358**
LIABILITIES			
Trade and Other Payables	**5.4**	292	612
Employee Benefits		96	96
Members' Deposits	**5.7**	128,026	126,976
Total Liabilities		**128,414**	**127,684**
Net Assets/Equity		**28,239**	**27,673**

These financial statements are authorised for and on behalf of the Board by:

Date 29 November 2023 Lane Todd **Director**

Date 29 November 2023 Ian Harris **Director**

BDO WELLINGTON

Police and Families Credit Union

Statement of Cash Flows

For the year ended 30 June 2023

	Note	2023 $ 000	2022 $ 000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest Received		4,588	4,701
Fees, Commissions and Other Income		72	75
Interest Paid		(2,231)	(716)
Payments to Suppliers and Employees		(4,756)	(3,443)
Net Movement in Members' Loans		(3,192)	6,596
Net Movement in Member Deposits		784	2,125
Net Cash Provided by Operating Activities	**3.3**	**(4,735)**	**9,337**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for Property, Plant, Equipment and Intangibles		(327)	-
Receipts/(Increase) in Term Deposits		43	(4,000)
Receipt/(Payment) of Subordinated debt	**5.6**	4,500	(2,750)
Net Cash Used in Investing Activities		**4,216**	**(6,750)**
Total Net Increase/(Decrease) in Cash and Cash Equivalents		(519)	2,587
Cash and Cash Equivalents at the Beginning of the Period		8,509	5,922
Cash and Cash Equivalents at the End of the Period	**3.3**	**7,990**	**8,509**

1 Corporate Information

1.1 Reporting Entity

These financial statements are for the reporting entity the Police and Families Credit Union Incorporated ("PCU"), a Credit Union registered in New Zealand under the Friendly Societies and Credit Unions Act 1982 (FSCU Act). PCU is an FMC reporting entity for the purposes of the Financial Markets Conduct Act 2013 (FMC Act).

1.2 Nature of Business

The purpose of PCU is three-fold. Firstly to promote savings among its members and secondly to provide affordable lending for members. As a mutual, PCU exists to use any surplus from these activities for the benefit of members.

1.3 Trust Deed

As at 1 January 2020, the Police and Families Credit Union (PCU) was incorporated by the Registrar of Credit Unions and, as such our assets are no longer held by the Trustees of PCU but are held by the incorporated body. Accordingly a revised Trust Deed was issued on the same date. The Public Trust is appointed as the Supervisor of the shares on the terms and conditions of the Deed and in accordance with the requirements of the FMC Act, the FMC Regulations and the Financial Markets Supervisors Act 2011. The Trust Deed grants an assignment by way of security to the Supervisor, which can be enforced if certain material events occur. The Trust Deed also sets out on behalf of members, certain reporting obligations and contains financial covenants which are designed to ensure PCU is able to meet its financial obligations to members at all times. All Trust Deed obligations and financial covenants were complied with as at 30 June 2023.

1.4 Basis of Preparation

Statement of Compliance

For the purposes of complying with New Zealand Generally Accepted Accounting Practice (NZ GAAP), PCU is a not-for-profit public benefit entity. PCU complies with Public Benefit Entity Accounting Standards (PBE Standards) as appropriate for Tier 1 not for profit/public benefit entities. The financial statements are:

- prepared in accordance with the statutory requirements of the FMC ACT
- prepared in accordance with NZ GAAP
- in compliance with Public Benefit Entity Accounting Standards (PBE Standards)
- presented in New Zealand dollars ($) rounded to the nearest thousand
- stated inclusive of GST as PCU is treated as an end user, and not required to be registered for GST
- prepared in accordance with the historical cost convention.

Use of Estimates and Judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. In particular, information about significant areas of estimation uncertainty in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in notes 4.1 and 4.2 for the measurement of loans to customers; and note 5.5 for the carrying value of the investment in joint venture.

These financial statements were authorised for issue by the Directors on the date set out in the Statement of Financial Position.

2 Financial Performance

2.1 Net Interest Revenue		*2023*	*2022*
		$ 000	**$ 000**
Interest Revenue - Interest on Loans and Receivables			
Interest on Loans to Members		2,902	3,043
Interest on Subordinated Debt	**5.6**	262	109
Interest on Term Deposits		3,010	1,435
Interest on Cash and Cash Investments		212	13
Total Interest Revenue		**6,387**	**4,600**
Interest Expenditure - Liabilities at Amortised Cost			
Interest on Members Call Shares		833	144
Interest on Members Term Shares		1,713	628
Total Interest Expenditure		**2,546**	**772**

RECOGNITION AND MEASUREMENT

Except as described below, revenue is recognised to the extent that it is probable that the economic benefits will flow to PCU and the revenue can be reliably measured. Revenues are recognised at fair value of the consideration received.

Interest on Loans to Members

Loan interest is calculated on the daily loan balance outstanding and is charged in arrears to the members loan account at the end of each fortnight or in line with the repayment frequency. Loan interest is recognised in the surplus or deficit using the effective interest method.

Interest on Term Deposits

Investment interest revenue is recognised on an accrual basis using the effective interest method which allocates the interest over the period that it relates to.

Interest Expense

Interest on members' shares is recognised as an expense in the period that it relates to using the effective interest method, which allocates the interest expense over the term of the members' shares to which they relate.

RECOGNITION AND MEASUREMENT

Fees and other income are recognised in the accounting period in which the services are rendered.

2.2 Expenditure	*Note*	*2023*	*2022*
		$ 000	**$ 000**
Operating Expenses includes:			
External Audit of Financial Statements		112	71
Directors Fees	**6.3**	144	128
Employee Benefits includes:			
Wages and Salaries		1,397	1,171
Defined Contribution Expense		62	42
Staff Recruitment, Training, Health plan		103	122

3 *Deposits and Liquidity*

3.1 Cash and Cash Equivalents	***Interest Rates***	***2023*** **$ 000**	***2022*** **$ 000**
Bank Balances - on Call	**4.00%**	**7,990**	**8,509**

RECOGNITION AND MEASUREMENT

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

Refer to section 9 for further information on Credit Risk and details about PCU's Financial Risk Management Objectives and Policies.

3.2 Term Deposits	***Interest Rates***	***2023*** **$ 000**	***2022*** **$ 000**
Westpac Bank		36,127	35,156
ANZ		36,555	38,742
Kiwibank		2,043	2,011
BNZ		5,192	3,044
Heartland Bank		24,641	23,869
Total Term Deposits	**1.95% to 6.2% (2022 0.95% to 4.28%)**	**104,559**	**102,822**
Current		70,609	66,690
Non-Current		33,950	36,132
Total Term Deposits		**104,559**	**102,822**

RECOGNITION AND MEASUREMENT

All term deposits are measured at amortised cost using the effective interest method, less any impairment losses. All term deposits mature within the next 36 months. Under PBE standards definition of financial assets, term deposits are classified as amortised cost.

Refer to section 9 for further information on Credit Risk and details about PCU's Financial Risk Management Objectives and Policies.

PCU has a term deposit of $500,000 that is used as security by Westpac for the guarantee that Westpac has made to PayMark on behalf of PCU.

3.3 Reconciliation of Cash Flows from Operating Activities

RECOGNITION AND MEASUREMENT

The Statement of Cash Flows is prepared using the direct approach

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

Reconciliation of Cash Flow from Operating Activities with Operating Surplus	***2023*** **$ 000**	***2022*** **$ 000**
Surplus for the Year Attributable to Members	**566**	**672**
NON CASH ITEMS		
Depreciation and assets written off	40	38
Impairment Allowance	(6)	-
Share of Equity Accounted Joint Venture Surplus for the year	(627)	(687)
	(593)	**(649)**
CHANGES IN ASSETS AND LIABILITIES		
Movement in Prepayments	(449)	32
Movement in Accounts Payable	(320)	402
Movement in Employee Benefits	-	16
Movement in Loans	(3,189)	6,599
Movement in Member Deposits	736	2,109
Movement in Accrued Interest Receivable	(1,800)	101
Movement in Accrued Interest Payable	314	56
	(4,708)	**9,314**
Net Operating Cash Flows	**(4,735)**	**9,337**

4 Loans to Members

4.1 Loans to Members		***2023*** **$ 000**	***2022*** **$ 000**
Mortgages		8,508	3,311
Personal Loans		25,896	27,884
Gross Loans to Members		34,404	31,195
Less: Allowance for Impairment	**4.2**	(123)	(129)
Net Loans to Members		**34,281**	**31,066**
Current		4,733	5,117
Non-Current		29,671	26,078
Gross Loans to Members		**34,404**	**31,195**

RECOGNITION AND MEASUREMENT

Under PBE standards definition of financial assets, loans to members are classified as amortised cost. Loans to Members are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not available for sale. They arise when PCU provides funds directly to a member with no intention of trading the receivable. Loans are recognised when cash is advanced to the borrowers. Loans include mortgages and personal loans.

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

4.1.a Credit Quality - Security Dissection	**2023** **$ 000**	**2022** **$ 000**
Secured by Mortgage Over Real Estate with LVR <70%	2,612	2,962
Secured by Mortgage Over Real Estate with LVR 70%> <80%	3,657	353
Secured by Mortgage Over Real Estate with LVR 80%> <90%	2,264	-
Partially Secured by Motor Vehicles or Other Collateral	3,398	3,970
Secured by Police Superannuation or Government Superannuation	22,379	23,798
Unsecured	93	112
Credit Quality of Gross Loans to Members	**34,404**	**31,195**

PCU holds security against Loans to Members in the form of mortgage interests over property, or for personal loans, security can include motor vehicles, Police Superannuation balances, Government Superannuation balances or be unsecured. Security is obtained based on the type of borrowing facility. All loan value ratios are written within the parameters of the credit policy at the time a loan is advanced.

	$ 000	**$ 000**
4.1.b Asset Quality of Loans to Members	**2023** **$ 000**	**2022** **$ 000**
Performing Loans		
Neither Past Due Nor Impaired	34,232	30,791
Past Due But Not Impaired		
1 to 30 days	158	253
31 to 90 days	9	90
over 90 days	5	61
Total Performing Loans	**34,404**	**31,195**
Impaired loans		
Specifically Impaired	25	49
Collectively Impaired	98	80
Net Loans	**34,281**	**31,066**

Loans to Members are initially stated at fair value plus directly attributable transaction costs and thereafter at amortised cost using the effective interest rate method, less any impairment losses. PCU's maximum credit exposure, without taking into account the value of any collateral or other security, in the event other parties fail to perform their obligations under the financial instruments in relation to each class of recognised asset, is the carrying amount of those loans to members. Refer to section 9 for further information on Credit Risk and details about PCU's Financial Risk Management Objectives and Policies.

4.2 Allowance for Impairment of Financial Assets

Impairment of Loans and Advances

Total doubtful debts and bad debt expense for the year was:	***2023*** **$ 000**	***2022*** **$ 000**
Provision for Impairment - Increase/(decrease) in the Year	(13)	7
Bad Loans written off	15	3
Loan Impairment Expenditure	**2**	**10**

		Individually Impaired **$ 000**	***Collectively Impaired*** **$ 000**	***Restructured*** **$ 000**	***2023 Total*** **$ 000**	***2022 Total*** **$ 000**
Opening Balance		49	80	-	129	129
Increase/(Decrease) in the Provision		(13)	22	-	9	3
Transfer to Bad Debts Written Off		(11)	(4)	-	(15)	(3)
Closing Balance	**4.2c**	**25**	**98**	**-**	**123**	**129**

4.2b Net Member Loans

Carrying Value Total Member Loans (Personal & Home)

	Performing		*Non-Performing*		*Total*
	Stage 1 Collective	***Stage 2 Collective***	***Stage 3 Collective***	***Stage 3 Individual***	
	$ 000	**$ 000**	**$ 000**	**$ 000**	**$ 000**
Opening Gross Carrying Amount 1 July 2022	31,056	90	-	49	31,195
Net Transfers In/(out) of Stages	(19)	(90)	-	(13)	(122)
Net Further Lending/repayment	3,346	-	-	-	3,346
Amounts written off	(4)	-	-	(11)	(15)
Gross Carrying Amount as at 30 June 2023	**34,379**	**-**	**-**	**25**	**34,404**
Provision for Expected Credit Loss (ECL) as at 30 June 2023	98	-	-	25	123
Net Carrying Amount as at 30 June 2023	**34,281**	**-**	**-**	**(0)**	**34,281**

Carrying Value Personal Member Loans

	Performing		*Non-Performing*		*Total*
	Stage 1 Collective	***Stage 2 Collective***	***Stage 3 Collective***	***Stage 3 Individual***	
	$ 000	**$ 000**	**$ 000**	**$ 000**	**$ 000**
Opening Gross Carrying Amount 1 July 2022	27,745	90	-	49	27,884
Net Transfers In/(out) of Stages	(19)	(90)	-	(13)	(122)
Net Further Lending/repayment	(1,851)	-	-	-	(1,851)
Amounts written off	(4)	-	-	(11)	(15)
Gross Carrying Amount as at 30 June 2023	**25,871**	**-**	**-**	**25**	**25,896**
Provision for ECL as at 30 June 2023	73	-	-	25	98
Net Carrying Amount as at 30 June 2023	**25,798**	**-**	**-**	**-**	**25,798**

Carrying Value Home Member Loans

	Performing		*Non-Performing*		*Total*
	Stage 1 Collective	***Stage 2 Collective***	***Stage 3 Collective***	***Stage 3 Individual***	
	$ 000	**$ 000**	**$ 000**	**$ 000**	**$ 000**
Opening Gross Carrying Amount 1 July 2022	3,311	-	-	-	3,311
Net Transfers In/(out) of Stages	-	-	-	-	-
Net Further Lending/repayment	5,197	-	-	-	5,197
Amounts written off	-	-	-	-	-
Gross Carrying Amount as at 30 June 2023	**8,508**	**-**	**-**	**-**	**8,508**
Provision for ECL as at 30 June 2023	25	-	-	-	25
Net Carrying Amount as at 30 June 2023	**8,483**	**-**	**-**	**-**	**8,483**

4.2c ECL Impairment on Member Loans

Total Member Loans

	Performing		*Non-Performing*		*Total*
	Stage 1 Collective	***Stage 2 Collective***	***Stage 3 Collective***	***Stage 3 Individual***	
	$ 000	**$ 000**	**$ 000**	**$ 000**	**$ 000**
Impairment Provision 30 June 2022	80	-	-	49	129
Net Transfers in/(out) of stages	11	-	-	(13)	(2)
(Reversals)/Increases in previously recognised impairment charges	9	-	-	-	9
New Financial Assets Originated	28	-	-	-	28
Financial Assets Derecognised during the period	(26)	-	-	-	(26)
Changes in collective provisions due to amounts written off	(4)	-	-	(11)	(15)
Other charges/(credits) to the income statement	-	-	-	-	-
Total Charges/(credits) to the income statement for ECL	**18**	**-**	**-**	**(24)**	**(6)**
Amounts written off from individually assessed provisions	**-**	**-**	**-**	**-**	**-**
Total provision for ECL as at 30 June 2023	**98**	**-**	**-**	**25**	**123**

Personal Loans

	Performing		*Non-Performing*		*Total*
	Stage 1 Collective	***Stage 2 Collective***	***Stage 3 Collective***	***Stage 3 Individual***	
	$ 000	**$ 000**	**$ 000**	**$ 000**	**$ 000**
Impairment Provision 30 June 2022	80	-	-	49	129
Net Transfers in/(out) of stages	11	-	-	(13)	(2)
(Reversals)/Increases in previously recognised impairment charges	-	-	-	-	-
New Financial Assets Originated	12	-	-	-	12
Financial Assets Derecognised during the period	(26)	-	-	-	(26)
Changes in collective provisions due to amounts written off	(4)	-	-	(11)	(15)
Other charges/(credits) to the income statement	-	-	-	-	-
Total Charges/(credits) to the income statement for ECL	**(7)**	**-**	**-**	**(24)**	**(31)**
Amounts written off from individually assessed provisions	**-**	**-**	**-**	**-**	**-**
Total provision for ECL as at 30 June 2023	**73**	**-**	**-**	**25**	**98**

Home Loans

	Performing		*Non-Performing*		*Total*
	Stage 1 Collective	***Stage 2 Collective***	***Stage 3 Collective***	***Stage 3 Individual***	
	$ 000	**$ 000**	**$ 000**	**$ 000**	**$ 000**
Impairment Provision 30 June 2022	-	-	-	-	-
Net Transfers in/(out) of stages	-	-	-	-	-
(Reversals)/Increases in previously recognised impairment charges	9	-	-	-	9
New Financial Assets Originated	16	-	-	-	16
Financial Assets Derecognised during the period	-	-	-	-	-
Changes in collective provisions due to amounts written off	-	-	-	-	-
Other charges/(credits) to the income statement	-	-	-	-	-
Total Charges/(credits) to the income statement for ECL	**25**	**-**	**-**	**-**	**25**
Amounts written off from individually assessed provisions	**-**	**-**	**-**	**-**	**-**
Total provision for ECL as at 30 June 2023	**25**	**-**	**-**	**-**	**25**

4.2d Inputs and assumptions in the modelled ECL provision

Police Credit Union's forecast ECL assumes the following.

Key Economic assumptions

	30-Jun-23	30-Jun-22
Unemployment rate	Upside Case: Forecast to be 3%	Upside Case: Forecast to be 3%
	Base Case: Forecast to be to 4%	Base Case: Forecast to be to 4%
	Downside Case: Forecast to be 5%	Downside Case: Forecast to be 5%
Inflation rate	Upside Case: Forecast to be 3%	Upside Case: Forecast to be 3%
	Base Case: Forecast to be to 4%	Base Case: Forecast to be to 4%
	Downside Case: Forecast to be 6%	Downside Case: Forecast to be 6%

The forecasted assumptions cover 12 months as PCU are looking at the 12 month probability of default and this is the most relevant time period for forecasting write-offs of the current loan book.

Summary of scenario weightings

The base case scenario reflects what PCU expects the economic outlook for inflation and unemployment to be. PCU has forecast an upside and downside scenario due to the inherent uncertainty in economic forecasts. PCU has weighted the downside scenario as a higher probability due to current economic conditions.

	30-Jun-23	30-Jun-22
Base Scenario	75%	75%
Upside Scenario	5%	5%
Downside Scenario	20%	20%

Sensitivity to economic scenarios

The base, upside and downside ECL scenarios utilise the Key Economic Assumptions to calculate the adjusted ECL under the respective conditions. The probability weighted ECL scenario additionally considers the probability weightings in the scenario weightings table when calculating ECL.

	$ 000
Probability Weighted ECL Scenario	123
Base case ECL scenario	121
Upside ECL scenario	119
Downside ECL scenario	133

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.
Loans past due are specifically assessed, with an increase in credit risk is presumed if the loan is more than 30 days past due in making contractual repayment with no mitigating factors 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 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.

ii. Collective and individual assessment
Financial assets that are in Stage 1 and 2 are assessed on a collective basis. All financial assets in Stage 3 are assessed on a 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, the standard 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. Increases/decreases in credit risk are primarily identified through defaults on agreed payment terms, with considreation given to the quality of the security and members employment status when determining if a significant increase in credit risk has occured.

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 economic factors that the PCU considers in measuring ECL include unemployment rates and inflation.

PCU derives a forward looking “base case” economic scenario which reflects our view of the most likely future economic conditions. The expected outcomes of key economic drivers for the base case scenario as at 30 June 2023 and those previously used as at 30 June 2022 are described in note 4.2.

The unpredictable nature of the economic factors and 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 PCU has forecast an upside case and a downside case where probability weightings are applied to the economic factors in each case.
The key consideration for probability weightings in the current year are unemployment and inflation. In addition to the base case forecast, greater weighting has been applied to the downside scenario given PCU's assessment of downside risks. (note 4.2)

vi. Critical accounting assumptions and estimates
Key judgements include when a significant increase in credit risk has occurred and the estimation of forward looking economic information, in particular unemployment and inflation. The estimation of these factors have a high degree of uncertainty and different assumptions and impacts of these assumptions are detailed in note 4.2 Recognition of ECL
The ECL determined under PBE IPSAS 41 are recognised as follows:
• Members’ loans: As a reduction of the carrying value of the financial asset through an offsetting impairment allowance.

5 Other Financial Position Notes

5.1a Property, Plant and Equipment	Computer Equipment $ 000	Furniture & Fittings $ 000	Leasehold Improvements $ 000	Total $ 000
Cost				
Opening Balance 1 July 2022	**78**	**118**	**249**	**445**
Additions/(Disposals)	9	3	26	37
Closing Balance 30 June 2023	**87**	**121**	**275**	**482**
Accumulated Depreciation				
Opening Balance 1 July 2022	**67**	**117**	**238**	**422**
Depreciation for the Period	9	1	11	19
Closing Balance 30 June 2023	**76**	**118**	**249**	**442**
Net Book Value at 30 June 2023	**11**	**2**	**26**	**39**
Opening Balance 1 July 2021	**76**	**118**	**249**	**443**
Additions/(Disposals)	2	-	-	2
Closing Balance 30 June 2022	**78**	**118**	**249**	**445**
Accumulated Depreciation				
Opening Balance 1 July 2021	**56**	**117**	**231**	**404**
Depreciation for the Period	11	0	7	20
Closing Balance 30 June 2022	**67**	**117**	**238**	**424**
Net Book Value at 30 June 2022	**10**	**1**	**11**	**20**

Recognition and Measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and any impairment losses.

Historical cost includes expenditure directly attributable to the acquisition of the asset and is recognised only when it is probable that future benefits associated with the item will flow to PCU and the cost of the item can be measured reliably.

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

Depreciation

All assets other than leasehold improvements are depreciated to their residual value over their estimated useful lives from the time the asset is ready for use. Depreciation on leasehold improvements is calculated based on the term of the building lease.

The following rates have been used in the current and prior period:

Computer Equipment	**30-33%**
Furniture & Fittings	**20-30%**
Leasehold Improvements	**10-20%**

The residual value, depreciation methods and useful lives are reviewed, and adjusted if appropriate, annually. Depreciation is calculated on a straight line basis.

5.1b Investment Property	**Deposit Help**	**Total**
	$ 000	**$ 000**
Cost		
Opening Balance 1 July 2022	**-**	**-**
Additions/(Disposals)	289	289
Closing Balance 30 June 2023	**289**	**289**
Accumulated Depreciation		
Opening Balance 1 July 2022	**-**	**-**
Depreciation for the Period	-	-
Closing Balance 30 June 2023	**-**	**-**
Net Book Value at 30 June 2023	**289**	**289**
Opening Balance 1 July 2021	**-**	**-**
Additions/(Disposals)	-	-
Closing Balance 30 June 2022	**-**	**-**
Accumulated Depreciation		
Opening Balance 1 July 2021	**-**	**-**
Depreciation for the Period	-	-
Closing Balance 30 June 2022	**-**	**-**
Net Book Value at 30 June 2022	**-**	**-**

First Home Together is a new product introduced in September 2022. PCU holds an equity share in homes purchased using PCU's First Home Together product referred to as Deposit Help. This share is a maximum of 10% of the property value. Deposit Help charges 0% interest, with a 10 year maximum maturity period. Repayment may be made at any time subject to a property revaluation, at which point the ownership share held by both PCU and the member are revalued. PCU's share will always be the greater of: PCU's share at initial purchase multiplied by the initial property value, or, PCU's current share multiplied by the current property value. For risk weighting purposes Deposit Help is considered a part of the member's mortgage and weighted in the appropriate mortgage band. All shares in property under this product were acquired in the 2023 financial year and registered valuations are obtained prior to purchase. Investment Properties are measured and caried at cost. The net book value of our share in these properties was $289,000 at 30 June 2023 (2022: nil).

5.2 Intangible Assets	**Computer Software $ 000**
Cost or Valuation	
Opening Balance 1 July 2022	**72**
Closing Balance 30 June 2023	**72**
Accumulated Amortisation	
Opening Balance 1 July 2022	**36**
Amortised During the Year	20
Closing Balance 30 June 2023	**56**
Intangible Assets Net Book Value at 30 June 2023	**16**
Opening Balance 1 July 2021	**72**
Closing Balance 30 June 2022	**72**
Accumulated Amortisation	
Opening Balance 1 July 2021	**16**
Amortised During the Year	20
Closing Balance 30 June 2022	**36**
Intangible Assets Net Book Value at 30 June 2022	**36**

Intangible assets comprise Computer Software. Computer Software is capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over their expected lives on a straight line basis of 20-30% amortisation

5.3 Impairment Testing of Non Financial Assets

The carrying amounts of PCUs non-financial assets (Property, Plant and Equipment, Intangibles and Joint Venture) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount, being the higher of the assets fair value less costs to sell and the value in use, is compared to the assets carrying value.

Value in use is determined by estimating future cash flows from the use and ultimate disposal of the asset and discounting these to their present value using a discount rate that reflects the current market rates and the risks specific to the asset.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Any excess of the asset's carrying value over its recoverable amount is expensed.

5.4 Payables	***2023***	***2022***
	$ 000	**$ 000**
Trade Payables	82	417
Sundry Creditors and Accrued Expenses	129	163
Resident Withholding Tax	80	32
Total Trade and Other Payables	**292**	**612**

RECOGNITION AND MEASUREMENT

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

An accrual is made for the liability for employee benefits arising from services rendered by employees to the reporting date. Employee benefits that are expected to be settled within one year have been measured at amounts expected to be paid when the liability settles, on an undiscounted basis.

5.5 Investment in Joint Venture
PCU jointly control the following entity which is accounted for using the equity method.

	Ownership		Current Assets		Non-current Assets		Current Liabilities		Non-current Liabilities		Revenue		Surplus/(Deficit)	
	2023 %	2022 %	2023 $'000	2022 $'000	2023 $'000	2022 $'000	2023 $'000	2022 $'000	2023 $'000	2022 $'000	2023 $'000	2022 $'000	2023 $'000	2022 $'000
Finzsoft Solutions Limited	48.9	48.9	5,509	7,642	6,591	7,509	4,634	8,834	1,053	1,187	8,932	10,164	1,283	1,405

In addition to the summarised financial information, we note the following for Finzsoft Solutions Limited:

	2023	2022
Cash & Cash Equivalents*	4,217,967	6,350,720
Financial Liabilities**	1,286,845	5,744,630
Non-Financial Liabilities	4,400,155	4,276,370
Income Tax Expense	499,233	515,913

*Note that Cash & Cash Equivalents includes Short-Term Investments classified as a current asset.
**This includes the $1mn subordinated debt provided by PCU to Finzsoft (2022: $5.5mn)

Reconciliation of PCU equity investment in Finzsoft Solutions Limited from the beginning of the period to the end of the period.

	Voting Rights %	Cost of Investment
Total investment as at 30 June 2022	**48.9**	**7,023**
Share of Equity Accounted Joint Venture Surplus for the year		627
Total investment as at 30 June 2023	**48.9**	**7,650**
Total investment as at 30 June 2021	**29.6**	**6,336**
Share of Equity Accounted Joint Venture Surplus for the year		687
Total investment as at 30 June 2022	**48.9**	**7,023**

RECOGNITION AND MEASUREMENT

Finzsoft is a key supplier to PCU, providing the core banking system and as such Finzsoft is considered a strategic investment that will secure ongoing provision of that key system.
In 2021 PCU acquired a further 19.3% shareholding in Finzsoft Solutions Limited (Finzsoft). This increased the shareholding from 29.6% in 2020 to 48.9%.
Finzsoft is considered a Joint Venture for accounting and reporting purposes, refer to the Joint Arrangements - Accounting Policy for further. The investment in Finzsoft has been accounted for using the equity method and is recognised initially at cost, including directly attributable transaction costs and subsequently adjusted to reflect the share of profit/(loss) for the period.

The financial statements of PCU include a share of the surplus of Finzsoft of $627,387 (2022: $687,081).

Finzsoft has the same reporting date as PCU, being 30 June, and is domiciled in New Zealand.

There are no significant restrictions regarding the distribution of dividends or repayment of loans from Finzsoft.

PCU’s exposure to contingencies and commitments from its interests in joint ventures:

There were no contingent liabilities relating to interests in joint ventures to which PCU was jointly and/or severally liable (2022: nil).

There were no contingent assets relating to interests in joint ventures to which PCU would benefit either jointly and/or severally (2022: nil).

There were no capital or other commitments relating to interests in joint ventures to which PCU was jointly and/or severally liable (2022: nil).

5.6 Subordinated Debt Receivable

	2023 $ 000	2022 $ 000
Finzsoft Solutions Limited	1,000	5,500

RECOGNITION AND MEASUREMENT

In addition to purchasing additional shares in Finzsoft Solutions Limited (Finzsoft), in January 2021 PCU also entered into a Subordinated Debt agreement with Finzsoft for an amount of $2.75m. A further arrangement was entered into on the 30 June 2022, for a further $2.75m. PCU receives interest on the debt at a rate of 3% plus the Bill Rate (being Westpac New Zealand's term depost rate for 12 months). From the review of the interest rate in January 2023, PCU received interest of 8.3% (2022: 5.2%). A review of the interest rate is carried out annually. As at June 2023 Finzsoft has repaid $4.5m of the debt.

As per the loan agreement, Finzsoft must repay the loan (including any unpaid interest) upon demand by PCU or upon the occurrence of an Event of Default (subject to the following insolvency note) and following PCU's notice to Finzsoft requiring repayment, whichever is the earlier. To note, in the event of Finzsoft's insolvency, the loan shall rank in point of priority behind Finzsoft's general secured and unsecured creditors. There is no expectation that any repayment of the debt will be required by PCU in the next twelve months with the expectation that any Finzsoft profits in the coming year will be reinvested back into the business to enable future growth.

The financial statements of PCU include interest income on Subordinated Debt of $262,254 (2022 $108,955) as per Note 2.1.

5.7 Members' Deposits	*2023* $ 000	*2022* $ 000
Call Shares	72,822	79,158
Term Shares	55,204	47,818
Total Members' Deposits	**128,026**	**126,976**
Current	124,055	123,799
Non-Current	3,971	3,177
Total Members' Deposits	**128,026**	**126,976**

RECOGNITION AND MEASUREMENT

For the purpose of financial reporting, members' deposits are recognised as debt instruments. They are recorded initially at fair value plus directly attributable transaction costs and subsequently at amortised cost.

Members contribute to the Credit Union by way of shares. Members' shares are classified as financial liabilities of PCU, as they have the characteristics of debt instruments as opposed to equity.

To be a member, a person must hold a minimum of one $1.00 fully paid-up share. All shares are of one class, rank equally with each other, are of a fixed amount of $1.00 denomination and cannot be allotted to a member until fully paid-up in cash.

Subject to the provisions of the Friendly Societies and Credit Unions Act 1982, members operate their share account in a similar manner to savings and withdrawals in a savings account and term deposit account. While shares are usually available to be withdrawn at call, the Rules of the Credit Union provide that 60 days notice for withdrawal may be required. Withdrawals may not be available where such withdrawal of shares would reduce a member's paid-up shareholding in the Credit Union to less than the member's total liability (including any contingent liability) to the Credit Union.

Shares in the Credit Union are not transferable and the Credit Union may not issue to a member a certificate denoting ownership of a share. The Credit Union reserves the right to decline any new application for a share subscription without giving any reason.

On every matter determined by a vote of members of the Credit Union, each member aged 16 or over is entitled to vote, however that member has one vote only, irrespective of the number of shares held by that member. Interest expense is recognised on an accruals basis for shares.

Members' shares are secured by an equitable assignment by way of security over the whole of the Credit Union's present and future undertaking, property, assets and revenues, including the proceeds received for the subscription of shares and unpaid share capital (if any).

The equitable assignment by way of security has been granted in favour of Public Trust ("Supervisor").

6 Other Notes

6.1 Commitments

Outstanding Loan Commitments

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

	2023 $ 000	*2022* $ 000
Loans Approved but not Funded	111	243
Undrawn Overdraft and Line of Credit	4,117	4,440
Total Outstanding Loan Commitments	**4,228**	**4,683**

Outstanding Licensing Commitments

Contractual commitments for software licences at the end of the reporting period.

	2023 $ 000	*2022* $ 000
Finzsoft	3,713	-
Total Outstanding Licensing Commitments	**3,713**	**-**

Current MSA commenced 1 July 2022 for a period of 5 years up to 30 June 2027.

6.2 Contingent Liabilities

The Credit Union has no contingent liabilities as at 30 June 2023 (2022: Nil).

6.3 Related Parties

Remuneration of Directors and Key Management Personnel (KMP)

	2023 Directors $ 000	2023 KMP $ 000	2022 Directors $ 000	2022 KMP $ 000
Short-Term Employee Benefits	**144**	**405**	**128**	**527**

RECOGNITION AND MEASUREMENT

Remuneration of Directors and Key Management Personnel (KMP)

Key Management Personnel (KMP) are those people having authority and responsibility for planning, directing and controlling the activities of PCU, directly or indirectly, including any Director (whether executive or otherwise) of PCU.

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

Connected Parties are defined as the immediate relatives of Directors and Key Management Personnel.

Short-Term Employee Benefits

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

Related Party Holdings

	2023 Shares $ 000	2023 Loans $ 000	2022 Shares $ 000	2022 Loans $ 000
Directors	**110**	**-**	**98**	**-**
KMP	**1**	**-**	**1**	**-**
Connected Parties	**11**	**-**	**85**	**35**
Related Party Holdings	**122**	**-**	**184**	**35**

RECOGNITION AND MEASUREMENT

There are no loans to executive managers. PCU Rules state that the Chief Executive Officer and Chief Financial Officer (executive managers) cannot become borrowers from PCU. Other than this exclusion all KMP and other employees have available to them all the services under normal members terms and conditions.

As a joint venture, Finzsoft is a related party. Finzsoft is also a provider of the PCU core banking system and as such is now considered a related party. All expenses incurred with Finzsoft relating to the core banking system are conducted on normal commercial terms and at standard commercial rates. Total expenditure on Finzsoft services for the year was $1,042,907 (2022 $869,721).

6.4 Events Occurring After Reporting Date

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

7 Other Accounting Policies

7.1 Changes to Accounting Policies

The accounting policies applied by the Credit Union in these financial statements are the same as those applied in the annual financial statements for the year ended 30 June 2022, except for the adoption of PBE IPSAS 41 Financial Instruments & PBE FRS 48 Statement of Service Performance. For note disclosures the consequential amendments to PBE IPSAS 30 have also been applied to the current period.

Adoption of PBE IPSAS 41 Financial Instruments during the period.

Public Benefit Entities are required to adopt PBE IPSAS 41 Financial Instruments that replaced PBE IPSAS Financial Instruments. PCU adopted PBE IPSAS 41 for the year ended 30 June 2023. The adoption has been applied by adjusting the opening balance sheet as at 1 July, with no restatement of comparatives as permitted by the standard. The adoption of PBE IPSAS 41 has not had a material impact on the financial statements of the Group and no adjustment to retained earnings has been required on transition. The main impact has been presentation only, refer to note 4.1 and 4.2 for further detail.

Impact of the adoption of PBE FRS 48 Statement of Service Performance
PBE FRS 48 requires entities to disclose service performance information to provide contextual information on why the entity exists, what it intends to achieve in broad terms, and what was done during the reporting period towards its broader aims and objectives.
The adoption of PBE FRS 48 has resulted in preparation of the Credit Union’s first statement of service performance which is included on page 28.

a. Impairment
PBE IPSAS 41 introduces a revised impairment model that requires entities to recognise expected credit losses based on unbiased forward looking information, replacing the incurred loss model under PBE IPSAS 29 which recognised impairment only if there was objective evidence of incurred loss. The revised model applies to all financial assets measured at amortised cost and loan commitments. The financial statements for 30 June 2022 were prepare using PBE IPSAS 29.
Measurement of ECL
ECL is a probability weighted estimate of shortfalls expected to result from defaults over the relevant timeframe of the asset. The standard requires PCU to determine by evaluation a range of possible outcomes and taking into account the time value of money, past events, current conditions, and forecast future economic conditions.

b. Financial instruments: Classification and measurement
PBE IPSAS 41 replaced the classification and measurement model in PBE IPSAS 29 with a new model that categorises financial assets 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.

Financial assets: Debt instruments
PCU 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 lending in prior periods, lending expectation for future periods, and the reasons for such lending.
In assessing whether contractual cashflows meet the SPPI test, PCU considers the contractual terms of the instrument.
Such instruments at amortised cost are initially recognised at fair value 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 in 7.1a.
Interest income from these financial assets is recognised in the statement of comprehensive revenue and expense using the effective interest rate method. Impairment gains or losses are presented in loan impairment expenses in the statement of comprehensive revenue and expense.

Financial liabilities at amortised cost
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 expense. This remains unchanged from PBE IPSAS 29.
Financial liabilities in this category include Members’ Deposits and Trade and other payables.

8 Credit Rating

The Credit Union has been rated by Equifax. Equifax gives ratings from AAA through to C. The Credit Union has a long-term issuer default rating (IDR) of BB+ with a stable outlook, issued on 30 November 2022 (2022 BBB- with a negative outlook).

9 Financial Risk Management Objectives and Policies

The Board has endorsed a policy of compliance and risk management to suit the risk profile of the Credit Union. Key risk management policies encompassed in the overall risk management framework include:

• Market risk

• Credit risk management

• Liquidity risk management

• Capital adequacy management

9.1 Market Risk

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

			Repricing period at 30 June 2023 Fixed Interest Rate Maturing:				
	Weighted average effective interest rate*	**Floating Interest Rate**	**Within 6 months**	**6 months to 1 Year**	**1 to 5 Years**	**Non-interest sensitive**	**Total**
		$ 000	**$ 000**	**$ 000**	**$ 000**	**$ 000**	**$ 000**
Monetary Assets							
Cash & Bank	**4.00%**	7,990	-	-	-	-	7,990
Term Deposits	**4.33%**	-	38,189	32,493	33,877	-	104,558
Loans to Members - Fixed	**6.37%**	-	889	1,101	5,931	-	7,921
Loans to Members - Floating	**9.56%**	26,360	-	-	-	-	26,360
Total Monetary Assets		**34,350**	**39,078**	**33,594**	**39,808**	**-**	**146,829**
Monetary Liabilities							
Members' Deposits	**2.94%**	72,822	34,250	16,985	3,969	-	128,026
Trade and Other Payables	**n/a**	-	-	-	-	292	292
Total Monetary Liabilities		**72,822**	**34,250**	**16,985**	**3,969**	**292**	**128,317**

	Weighted average effective interest rate*	Floating Interest Rate	Repricing period at 30 June 2022 Fixed Interest Rate Maturing: Within 6 months	6 months to 1 Year	1 to 5 Years	Non-interest sensitive	Total
		$ 000	$ 000	$ 000	$ 000	$ 000	$ 000
Monetary Assets							
Cash and Cash Equivalents	**0.65%**	8,509	-	-	-	-	8,509
Term Deposits	**2.19%**	-	40,405	26,284	36,132	-	102,821
Loans to Members - Fixed	**3.82%**	-	1,265	1,121	-	-	2,386
Loans to Members - Floating	**9.40%**	28,680	-	-	-	-	28,680
Total Monetary Assets		**37,189**	**41,670**	**27,405**	**36,132**	**-**	**142,397**
Monetary Liabilities							
Members' Deposits	**0.99%**	79,158	32,038	12,746	3,034	-	126,976
Trade and Other Payables	**n/a**	-	-	-	-	612	612
Total Monetary Liabilities		**79,158**	**32,038**	**12,746**	**3,034**	**612**	**127,588**

Interest Rate Sensitivity

PCU is exposed to interest rate risk. The policy of PCU to manage the risk is to maintain a balanced 'on book' strategy by ensuring the net interest rate gaps between members loans (i.e. interest rate on loans) and members shares (the cost of borrowing from members paid out in the form of interest) are not excessive. As at 30 June 2023 it is estimated that a general decrease of three percentage points in interest rates on bank deposits, loan receivables and Members' deposits would decrease PCUs surplus and equity by $435,942 (30 June 2022: $150,126 at 1%)

An increase in interest rates would have the opposite impact on surplus than that described above.

9.2 Credit Risk

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

Recognition and Measurement

PCU has established policies and procedures over the:

• Credit assessment and approval of loans and facilities covering acceptable risk assessment and security requirements

• Limits of exposure over the value to individual borrowers, non-mortgage secured loans, and groups considered at high risk of default

• Reassessing and review of the credit exposures on loans and facilities

• Establishment of appropriate provisions to recognise the impairments of loans

• Debt recovery procedures

• Review of compliance with the above policies

Regular reviews of compliance are conducted as part of the internal controls process. The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security held. The credit policy is that loans and investments are only made to members that are credit worthy.

Daily reports monitor the loan repayments to detect delays in repayments and recovery is undertaken within 7 days. For personal loans where repayments become doubtful the Credit Union has internal processes in place to conduct recovery action once the loan is over 30 days in arrears. Debt recovery policies allow the Credit Union to reset the maturity date of a loan where regular and consistent repayments have been resumed by the loan holder for a period of at least 4 months. These loans are considered to be past due loans. The exposures to losses arise predominantly in the personal loans and facilities.

Impairment of Loans and Advances - refer to Note 4.2

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

All trading banks used have Fitch or Standard and Poor's credit ratings of no less than BBB.

Other Credit Risks Comprise of the Following Items:

(a) Large Counterparties

PCU has exposure to counter-parties in excess of 10% of equity as follows:

	Number of counterparties	***Number of counterparties***
	2023	***2022***
Over 100%	2	2
Between 80% and 100% of equity	1	-
Between 60% and 80% of equity	-	1
Between 40% and 60% of equity	-	-
Between 20% and 40% of equity	-	1
Between 10% and 20% of equity	2	1

Counterparty Exposure	***2023***	***2022***
	$ 000	***$ 000***
ANZ	37,054	39,113
Heartland Bank	25,476	24,558
Kiwibank	2,043	2,011
Westpac	42,677	42,609
BNZ	5,296	3,242

(b) Loans to Members

Loans can only be made to Credit Union members. Loan interest rates range from 4.95% to 17.00% p.a. (2022: 2.39% to 17.00%)

PCU has a lending policy that allows for various levels and types of security, and loans may be secured over the borrowing members shares. The Friendly Societies and Credit Unions Act 1982 limits the risk of any one member and provides, along with the loan agreement that any and all shares might be used to offset an individual loan to the limit of their liability.

Credit Unions are required to lend within their rules and policies.

The key elements of PCU lending policy are as follows:

- Personal loans can be approved for a period up to 20 years with adequate security;
- Mortgages can be approved for a period up to 30 years;
- Arrears in loan payments of less than 90 days may be renegotiated in consultation with the borrower.

	2023	***2022***
Proportion of Loans with Repayments in Arrears in Excess of 90 Days:	0.02%	0.35%
Proportion of Loans owed in Aggregate by the Six Largest Debtors	11.64%	6.50%
Weighted Average Maturity of Loans (in Months) is:	115.29	89.83

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

The Credit Union offers an overdraft facility.

	2023	***2022***
	$ 000	**$ 000**
The amounts drawn down are as follows:	52	30

This includes unarranged overdrafts of $32,000

Daily reports monitor the overdrawn account balances to detect unarranged overdrafts. Withdrawals are dishonoured within 24 hours unless the member repays the overdrawn balance. Any fees incurred by PCU as a result are passed through to the member. Any unarranged overdrafts not dishonoured are subject to the same recovery processes as PCUs loans.

Fair Value of Assets and Liabilities

The values for financial assets and liabilities, per the carrying amounts shown in the Statement of Financial Position, are equal to their fair values as they are short-term in nature or are receivable on demand.

Mortgages and Loans - the carrying value of the mortgages and loans receivable is net of any specific or collective impairment provision. The carrying amount is considered a reasonable estimate of net fair value.

Members Share Accounts - The carrying amounts of member share accounts repriced within 12 months is a reasonable estimate of net fair value. For Term shares repriced past 12 months the Credit Union's current interest rates are compared to the contracted interest rates. The current rates are comparable to the market rates for term deposits of a similar term. The carrying amount is considered a reasonable estimate of net fair value.

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

9.3 Liquidity Risk

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

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

	On Call	Within 6 Months	6 Months to 1 Year	1 to 5 Years	Over 5 Years	No Maturity	Total
		$ 000	$ 000	$ 000	$ 000	$ 000	$ 000
Monetary Assets							
Cash and Cash Equivalents	7,990	-	-	-	-	-	7,990
Term Deposits	-	38,599	33,652	35,977	-	-	108,228
Loans to Members	-	2,378	2,355	15,633	13,909	-	34,275
Total Financial Assets 30 June 2023	**7,990**	**40,977**	**36,007**	**51,610**	**13,909**	**-**	**150,493**
Total Financial Assets 30 June 2022	**8,509**	**44,558**	**30,498**	**60,510**	**12,455**	**-**	**156,530**
Monetary Liabilities							
Trade and Other Payables	-	292	-	-	-	-	292
Members Call Accounts	72,822	-	-	-	-	-	72,822
Members Share Accounts	-	34,700	17,172	3,332	-	-	55,204
Total Financial Liabilities 30 June 2023	**72,822**	**34,992**	**17,172**	**3,332**	**-**	**-**	**128,318**
Total Financial Liabilities 30 June 2022	**79,158**	**32,633**	**12,996**	**3,332**	**-**	**-**	**128,118**
Liquidity (Shortfall)/Surplus 30 June 2023	**(64,832)**	**5,985**	**18,835**	**48,278**	**13,909**	**-**	**22,175**
Liquidity (Shortfall)/Surplus 30 June 2022	**(70,649)**	**11,925**	**17,502**	**57,178**	**12,455**	**-**	**28,412**

RECOGNITION AND MEASUREMENT

The Credit Union manages liquidity risk by:

Monitoring cash flows

Reviewing the maturity profiles of financial assets and liabilities

Maintaining adequate reserves and liquidity

PCU's policy is to maintain at least 30% of total assets as liquid assets capable of being converted to cash within 12 months. The Trust Deed requires PCU to maintain at least 10% of total assets as liquid assets being capable of being converted to cash within 183 days. Should the liquidity ratio fall below these levels, management and Directors are to address the matter to ensure that liquid funds are obtained from new deposits or borrowing facilities. PCU has maintained both the policy levels throughout the financial period under review.

In the case of loans, the table shows the period over which the principal outstanding will be repaid based on the remaining period to the repayment date assuming contractual repayments are maintained.

Future interest receivable and future interest payable represent the expected future interest cash flows arising from the contractual obligations of the underlying financial assets and liabilities respectively.

9.4 Capital Adequacy

PCU is regulated under the Friendly Societies and Credit Union Act 1982. There is a statutory requirement over the minimum capital requirements as prescribed by the Reserve Bank of New Zealand to maintain a minimum capital ratio of 8%. PCU Trust Deed requires a minimum capital ratio of 10%. PCU's Risk Weighted Capital Ratio as at 30 June 2023 is 23.25% (2022: 19.4%), as calculated under the Deposit Takers (Credit Ratings, Capital Ratios, and Related Party Exposure) Regulations 2017.

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

To manage PCU's capital, which can be affected by excessive growth and by changes in total assets PCU reviews the capital adequacy ratio monthly and monitors major movements in the asset levels. Policies have been implemented to require reporting to the Board if the capital ratio falls below 12.5% and the Supervisor if the capital ratio falls below 10%. Further, an annual capital budget projection of the capital level is maintained to address how strategic decisions or trends may impact on the capital level.

9.5 Reporting Deadline

PCU's annual financial statements have been filed in November 2023, in breach of the reporting deadline of 31 October 2023.

Police & Families Credit Union: Statement of Service performance

Who are we?

Police & Families Credit Union Incorporated (PCU) is a mutual and membership based financial services organisation.

Why do we exist? (from PCU Rules dated February 2023)

To make a real difference to the financial wellbeing of our members. We provide relevant lending and savings products and educate members on thrift and the wise use of money so they can better manage their financial affairs.

What we intend to achieve to accomplish our purpose.

a. Putting members first by providing them and their families with reliable and relevant products that have no-or-low fees, competitive interest rates and very good customer service to achieve their financial goals,.
b. Providing education to members and their families on how to manage and use money and make smart financial decisions.
c. Supporting members to access activities, programmes or events that enhance their financial capability.

How we measure our performance

Objective	Measure	Results FY 2023	Comparison - Results FY 2022
a. Putting members first: providing reliable and relevant products and very good customer service.	**First Home TOGETHER**: new shared ownership home loan supporting members into their first home	• 8 members helped into their first home since the launch in October 22.	• N/A new initiative for the 2023 year.
	Retire Easy: new reverse mortgage home loan supporting retired members	• 3 members helped with a Retire Easy loan since the launch in April 22	• N/A new initiative for the 2023 year.
	Member satisfaction: providing a very good customer service experience for members	• Net promotor score (NPS) +36.2*** • Overall service+++: 82.3% rated excellent or very good • 2,682 responses	• No comparative available, no survey conducted in 2020 and 2021
b. Providing training and education to members	**Moneywise educational courses**: providing access to information that enhances their financial capability	• 13 educational courses held	• 6 educational courses held
c. Supporting members to enhance their financial capability.	**Scholarship recipients**: supporting members to access activities or events that support improved financial wellbeing or capability	• 60 members provided $1,000 to help achieve their goals, from sporting to educational pursuits	• 60 members provided $1,000 to help achieve their goals, from sporting to educational pursuits

**** members were asked the standard NPS question "How likely are you to recommend the Police Credit Union to colleagues and family?." Standard NPS measurement scale applies. Refer https://www.qualtrics.com/experience-management/customer/net-promoter-score/*

+++ members were asked "how would you rate the Police Credit Union on its overall service?." Answer options: very poor; poor; average; very good; excellent.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF POLICE AND FAMILIES CREDIT UNION

Opinions

We have audited the general purpose financial report of Police and Families Credit Union ("the Credit Union"), which comprise the financial statements on pages 1 to 29, and the statement of service performance on page 30. The complete set of financial statements comprise the statement of financial position as at 30 June 2023, and the statement of comprehensive revenue and expense, statement of changes in net assets/equity 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 financial statements 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 general purpose financial report 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.

Subject to certain restrictions, partners and employees of our firm may also deal with the Credit Union on normal terms within the ordinary course of trading activities of the business of the Credit Union. These matters have not impaired our independence as auditor of the Credit Union. The firm has no other relationship with, or interest in, the Credit Union.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements 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.

Expected Credit Loss Provision - Loans	How The Matter Was Addressed in Our Audit
The Credit Union's gross loans to members balance was $34,404,000 and expected credit loss provision of $123,000 as at 30 June 2023. These balances are further discussed in Notes 4 and 9 to the financial statements. The Credit Union adopted and applied PBE IPSAS 41 – Financial Instruments with the assistance of an expert within the Credit Union's expected credit loss methodology which required the Credit Union to: - identify circumstances to the Credit Union that could indicate when there is a significant deterioration in credit quality; - incorporate identified circumstances and forward-looking macroeconomic information to reflect current or external factors into the credit loss provision. Note 4.2 of the financial statements describes the key assumptions in determining the credit loss provision. These disclosures include key judgements and assumptions in relation to the expected credit loss provision and highlights the estimation uncertainty around the provision as at 30 June 2023. As described in note 4.2, the underlying forecasts and assumptions are subject to uncertainties which are often outside the control of the Credit Union. Actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected. We considered this to be a key audit matter based on the materiality of the loans to members balance and the significant estimation required to calculate the expected credit loss provision.	We performed the following procedures on the expected credit loss provision: • We gained an understanding of the design and implementation of the control environment in regard to loans to members and the assessment of the expected credit loss provision: • We examined a sample of loans, from the loan portfolio listing and verified loan details to source documentation. This included verification of collateral held, original loan balance, whether repayment terms are being met and whether they had been approved within the credit control policy to determine that the key loan data inputs were correctly input into the loans system; • We reviewed the Credit Union's accounting policies and expected credit loss model methodology against the requirements of PBE IPSAS 41; • We reviewed the Credit Union's approach to incorporating forward looking macroeconomic factors into the credit loss provision; • We examined and analysed the loans in arrears report at balance date to determine whether they were being appropriately reflected in the provision for expected credit loss; • We developed expectations based on historical data and trends to assess the completeness of the provision; • We assessed the security of the loan and considered how external economic factors may have affected the security; • We evaluated the extent and appropriateness of disclosures in note 4.2 in relation to the specific assumptions, sensitivities and uncertainties on this year's expected credit loss provision.

Directors' Responsibilities for the General Purpose Financial Report

Those charged with governance 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 the 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 service performance information 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 or 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 these 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 Henry McClintock.

BDO Wellington Audit Limited

BDO WELLINGTON AUDIT LIMITED
Wellington
New Zealand
29 November 2023

POLICE CREDIT UNION

Te Uniana Whakanama Pirihimana

POLICE HELPING POLICE

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