



Te Uniana Whakanama Pirihimana

POLICE HELPING POLICE

Financial Statements

Year end 30 June 2022

Police and Families Credit Union
Statement of Comprehensive Revenue and Expense
For the year ended 30 June 2022

	Note	2022 \$ 000	2021 \$ 000
REVENUE			
Interest Revenue	2.1	4,600	5,660
Interest Expenditure	2.1	772	1,018
Net Interest Revenue		3,828	4,642
Other Income		75	152
Total Revenue		3,902	4,794
EXPENDITURE			
Operating Expenses	2.2	2,478	2,605
Employee Benefits	2.2	1,335	1,242
Loan Impairment Expenses		3	19
Depreciation	5.1	18	46
Amortisation Expenses	5.2	20	16
Occupancy		63	77
Total Operating Expenditure		3,917	4,005
Share of Equity Accounted Joint Venture Surplus for the year	5.5	687	233
Surplus for the Year Attributable to Members		672	1,022
Other Comprehensive Revenue and Expense		-	-
Total Comprehensive Revenue and Expense for the Year Attributable to Members		672	1,022

Police and Families Credit Union
Statement of Changes in Net Assets/Equity
For the year ended 30 June 2022

	<i>Note</i>	<i>Accumulated Revenue and Expense \$ 000</i>	<i>Total \$ 000</i>
Balance as at 30 June 2020		25,979	25,979
Total Comprehensive Revenue and Expense for the Year Attributable to Members		1,022	1,022
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

Police and Families Credit Union
Statement of Financial Position
For the year ended 30 June 2022

	Note	2022 \$ 000	2021 \$ 000
MEMBERS' FUNDS			
Accumulated Revenue and Expense		27,673	27,001
Total Members' Funds		27,673	27,001
ASSETS			
Cash and Cash Equivalents	3.1	8,509	5,922
Term Deposits	3.2	102,822	98,924
Loans to Members	4.1	31,066	37,664
Prepayments		381	412
Property, Plant and Equipment	5.1	20	39
Intangible Assets	5.2	36	56
Investment in Joint Venture	5.5	7,023	6,336
Subordinated Debt Receivable	5.6	5,500	2,750
Total Assets		155,358	152,103
LIABILITIES			
Trade and Other Payables	5.4	612	210
Employee Benefits		96	80
Members' Deposits	5.7	126,976	124,812
Total Liabilities		127,684	125,102
Net Assets/Equity		27,673	27,001

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

Date	Director Lane Todd
Date	Director Ian Harris

Police and Families Credit Union
Statement of Cash Flows
For the year ended 30 June 2022

	Note	2022 \$ 000	2021 \$ 000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest Received		4,701	6,400
Fees, Commissions and Other Income		75	152
Interest Paid		(716)	(1,194)
Payments to Suppliers and Employers		(3,443)	(3,766)
Net Movement in Members' Loans		6,596	4,700
Net Movement in Member Deposits		2,125	7,367
Net Cash Provided by Operating Activities	3.3	9,337	13,659
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for Property, Plant, Equipment and Intangibles		-	(12)
Payments for Intangibles		-	(72)
Increase in Term Deposits		(4,000)	(6,448)
Payments for Purchase of Equity Accounted Investment	5.5	0	(3,091)
Payment of Subordinated debt	5.6	(2,750)	(2,750)
Net Cash Used in Investing Activities		(6,750)	(12,373)
Total Net Increase/(Decrease) in Cash and Cash Equivalents		2,587	1,286
Cash and Cash Equivalents at the Beginning of the Period		5,922	4,636
Cash and Cash Equivalents at the End of the Period		8,509	5,922

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

A revised Trust Deed was issued as at 1 January 2020. The Public Trust was 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 2022.

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 except for certain assets, which are stated at fair value (see Note 9.2)

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		2022	2021
		\$ 000	\$ 000
Interest Revenue - Interest on Loans and Receivables			
Interest on Loans to Members		3,043	3,659
Interest on Subordinated Debt	5.6	109	44
Interest on Term Deposits		1,435	1,948
Interest on Cash and Cash Investments		13	9
Total Interest Revenue		4,600	5,660
Interest Expenditure - Liabilities at Amortised Cost			
Interest on Members Call Shares		144	132
Interest on Members Term Shares		628	886
Total Interest Expenditure		772	1,018

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 & Term Deposits

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.

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		2022	2021
		\$ 000	\$ 000
Operating Expenses includes:			
External Audit of Financial Statements		71	55
Directors Fees	6.3	128	122
Employee Benefits includes:			
Wages and Salaries		1,171	1,165
Defined Contribution Expense		42	41

3 Deposits and Liquidity

3.1 Cash and Cash Equivalents	Interest Rates	2022 \$ 000	2021 \$ 000
Bank Balances - on Call	0.65%	8,509	5,922

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 loans and receivables

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	2022 \$ 000	2021 \$ 000
Westpac Bank		35,156	13,697
ANZ		38,742	43,494
Kiwibank		2,011	4,124
BNZ		3,044	6,189
Heartland Bank		23,869	31,420
Total Term Deposits	0.95% to 4.28% (0.70% to 3.20%)	102,822	98,924
Current		66,690	74,707
Non-Current		36,132	24,217
Total Term Deposits		102,822	98,924

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 24 months. Under PBE standards definition of financial assets, term deposits are classified as loans and receivables.

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

Included in 3.2 is a term deposit of \$500,000 that is not drawn down on which 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	2022 \$ 000	2021 \$ 000
Surplus for the Year Attributable to Members	672	1,022
NON CASH ITEMS		
Depreciation and assets written off	38	62
Impairment Allowance	-	12
Share of Equity Accounted Joint Venture Surplus for the year	(687)	(233)
	(649)	(159)
CHANGES IN ASSETS AND LIABILITIES		
Movement in Prepayments	32	192
Movement in Accounts Payable	402	(68)
Movement in Employee Benefits	16	7
Movement in Loans	6,599	4,719
Movement in Member Deposits	2,109	7,381
Movement in Accrued Interest Receivable	101	740
Movement in Accrued Interest Payable	56	(175)
	9,314	12,796
Net Operating Cash Flows	9,337	13,659

4 Loans to Members

4.1 Loans to Members	2022 \$ 000	2021 \$ 000
Mortgages	3,311	3,596
Personal Loans	27,884	34,197
Gross Loans to Members	31,195	37,793
Less: Allowance for Impairment	(129)	(129)
Net Loans to Members	31,066	37,664
Current	5,117	6,073
Non-Current	25,949	31,591
	31,066	37,664

RECOGNITION AND MEASUREMENT

Under PBE standards definition of financial assets, loans to members are classified as loans and receivables. 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	2022	2021
	\$ 000	\$ 000
Secured by Mortgage Over Real Estate with LVR <70%	2,962	3,596
Secured by Mortgage Over Real Estate with LVR 70%> <80%	353	360
Partially Secured by Motor Vehicles or Other Collateral	3,970	4,980
Secured by Police Superannuation or Government Superannuation	23,798	28,597
Unsecured	112	260
Credit Quality of Gross Loans to Members	31,195	37,793

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 if, based on an evaluation of the Members credit worthiness, it is considered necessary for the members overall borrowing facility. All loan value ratios are written within the parameters of the credit policy at the time a loan is advanced.

4.1.b Asset Quality of Loans to Members	2022	2021
	\$ 000	\$ 000
Performing Loans		
<i>Neither Past Due Nor Impaired</i>	30,791	36,994
<i>Past Due But Not Impaired</i>		
1 to 30 days	253	252
31 to 90 days	90	270
over 90 days	61	277
Total Performing Loans	31,195	37,793
Impaired loans		
Specifically Impaired	49	51
Collectively Impaired	80	78
Gross Loans	31,066	37,664
Interest Revenue Recognised on Impaired Loans	-	-

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 allowances. 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 Provision for Impairment of Financial Assets

Loans and Advances

	2022 \$ 000	2021 \$ 000
Total doubtful debts and bad debt expense for the year was:		
Provision for Impairment - Increase/(decrease) in the Year	0	13
Bad Loans written off	3	6
Loan Impairment Expenditure	3	19

	<i>Individually Impaired</i> \$ 000	<i>Collectively Impaired</i> \$ 000	<i>Restructured</i> \$ 000	2022 Total \$ 000
Opening Balance	51	78	-	129
Increase/(Decrease) in the Provision	-	3	-	3
Transfer to Bad Debts Written Off	(2)	(1)	-	(3)
Closing Balance	49	80	-	129

RECOGNITION AND MEASUREMENT

Loans are assessed at each reporting date to determine whether there is objective evidence of impairment. A loan is impaired if there has been an event, or events, subsequent to the initial recognition of the asset that has impacted the asset's future cash flows. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered objective evidence of impairment.

Individually significant loans are individually assessed for impairment; debts which are known to be uncollectible are written off and impaired loans are written down to their impaired amount.

Following the impairment assessment of individually significant loans, those individually significant loans that are not impaired, and all other loans, are collectively assessed for impairment by grouping together loans with similar risk characteristics. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of 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 exist currently.

Impairment, which is the difference between the asset's carrying amount and the present value of its estimated future cash flows, discounted at the original effective interest rate, is recognised in surplus or deficit.

If, in a subsequent period, the amount of 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 and the reversal is recognised in surplus or deficit.

Subsequent recoveries of amounts written off are recognised in surplus or deficit

5.1 Property, Plant and Equipment	Computer Equipment \$ 000	Furniture & Fittings \$ 000	Leasehold Improvements \$ 000	Total \$ 000
Cost				
Opening Balance 1 July 2021	76	118	249	443
Additions	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
Opening Balance 1 July 2020	65	117	249	431
Additions/(Disposals)	11	1	-	12
Closing Balance 30 June 2021	76	118	249	443
Accumulated Depreciation				
Opening Balance 1 July 2020	33	114	211	358
Depreciation for the Period	23	3	20	46
Closing Balance 30 June 2021	56	117	231	404
Net Book Value at 30 June 2021	20	1	18	39

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.

5.2 Intangible Assets	Computer Software
	\$ 000
Cost or Valuation	
Opening Balance 1 July 2021	72
Additions	-
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
Opening Balance 1 July 2020	-
Additions	72
Closing Balance 30 June 2021	72
Accumulated Amortisation	
Opening Balance 1 July 2020	-
Amortised During the Year	16
Closing Balance 30 June 2021	16
Intangible Assets Net Book Value at 30 June 2021	56

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 Investment in Associate) 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	2022	2021
	\$ 000	\$ 000
Trade Payables	417	47
Sundry Creditors and Accrued Expenses	163	148
Resident Withholding Tax	32	15
Total Trade and Other Payables	612	210

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)	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
	%	%	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Finzsoft Solutions Limited	48.9	48.9	7,642	3,843	7,509	9,722	8,834	8,612	1,187	1,228	10,164	11,100	1,405	1,282

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

	2022	2021
Cash & Cash Equivalents*	6,350,720	2,829,824
Financial Liabilities**	5,744,630	5,853,606
Non-Financial Liabilities	4,276,370	3,986,394
Income Tax Expense	515,913	454,039

*Note that Cash & Cash Equivalents includes Short-Term Investments classified as a current asset.

**This includes the \$5.5mn subordinated debt provided by PCU to Finzsoft (2021: \$2.75mn)

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 2021	48.9	6,336
Share of Equity Accounted Joint Venture Surplus for the year		687
Total investment as at 30 June 2022	48.9	7,023
Total investment as at 30 June 2020	29.6	3,012
Additional investment in 2021	19.3	3,091
Share of Equity Accounted Joint Venture Surplus for the year		233
Total investment as at 30 June 2021	48.9	6,336

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.

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

The financial statements of PCU include a share of the surplus of Finzsoft of \$687,081 (2021: \$233,000).

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 (2021: nil).

There were no contingent assets relating to interests in joint ventures to which PCU would benefit either jointly and/or severally (2021: nil).

There were no capital or other commitments relating to interests in joint ventures to which PCU was jointly and/or severally liable (2021: nil).

5.6 Subordinated Debt Receivable

	2022	2021
	\$ 000	\$ 000
Finzsoft Solutions Limited	5,500	2,750

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. An 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 deposit rate for 12 months). From the review of the interest rate in January 2022, PCU received interest of 5.2% (2021: 3.8%). A review of the interest rate is carried out annually.

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 \$108,955 (2021: \$44,000) as per Note 2.1.

5.7 Members' Deposits	2022	2021
	\$ 000	\$ 000
Call Shares	79,158	75,607
Term Shares	47,818	49,205
Total Members' Deposits	126,976	124,812
Current	123,799	121,539
Non-Current	3,177	3,273
	126,976	124,812

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.

	2022	2021
	\$ 000	\$ 000
Loans Approved but not Funded	243	647
Undrawn Overdraft and Line of Credit	4,440	4,629
Total Outstanding Loan Commitments	4,683	5,276

6.2 Contingent Liabilities

The Credit Union has no contingent liabilities as at 30 June 2022 (2021: Nil).

6.3 Related Parties

Remuneration of Directors and Key Management Personnel (KMP)

	2022 Directors \$ 000	2022 KMP \$ 000	2021 Directors \$ 000	2021 KMP \$ 000
Short-Term Employee Benefits	128	527	122	461

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

	2022 Shares \$ 000	2022 Loans \$ 000	2021 Shares \$ 000	2021 Loans \$ 000
Directors	98	-	107	86
KMP	1	-	1	-
Connected Parties	85	35	15	-
Related Party Holdings	184	35	123	86

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. Connected parties is comprised of the families of Directors and KMP.

There are no loans that are impaired in relation to the loan balances with Directors. Loan advanced for the year to related parties totalled \$45k, with \$10k repaid during the year.

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 \$869,721 (\$2021 893,376). In January 2021 PCU entered into a Subordinated Debt agreement with Finzsoft for an amount of \$2.75m. An 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 deposit rate for 12 months). Refer to section 5.6 for further information on PCUs relationship with Finzsoft.

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

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

7.2 New Accounting Standards Issued but not yet Effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2022, and have not been applied in preparing these financial statements.

Those standards with the most significant potential impact on the financial statements that have been issued but are not yet effective are outlined below:

PBE FRS 48 - Service Performance Reporting effective for reporting periods beginning 1 July 2022

Under PBE FRS 48, an entity is required to present service performance information that is useful for accountability and decision-making purposes within its financial statements. The information must provide users with sufficient contextual information to understand why the entity exists, what it intends to achieve in broad terms over the medium to long term, and how it goes about this and what the entity has done during the reporting period in working towards its broader aims and objectives. This standard will apply to PCU's financial reporting for 30 June 23, and PCU is in the process of drafting this.

PBE IPSAS 41 - Financial Instruments effective for reporting periods beginning 1 July 2022

Under PBE IPSAS 41, one of the key differences introduced relates to the manner in which financial assets (such as loans to members) are classified and measured with this legislation being more prescriptive.

In addition, the impairment of short-term loans/receivables is now determined by applying an Expected Credit Loss ("ECL") model taking into account the probability of impairment, time value of money and taking into account past events, current conditions and future forecasts. This standard will apply to PCU's financial reporting for 30 June 23, the impact of this standard is to be considered.

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 (IDR) rating of BB+ with a stable outlook, issued on 26 August 2022 (2021 BBB- with a stable 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 2022							
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	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

Repricing period at 30 June 2021							
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 and Cash Equivalents	0.15%	5,922	-	-	-	-	5,922
Term Deposits	1.39%	-	42,124	32,584	24,216	-	98,924
Loans to Members - Fixed	2.78%	-	1,268	1,313	-	-	2,581
Loans to Members - Floating	9.25%	35,083	-	-	-	-	35,083
Total Monetary Assets		41,005	43,392	33,897	24,216	-	142,510
Monetary Liabilities							
Members' Deposits	0.51%	75,607	35,992	9,983	3,230	-	124,812
Trade and Other Payables	n/a	-	-	-	-	210	210
Total Monetary Liabilities		75,607	35,992	9,983	3,230	210	125,022

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 30 June 2022 it is estimated that a general increase of three percentage points in interest rates on bank deposits (30 June 2021 one percentage point), loan receivables and Members' deposits would increase PCUs surplus before income tax and equity by \$450,379 (30 June 2021: \$168,838)

A decrease in interest rates would have the opposite impact on surplus than that described above.

The Board and Management consider that even in the current uncertain economic environment in New Zealand a 3% (2021: 1%) movement in interest rate risk is reasonable.

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 audit 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 after 7 days if not rectified. 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. 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:

	<i>Number of counterparties</i>	<i>Number of counterparties</i>
	<i>2022</i>	<i>2021</i>
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	1	1

<i>Counterparty Exposure</i>	<i>2022</i>	<i>2021</i>
	<i>\$ 000</i>	<i>\$ 000</i>
ANZ	39,113	43,148
Heartland Bank	24,558	31,484
Kiwibank	2,011	4,113
Westpac	42,609	18,887
BNZ	3,242	6,215

(b) Loans to Members

Loans can only be made to Credit Union members. Loan interest rates range from 2.39% to 17.00% p.a. (2021: 2.45% 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 may be renegotiated after a period of up to 90 days in consultation with the borrower.

	2022	2021
Proportion of Loans with Repayments in Arrears in Excess of 90 Days:	0.35%	0.73%
Proportion of Loans owed in Aggregate by the Six Largest Debtors	6.50%	5.38%
Weighted Average Maturity of Loans (in Months) is:	89.83	94

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.

	2022	2021
	\$ 000	\$ 000
The Amounts Drawn Down are as follows:	30	13

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	\$ 000
Monetary Assets							
Cash and Cash Equivalents	8,509	-	-	-	-	-	8,509
Term Deposits	-	40,634	26,744	38,177	-	-	105,555
Loans to Members	-	3,924	3,754	22,333	12,455	-	42,466
Total Financial Assets 30 June 2022	8,509	44,558	30,498	60,510	12,455	-	156,530
Total Financial Assets 30 June 2021	5,922	46,902	37,378	51,700	15,263	-	157,165
Monetary Liabilities							
Trade and Other Payables	-	612	-	-	-	-	612
Members Call Accounts	79,158	-	-	-	-	-	79,158
Members Share Accounts	-	32,021	12,996	3,332	-	-	48,349
Total Financial Liabilities 30 June 2022	79,158	32,633	12,996	3,332	-	-	128,118
Total Financial Liabilities 30 June 2021	75,607	35,836	10,465	3,351	-	-	125,259
Liquidity (Shortfall)/Surplus 30 June 2022	(70,649)	11,925	17,502	57,178	12,455	-	28,412
Liquidity (Shortfall)/Surplus 30 June 2021	(69,685)	11,066	26,913	48,349	15,263	-	31,906

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 20% of total assets as liquid assets capable of being converted to cash within 183 days. Should the liquidity ratio fall below this level, management and Directors are to address the matter to ensure that liquid funds are obtained from new deposits or borrowing facilities. PCU has maintained the policy level throughout the financial period under review.

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

Future interest receivable and future interest payable represent the expected future interest 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 2022 is 19.4% (2021: 20.8%), 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 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.

10 Impact of COVID-19

The COVID-19 outbreak (also known as 2019 Novel Coronavirus infection or Coronavirus) poses a serious global public health threat and has had a major impact on the movement of people and goods throughout the world. The extent and duration to which Coronavirus will continue to disrupt and depress economic activity is difficult to predict.

While it is difficult to determine the continuing effects of the COVID-19 Pandemic, PCU continues to operate and the Board believe that they have the ability to manage quite significant fluctuations in trading conditions with a strong balance sheet. The Board have therefore assessed there is no going concern impact on PCU as at the date of these financial statements.

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Te Uniano Whakanama Pirihimana
POLICE HELPING POLICE

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