POLICE CREDIT UNION

Te Uniana Whakanama Pirihimana

POLICE HELPING POLICE

Financial Statements 2021

Contents

Statement of Comprehensive Revenue and Expense

For the year ended 30 June 2021

	Note	2021 $000	2020 Restated (Note 7.1) $000
REVENUE			
Interest Revenue	**2.1**	5,660	6,853
Interest Expenditure	**2.1**	1,018	1,995
Net Interest Revenue		**4,642**	**4,858**
Other Income	**2.2**	152	156
Total Revenue		**4,794**	**5,014**
EXPENDITURE			
Operating Expenses	**2.3**	2,605	2,637
Employee Benefits	**2.3**	1,242	1,317
Loan Impairment Expenses		19	29
Depreciation	**5.1**	46	62
Amortisation Expenses	**5.2**	16	-
Occupancy		77	91
Total Operating Expenditure		**4,005**	**4,136**
Share of Equity Accounted Associate Surplus for the year	**5.5**	233	-
Surplus for the Year Attributable to Members		**1,022**	**878**
Other Comprehensive Revenue and Expense		-	-
Total Comprehensive Revenue and Expense for the Year Attributable to Members		**1,022**	**878**

Statement of Changes in Net Assets/Equity

For the year ended 30 June 2021

	Note	Accumulated Revenue and Expense $000	Total $000
Balance as at 30 June 2019 - as previously reported		**25,575**	**25,575**
Prior period Adjustment	**7.1**	(474)	(474)
Restated Balance as at 30 June 2019		**25,101**	**25,101**
Restated Total Comprehensive Revenue and Expense for the Year Attributable to Members	**7.1**	878	878
Restated 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**

Statement of Financial Position

For the year ended 30 June 2021

	Note	2021 $000	2020 Restated (Note 7.1) $000
MEMBERS' FUNDS			
Accumulated Revenue and Expense	**7.1**	27,001	25,979
Total Members' Funds		**27,001**	**25,979**
ASSETS			
Cash and Cash Equivalents	**3.1**	5,922	4,636
Term Deposits	**3.2**	98,924	93,209
Loans to Members	**4.1**	37,664	42,401
Prepayments		412	604
Property, Plant and Equipment	**5.1**	39	73
Intangible Assets	**5.2**	56	-
Investment in Associate	**5.5**	6,336	3,012
Subordinated debt	**5.6**	2,750	-
Total Assets		**152,103**	**143,935**
LIABILITIES			
Trade and Other Payables	**5.4**	210	278
Employee Benefits		80	73
Members' Deposits	**5.7**	124,812	117,605
Total Liabilities		**125,102**	**117,956**
Net Assets/Equity		**27,001**	**25,979**

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

Director, Lane Todd
Date: 29 September 2021

Director, Richard Middleton
Date: 29 September 2021

Statement of Cash Flows

For the year ended 30 June 2021

	Note	2021 $000	2020 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest Received		6,400	6,489
Fees, Commissions and Other Income		152	156
Interest Paid		(1,194)	(2,086)
Payments to Suppliers and Employers		(3,766)	(4,233)
Net Movement in Members' Loans		4,700	5,931
Net Movement in Member Deposits		7,367	11,655
Net Cash Flows Provided by Operating Activities	**3.3**	**13,659**	**17,912**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for Property, Plant, Equipment and Intangibles		(12)	(22)
Payments for Intangibles		(72)	-
Increase in Term Deposits		(6,448)	(16,976)
Payments for Purchase of Equity Accounted Investment	**5.5**	(3,091)	(3,012)
Payment of Subordinated debt	**5.6**	(2,750)	-
Net Cash Flows Used in Investing Activities		**(12,373)**	**(20,010)**
Total Net Increase/(Decrease) in Cash and Cash Equivalents		1,286	(2,098)
Cash and Cash Equivalents at the Beginning of the Period		4,636	6,734
Cash and Cash Equivalents at the End of the Period		**5,922**	**4,636**

Notes to the Financial Statements

For the year ended 30 June 2021

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 2021.

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 associate.

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

	2021 $000	2020 $000
Interest Revenue - Interest on Loans and Receivables		
Interest on Loans to Members	3,659	4,310
Interest on Subordinated Debt	44	-
Interest on Term Deposits	1,948	2,504
Interest on Cash and Cash Investments	9	39
Total Interest Revenue	**5,660**	**6,853**

Interest Expenditure - Liabilities at Amortised Cost		
Interest on Members Call Shares	132	405
Interest on Members Term Shares	886	1,590
Total Interest Expenditure	**1,018**	**1,995**

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.

2.2 Other Income	2021 $000	2020 $000
ATM/Eftpos Card Recoveries	40	34
Costs Recovered and Other Fees Charged	105	108
Bad Debts Recovered	4	1
Other Income	3	12
Total Other Income	**152**	**155**

RECOGNITION AND MEASUREMENT

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

2.3 Expenditure	Note	2021 $000	2020 $000
Operating Expenses includes:			
External Audit of Financial Statements		55	49
Directors Fees	**6.3**	122	112
Employee Benefits includes:			
Wages and Salaries		1,165	1,168
Defined Contribution Expense		41	43

3. Deposits and Liquidity

3.1 Cash and Cash Equivalents	Interest Rates	2021 $000	2020 $000
Bank Balances - on Call	**0.15%**	**5,922**	**4,636**

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	2021 $000	2020 $000
Westpac Bank		13,697	11,725
ANZ		43,494	44,321
Kiwibank		4,124	-
BNZ		6,189	6,049
Heartland Bank		31,420	31,114
Total Term Deposits	**0.70% to 3.20%**	**98,924**	**93,209**
Current		74,707	78,814
Non-Current		24,217	14,395
Total Term Deposits		**98,924**	**93,209**

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.

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	2021 $ 000	2020 $ 000
Surplus for the Year Attributable to Members	**1,022**	**878**
NON-CASH ITEMS		
Depreciation and Assets Written Off	62	103
Impairment Allowance	12	12
Share of Equity Accounted Associate Surplus for the year	(233)	-
	(159)	**115**
CHANGES IN ASSETS AND LIABILITIES		
Movement in Prepayments	192	(252)
Movement in Accounts Payable	(68)	36
Movement in Employee Benefits	7	3
Movement in Loans	4,719	5,931
Movement in Member Deposits	7,381	11,655
Movement in Accrued Interest Receivable	740	(363)
Movement in Accrued Interest Payable	(175)	(91)
	12,796	**16,919**
Net Operating Cash Flows	**13,659**	**17,912**

4. Loans to Members

4.1 Loans to Members	2021 $000	2020 $000
Mortgages	3,596	3,673
Personal Loans	34,197	38,844
Gross Loans to Members	**37,793**	**42,517**
Less: Allowance for Impairment	(129)	(116)
Net Loans to Members	**37,664**	**42,401**
Current	6,073	6,719
Non-Current	31,591	35,682
	37,664	**42,401**

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	2021 $000	2020 $000
Secured by Mortgage Over Real Estate with LVR <70%	3,596	3,673
Secured by Mortgage Over Real Estate with LVR 70%> <80%	360	-
Partially Secured by Motor Vehicles or Other Collateral	4,980	5,874
Secured by Police Superannuation or Government Superannuation	28,597	32,694
Unsecured	260	276
Credit Quality of Gross Loans to Members	**37,793**	**42,517**

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

	2021 $000	2020 $000
Performing Loans		
Neither Past Due Nor Impaired	36,994	41,906
Past Due But Not Impaired		
1 to 30 days	252	275
31 to 90 days	270	288
over 90 days	277	48
Total Performing Loans	**37,793**	**42,517**
Impaired loans		
Specifically Impaired	51	29
Collectively Impaired	78	87
Gross Loans	**37,664**	**42,401**
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 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 Provision for Impairment of Financial Assets

Impairment of Loans and Advances

Total doubtful debts and bad debt expense for the year was:	2021 $000	2020 $000
Provision for Impairment - Increase in the Year	13	12
Bad Loans written off	6	17
Loan Impairment Expenditure	**19**	**29**

	Individually Impaired $ 000	Collectively Impaired $ 000	Restructured $ 000	2021 Total $000	2020 Total $000
Opening Balance	29	87	-	116	104
Increase/(Decrease) in the Provision	28	(9)	-	19	19
Transfer to Bad Debts Written Off	(6)	-	-	(6)	(7)
Closing Balance	**51**	**78**	**-**	**129**	**116**

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. Other Financial Position Notes

5.1 Property, Plant and Equipment

	Computer Equipment $000	Furniture & Fittings $000	Leasehold Improvements $000	Total $000
Cost				
Opening Balance 1 July 2020	**65**	**117**	**249**	**431**
Additions	11	1	-	12
Disposals or Written Off	-	-	-	-
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
Disposals or Written Off	-	-	-	-
Closing Balance 30 June 2021	**56**	**117**	**231**	**404**
Net Book Value at 30 June 2021	**20**	**1**	**18**	**39**
Opening Balance 1 July 2019	**203**	**116**	**249**	**568**
Additions/(Disposals)	21	1	-	22
Disposals or Written Off	(159)	-	-	(159)
Closing Balance 30 June 2020	**65**	**117**	**249**	**431**
Accumulated Depreciation				
Opening Balance 1 July 2019	**173**	**107**	**175**	**455**
Depreciation for the Period	19	7	36	62
Disposals or Written Off	(159)	-	-	(159)
Closing Balance 30 June 2020	**33**	**114**	**211**	**358**
Net Book Value at 30 June 2020	**32**	**3**	**38**	**73**

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 2020	**-**
Additions	72
Disposals or Written Off	-
Closing Balance 30 June 2021	**72**
Accumulated Amortisation	
Opening Balance 1 July 2020	**-**
Amortised During the Year	16
Disposals or Written Off	-
Closing Balance 30 June 2021	**16**
Intangible Assets Net Book Value at 30 June 2021	**56**

	Computer Software Restated (Note 7.1) $ 000
Opening Balance 1 July 2019	**-**
Additions	-
Disposals or Written Off	-
Closing Balance 30 June 2020	**-**
Accumulated Amortisation	
Opening Balance 1 July 2019	**-**
Amortised During the Year	-
Disposals or Written Off	-
Closing Balance 30 June 2020	**-**
Intangible Assets Net Book Value at 30 June 2020	**-**

Recognition and Measurement

Intangible assets are initially measured at cost, being cost less accumulated amortisation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, is recognised in surplus or deficit as incurred.

Amortisation of intangible assets is recognised in surplus or deficit over their expected lives on a straight line basis at 20-30%.

The above Intangible Asset note for as at 30 June 2020 has been restated due to the IFRS Interpretations Committee (IFRIC) published its final agenda decision on accounting for configuration and customisation costs in a Software-as-a-Service (SaaS) arrangement. Accordingly, PCU revised its accounting policy in relation to its SaaS arrangements during the year. See Note 7.1 for additional detail.

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

	2021 $000	2020 $000
Trade Payables	47	78
Sundry Creditors and Accrued Expenses	148	170
Resident Withholding Tax	15	30
Total Trade and Other Payables	**210**	**278**

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. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made. Present values are discounted using the 5 year rates for government stock. Future increases in remuneration rates are taken into account in estimating future cash outflows.

5.5 Investment in Associate

PCU hold significance over the following entity which is accounted for using the equity method.

	Voting Rights		Total Assets		Total Liabilities		Revenue		Surplus/(Deficit)	
	2021 %	2020 %	2021 $'000	2020 $'000	2021 $'000	2020 $'000	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Finzsoft Solutions Limited	**48.9**	**29.6**	**13,504**	**13,695**	**9,779**	**11,043**	**11,100**	**10,445**	**1,282**	**(2,073)**

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 $'000
Total investment as at 30 June 2020	**29.6**	**3,012**
Additional investment in 2021	19.3	3,091
Total investment as at 30 June 2021	**48.9**	**6,103**
Share of Equity Accounted Associate Surplus for the year		233
Total		**6,336**

RECOGNITION AND MEASUREMENT

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 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. Finzsoft was a publicly listed company prior to the purchase of shares by PCU however on 1 May 2020 Finzsoft was de-listed from the New Zealand Stock Exchange and is now a privately owned company registered in New Zealand.

Finzsoft is considered an Associate for accounting and reporting purposes. Associates are those entities in which PCU has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when PCU holds between 20% and 50% of the voting power of another entity. The investment in Finzsoft has been accounted for using the equity method and is recognised initially at cost, including directly attributable transaction costs.

The financial statements of PCU include a share of the surplus or deficit of Finzsoft of $233,000 (2020: Nil).

Finzsoft has the same reporting date as PCU, being 30 June.

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

There were no contingent liabilities in relation to Finzsoft as at reporting date (2020: nil).

5.6 Subordinated Debt

	2021 $ 000	2020 $ 000
Finzsoft Solutions Limited	**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.

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 commencement date of the loan agreement of 28th January 2021, PCU received interest of 3.8% (2020: nil). 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 on Subordinated Debt of $44,000 (2020: Nil) as per Note 2.1.

5.7 Members' Deposits

	2021 $000	2020 $000
Call Shares	75,607	64,556
Term Shares	49,205	53,049
Total Members' Deposits	**124,812**	**117,605**
Current	121,539	113,210
Non-Current	3,273	4,395
	124,812	**117,605**

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.

	2021 $000	2020 $000
Loans Approved but not Funded	647	173
Undrawn Overdraft and Line of Credit	4,629	5,592
Total Outstanding Loan Commitments	**5,276**	**5,765**

6.2 Contingent Liabilities

The Credit Union has no contingent liabilities as at 30 June 2021 (2020: Nil).

6.3 Related Parties

Remuneration of Directors and Key Management Personnel (KMP)

	2021 Directors $000	2021 KMP $000	2020 Directors $000	2020 KMP $000
Short-Term Employee Benefits	**122**	**461**	**112**	**511**

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 eight Directors and one executive manager.

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

	2021 Shares $000	2021 Loans $000	2020 Shares $000	2020 Loans $000
Directors	107	86	145	92
KMP	1	-	1	-
Connected Parties	15	-	53	-
Related Party Holdings	**123**	**86**	**199**	**92**

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.

There are no loans that are impaired in relation to the loan balances with Directors.

As an associate, Finzsoft is a related party. During the year PCU purchased an additional shareholding in Finszoft as disclosed in note 5.5. 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 $893,376. Finzsoft is also considered a related party by way of commonality of Directors.

In addition, during the year PCU paid $77,004 (2020: $85,291) to Blueline Premises Ltd for lease of the premises. Blueline Premises Ltd is related to PCU by virtue of Craig Tickelpenny being a director at Blueline Premises Ltd and a past director of PCU.

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.

During the year, the IFRS Interpretations Committee (IFRIC) published its final agenda decision on accounting for configuration and customisation costs in a Software-as-a-Service (SaaS) arrangement. Accordingly, PCU revised its accounting policy in relation to its SaaS arrangements during the year as follows:

Software-as-a-Service (SaaS) arrangements are service contracts providing PCU with the right to access the software provider's application software over the contract period. Costs incurred to configure or customise, and the ongoing fees to obtain access to the software provider's application software, are recognised as operating expenses when the services are received.

Historical financial information has been restated to account for the impact of this change in accounting policy is as follows:

	2020 Amount per previous Financial Statements $'000	2020 Amount per revised Financial Statements $'000	Difference $'000
Statement of Comprehensive Revenue and Expense			
Operating Expenses	2,527	2,637	(110)
Amortisation Expense	194	-	194
Total Comprehensive Revenue and Expense for the Year Attributable to Members	794	878	84
Statement of Changes in Net Assets/Equity			
Net Asset/Equity - Balance as at 30 June 2019	-	(474)	(474)
Statement of Financial Position			
Accumulated Revenue and Expense	26,369	25,979	(390)
Intangible Assets	390	-	(390)
Net Assets/Equity	26,369	25,979	(390)

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 2021, 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 January 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.

PBE IPSAS 41 - Financial Instruments effective for reporting periods beginning 1 January 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 will be 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. PCU is in the process of considering the impact of this new standard.

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 BBB- with a stable outlook, issued on 21 May 2021 (2020 BBB with a negative outlook).

9. Financial Risk Mangement 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 2021 Fixed Interest Rate Maturing:				
	Weighted average effective interest rate*	Floating Interest Rate $000	Within 6 months $000	6 months to 1 Year $000	1 to 5 Years $000	Non-interest sensitive $000	Total $000
Monetary Assets							
Cash & Bank	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**

	Weighted average effective interest rate*	Floating Interest Rate $000	Repricing period at 30 June 2020 Fixed Interest Rate Maturing: Within 6 months $000	6 months to 1 Year $000	1 to 5 Years $000	Non-interest sensitive $000	Total $000
Monetary Assets							
Cash and Cash Equivalents	0.15%	4,636	-	-	-	-	4,636
Term Deposits	2.69%	-	40,253	38,764	14,192	-	93,209
Loans to Members - Fixed	3.75%	-	681	628	-	-	1,309
Loans to Members - Floating	9.47%	41,092	-	-	-	-	41,092
Total Monetary Assets		**45,728**	**40,934**	**39,392**	**14,192**	**-**	**140,246**
Monetary Liabilities							
Members' Deposits	1.34%	64,556	35,640	13,036	4,373	-	117,605
Trade and Other Payables	n/a	-	-	-	-	278	278
Total Monetary Liabilities		**64,556**	**35,640**	**13,036**	**4,373**	**278**	**117,884**

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 2021 it is estimated that a general increase of one percentage point in interest rates on bank deposits, loan receivables and Members' deposits would increase PCUs surplus before income tax and equity by $168,838 (30 June 2020: $224,751).

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 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:

	Number of counterparties 2021	Number of counterparties 2020
Over 100%	2	2
Between 60% and 80% of equity	1	-
Between 40% and 60% of equity	-	1
Between 20% and 40% of equity	1	1
Between 10% and 20% of equity	1	-

Counterparty Exposure	2021 $000	2020 $000
ANZ	43,148	44,425
Heartland Bank	31,484	30,500
Kiwibank	4,113	-
Westpac	18,887	15,046
BNZ	6,215	6,143

(b) Loans to Members

Loans can only be made to Credit Union members. Loan interest rates range from 2.45% to 17.00% p.a.
(2020: 2.99% to 17.55%)

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.

	2021 $000	2020 $000
Proportion of Loans with Repayments in Arrears in Excess of 90 Days:	0.73%	0.11%
Proportion of Loans owed in Aggregate by the Six Largest Debtors	5.38%	4.22%
Weighted Average Maturity of Loans (in Months) is:	94	93

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.

	2021 $000	2020 $000
The Amounts Drawn Down are as follows:	13	51

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 $000	Within 6 Months $000	6 Months to 1 Year $000	1 to 5 Years $000	Over 5 Years $000	No Maturity $000	Total $000
Monetary Assets							
Cash and Cash Equivalents	5,922	-	-	-	-	-	5,922
Term Deposits	-	42,257	32,893	24,632	-	-	99,782
Loans to Members	-	4,645	4,485	27,068	15,263	-	51,461
Total Financial Assets 30 June 2021	**5,922**	**46,902**	**37,378**	**51,700**	**15,263**	**-**	**157,165**
Total Financial Assets 30 June 2020	**4,636**	**45,812**	**44,604**	**45,359**	**17,314**	**-**	**157,725**
Monetary Liabilities							
Trade and Other Payables	-	210	-	-	-	-	210
Members Call Accounts	75,607	-	-	-	-	-	75,607
Members Share Accounts	-	35,626	10,465	3,351	-	-	49,442
Total Financial Liabilities 30 June 2021	**75,607**	**35,836**	**10,465**	**3,351**	**-**	**-**	**125,259**
Total Financial Liabilities 30 June 2020	**64,556**	**35,737**	**13,613**	**4,566**	**-**	**-**	**118,472**
Liquidity (Shortfall)/Surplus 30 June 2021	**(69,685)**	**11,066**	**26,913**	**48,349**	**15,263**	**-**	**31,906**
Liquidity (Shortfall)/Surplus 30 June 2020	**(59,920)**	**10,075**	**30,991**	**40,793**	**17,314**	**-**	**39,253**

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 10% 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 2021 is 20.8% (2020: 23.3%), 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.

The COVID-19 pandemic continues to impact the interest rates we are paid on term deposits and the interest rates we are able to pay our members. Our Net Interest Margin reduced affecting our annual surplus.

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.

POLICE CREDIT UNION

Te Uniana Whakanama Pirihimana

POLICE HELPING POLICE

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