CREDIT UNION BAYWIDE

CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 June 2021

CONTENTS

Board of Directors

Chair	L Edwards
Vice Chair	A Connolly
Directors	A Bartlett C Lord G Clouston G Travis J Fredric T White G Pryor (term finished 30 April 2021) I Taylor (term finished 28 October 2020) S Wakefield (resigned 10 September 2020)

Auditors	PricewaterhouseCoopers New Zealand
Supervisor	Trustees Executors Limited
Affiliations	New Zealand Association of Credit Unions (NZACU) - T/A Co-op Money NZ (up to 31 March 2021) Banzpay Technology Holding Ltd (from 1 April 2021) - T/A Banzpay

For the year ended 30 June 2021

	Note	Jun 21 $'000	Jun 20 $'000
REVENUE			
Interest revenue	**3a**	38,473	42,364
Interest expenditure	**3b**	6,189	11,019
Net interest revenue		**32,284**	**31,345**
Transaction and fee revenue		6,811	6,881
Transaction and fee expenditure		8,058	7,345
Net transaction and fee expense		**(1,247)**	**(464)**
Other income	**3c**	3,339	1,122
		34,376	32,003
EXPENDITURE			
Bad & impaired loans expenditure	**3d**	2,400	5,491
Employee expenditure	**3e**	16,195	15,676
Depreciation & amortisation	**3f**	2,102	1,679
Other expenditure	**3g**	10,070	9,456
Total operating expenditure		30,767	32,302
Operating surplus / (deficit) for the period		**3,609**	**(299)**
Income tax expense		(2)	-
Share of surplus / (deficit) of the investment in associate	**14**	(165)	(97)
(Deficit) / surplus for the year attributable to Members		**3,442**	**(396)**
Other comprehensive revenue and expense		-	-
Other comprehensive revenue and expense of the investment in associate	**14**	-	-
Total comprehensive revenue and expense for the year attributable to Members		**3,442**	**(396)**

	Note	Accumulated comprehensive revenue and expense $'000	Total equity $'000
Balance at 1 July 2020		**57,513**	**57,513**
Total comprehensive revenue and expense for the year attributable to Members		3,442	3,442
Balance aquired through consolidation			
Total net transactions		3,442	3,442
Balance at 30 June 2021	**4**	**60,955**	**60,955**
Balance at 1 July 2019		**57,909**	**57,909**
Total comprehensive revenue and expense for the year attributable to Members		(396)	(396)
Total net transactions		(396)	(396)
Balance at 30 June 2020	**4**	**57,513**	**57,513**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

	Note	Jun 21 $'000	Jun 20 $'000
EQUITY			
Accumulated comprehensive revenue and expense	4	60,955	57,513
TOTAL EQUITY		**60,955**	**57,513**
ASSETS			
Cash and cash equivalents	5	33,957	32,719
Term investments	6	98,006	114,718
Members' loans	9	318,495	344,473
Prepayments and receivables	8	2,439	2,705
Other investments	7	-	3,362
Property plant & equipment	11	2,614	4,544
Intangible assets	12	19,766	3,394
Available for sale assets	13	1,603	-
Investment in associate	14	-	7,886
TOTAL ASSETS		**476,880**	**513,801**
LIABILITIES			
Trade and other payables	15	12,793	10,282
Deferred income		1,370	489
Members' deposits	16	401,762	445,517
TOTAL LIABILITIES		**415,925**	**456,288**
NET ASSETS		**60,955**	**57,513**

For and on behalf of the Board, who authorised the issue of these financial statements on 27 September 2021.

L Edwards
Chair

Alan Connolly

A Connolly
Vice Chair

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2021

	Note	Jun 21 $'000	Jun 20 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from / (applied to):			
Interest received		36,497	42,014
Transaction and fee revenue received		6,811	6,881
Commission and other revenue received		4,218	1,119
Bad loans recovered		725	621
Interest paid		(7,861)	(12,139)
Transaction and fee expenditure paid		(7,814)	(7,019)
Payments to suppliers & employees		(26,890)	(25,548)
		5,686	5,929
Net changes in operating assets and liabilities			
Net decrease / (increase) in Members' loans		25,282	36,374
Net (decrease) / increase in Members' and Customer's deposits		(46,996)	(5,445)
Net (increase) / decrease in term investments		17,537	(25,505)
		(4,177)	5,423
Net operating cash flows	**28**	1,509	11,353
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from / (applied to):			
Redemption / (Purchase) of Co-op Money NZ Base Capital Notes		7,721	(4,852)
Acquisition of a subsidiary, net of cash acquired	**14**	(6,067)	-
Repayment / (Loan) from (to) Co-op Money NZ		1,158	500
Payments for intangible assets		(2,661)	(1,323)
Net payments for property, plant, & equipment		(422)	(527)
Net investing cash flows		(271)	(6,202)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from / (applied to):			
Net financing cash flows		-	-
Total net increase in cash and cash equivalents held		1,238	5,151
Cash and cash equivalents at the beginning of the period		32,719	27,568
Cash and cash equivalents at the end of the period	**5**	**33,957**	**32,719**
Represented by:			
Cash and cash equivalents		**33,957**	**32,719**

1. REPORTING ENTITY

Legislative framework

The consolidated Financial Statements for the "Group" are for the economic entity comprising Credit Union Baywide “the Credit Union”, and its controlled entities the Credit Union Warehouse A Trust (the "Trust"), Banzpay Technology Holdings Limited, Banzpay Technology Operations Limited, and Banzpay Technology Services Limited.

The Credit Union is a financial institution registered and incorporated in New Zealand under the Friendly Societies and Credit Unions Act 1982. The Credit Union is a financial markets conduct ("FMC") reporting entity for the purposes of the Financial Reporting Act 2013 and Financial Markets Conduct Act 2013 and a not-for-profit public benefit entity for financial reporting purposes. The Credit Union is a licensed Non-bank Deposit Taker under the Non-bank Deposit Takers Act 2013.

The Trust, is a special purpose trust designed to purchase loans from Credit Union Baywide by borrowing from Westpac and Credit Union Baywide – refer to note 20.

Banzpay Technology Holdings Limited and it's subsidiaries Banzpay Technology Operations Limited, and Banzpay Technology Services Limited (collectively referred to in these financial statements as "Banzpay") is a newly incorporated group of companies under the Companies Act.
On 31 March 2021 Banzpay purchased the business and operations of the New Zealand Association of Credit Unions (Co-op Money NZ). It is noted that Co-op Money NZ briefly traded as Banzpay from 1 December 2020 to 31 March 2021 prior to its sale but is referred to as Co-op Money NZ within these financial statements. Refer to note 14 for further information on this business combination.

The financial report is a general purpose financial report for the Group which has been prepared in accordance with the Financial Reporting Act 2013, the Friendly Societies and Credit Unions Act 1982 and the Financial Markets Conduct Act 2013. The Credit Union is domiciled in New Zealand and its principal place of business is 100 St Aubyn St, Hastings, Hawke's Bay. The common bond (i.e. qualification for Membership) of the Credit Union is all persons who currently or formerly resided in New Zealand, registered charities and incorporated societies.

Trust Deed

The Credit Union and Trustees Executors Limited entered into a replacement Trust Deed dated 18 December 2019 to meet the requirements of the Financial Markets Conduct Act 2013. Trustees Executors Limited as the Supervisor was appointed to act in the interests of the Members of the Credit Union by monitoring the compliance by the Credit Union of its obligations, its Rules, the Trust Deed, the Friendly Societies and Credit Unions Act 1982 and the Financial Markets Conduct Act 2013. In addition, the Supervisor is under duty to:

(a) act honestly and in the best interest of the Members;
(b) act on behalf of Members in relation to the Credit Union and any matter under the Trust Deed or as part of the Credit Union's obligations;
(c) exercise reasonable diligence to ascertain whether or not the Credit Union has committed any breach of the Trust Deed or any of the conditions of the issue of shares; and
(d) do all the things it is empowered to do to cause any breach of those terms to be remedied; except if it is satisfied that the breach will not have a material adverse affect on the Members.

The Supervisor is also responsible for monitoring the Credit Union's performance of its obligations under the Trust Deed and to ascertain whether or not the assets of the Credit Union are sufficient, or likely to be sufficient, to meets its obligations to Members, as they fall due.

1. REPORTING ENTITY (CONTINUED)

Basis of preparation

Statement of compliance

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

These financial statements have been prepared in accordance with part 7 of the Financial Markets Conduct Act 2013 and the Friendly Societies and Credit Unions Act 1982.

Measurement basis

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain assets and liabilities as identified in specific accounting policies below.

Presentation currency

All transactions and balances are prepared in New Zealand dollars, which is also the functional currency. All amounts are rounded to the nearest thousand dollars ($'000) unless otherwise stated.

2. SIGNIFICANT ACCOUNTING POLICIES

The following are the material accounting policies adopted by the Group in the preparation of the Financial Statements. Except where stated, the accounting policies have been consistently applied to all periods presented.

a. Financial instruments

The Group classifies its financial instruments in the following categories:

- Financial assets comprising of loans and receivables and available for sale financial assets; and
- Financial liabilities comprising of financial liabilities at amortised cost

The classification depends on the purpose for which the financial assets were acquired and financial liabilities were incurred. Management determines the classification of its financial instruments at initial recognition and re-evaluates this designation at every reporting date.

All financial instruments are initially recognised at fair value plus transaction costs.

Initial recognition and derecognition

A financial instrument is recognised if the Credit Union becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Credit Union’s contractual rights to the cash flows from the financial assets expire or if the Credit Union transfers the financial assets to another party without retaining control or substantially all the risks and rewards of the asset. Financial liabilities are derecognised if the Credit Union’s obligations specified in the contract expire or are discharged or cancelled.

A financial asset or financial liability is measured initially at fair value plus transaction costs that are directly attributable to its acquisition or issue. Subsequent to initial recognition, financial instruments are measured as described below.

The Credit Union does not hold any derivative financial instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Group’s loans and receivables comprise cash and cash equivalents, term investments, and Members' loans. Subsequent to initial recognition loans and receivables are carried at amortised cost using the effective interest method, less impairment allowances.

Gains and losses on these financial instruments arise on sale, derecognition and impairment and are recognised in the Statement of comprehensive revenue and expense. Any interest revenue arising on loans and receivables is recognised in the surplus or deficit in accordance with the effective interest method.

Available for sale assets

Available for sale assets comprise Property Plant and Equipment for sale, and Co-op Money NZ Base Capital Notes ("Capital Notes"). As the Capital Notes are equity instruments that do not have a quoted market price in an active market and the fair value cannot be measured reliably, they are measured at cost price less impairment losses in terms of the exemption in accounting standard PBE IPSAS 29 *Financial Instruments: Recognition and Measurement.*

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a. Financial instruments (continued)

Investment in associates

Investment in associates include entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. Investment in associates comprise of the Group's investment in Co-op Money NZ which is held as a non-current asset and is measured using the equity method.

Under the equity method, on initial recognition the investment in an associate is recognised at cost, or where there has been an impairment, the fair value is the deemed cost, and the carrying amount is then increased or decreased to recognise the Group's share of the surplus or deficit of the investee after the date of acquisition. The Group's share of the investee's surplus or deficit is recognised in the Group's surplus or deficit. Distributions received from an investee reduce the carrying amount of the investment.

Financial liabilities at amortised cost

Non-derivative financial liabilities are recognised at amortised cost, using the effective interest method. This category includes Members' deposits and trade and other payables. Members' deposits meet the definition of financial liabilities under PBE IPSAS 28 Financial Instruments: Presentation as they are secured by a first ranking registered Trust Deed over the Credit Union's assets and revenues.

Impairment: Financial assets

An assessment is made at each balance date whether there is objective evidence that financial assets are impaired. Financial assets are impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the assets and can be reliably estimated.

The amount provided for impairment of financial assets is recognised in an allowance account, and is determined by the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Impairment: Loans and receivables

The Group recognises a loan impairment provision where there is objective evidence of impairment. In determining whether an impairment loss should be recorded, the Group makes judgements as to whether there is observable data indicating that there is a measurable decrease in the estimated future cash flows from each class of loans.

The Group specifically reviews all loans in arrears greater than 30 days at each reporting date to assess whether an impairment loss has occurred. In particular, judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Group makes judgements about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

All loans not individually impaired including those in arrears less than 31 days are then assessed collectively in loan portfolios with similar risk characteristics, to determine whether a provision should be made due to incurred loss events where there is objective evidence but whose effects are not yet evident. The collective assessment from the loan portfolio (such as credit quality, levels of arrears and collateral type) uses historical loss information adjusted on the basis of current observable data.

Loans which are known to be uncollectible are written off as an expense in the statement of comprehensive revenue and expense, to the extent that they are not provided for. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtors credit assessment), the previously recognised impairment loss is reversed by adjusting the impairment allowance to the extent that they are not provided for, with the reversal being recognised in the statement of comprehensive revenue and expense.

Netting of Assets and Liabilities

Assets and liabilities are only offset and reported in the statement of financial position on a net basis where the Credit Union has the legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b. Consolidation

i. Controlled entities:
Controlled entities are those entities over which the Credit Union has the capacity to exert control. Control is deemed to exist when the Credit Union has the power to govern the financial and operating policies of another entity and the ability to benefit from that entity's activities.

The Credit Union's financial statements are consolidated using the acquisition method. All material intra-group transactions, balances, income and expenses are eliminated on consolidation.

ii. Business combinations:
Amalgamation of mutual entities are considered to be a business combination and are accounted for using the acquisition method. When mutual entities combine and no consideration is transferred, consideration is deemed to be the fair value of the acquiree's identifiable assets acquired and liabilities assumed at acquisition date. Goodwill is calculated as the excess of the acquisition date fair value given. Acquisition related costs are expensed as incurred.

iii Disposal of Controlled entities:
When the Group ceases to have control, any retained interest in the equity on the controlled entity is re-measured to its fair value at the date when control is lost, with the change in the carrying amount recognised in the surplus or deficit. The fair value is the initial carrying amount for the purposes of subsequently accounting for the previously controlled entity.

c. Revenue

Revenue comprises the fair value of the consideration received or receivable for the sale of services in the ordinary course of the Group's activities. All revenue arises from exchange transactions. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below:

Interest revenue

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

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

Transaction and fee revenue, other income

Transaction and fee revenue and other income comprises other transaction fees, ATM fees, collection fees and commissions. It is recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. When the contract outcome cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Dividend income

Dividends are recorded as income when the dividend is declared.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Interest expense

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

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

e. Goods & Services Tax (GST)

The Group is registered for GST to comply with Inland Revenue requirements to pay GST on some types of income where appropriate. Generally GST is not recoverable and is therefore included in the expense or asset value. Any recoverable GST is excluded from the financial statements, with the exception of receivables and payables, which are stated inclusive of GST, where applicable.

f. Income tax

Income tax is payable by the Banzpay group and is recorded in the statement of comprehensive revenue & expense.
No amounts have been provided for Income Tax in the Credit Union as its income from Members is exempt under section CW 44 of the Income Tax Act 2007.

g. Property, plant, & equipment

Items of Property, plant & equipment are initially measured at cost. The cost of an item includes its purchase/construction price and the cost directly attributable to bringing it to the location and condition necessary for it to operate as intended.

After initial recognition, these items are measured at cost less accumulated depreciation and any accumulated impairment losses. Such costs includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. The carrying amount of any replaced part is derecognised. All other repairs and maintenance costs are recognised in the Statement of comprehensive revenue and expense as an expense as incurred.

Where material parts of an item of property, plant, & equipment have different useful lives, they are accounted for as separate items. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (i.e. if the asset is impaired).

Depreciation

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

Buildings	2% - 3%
Leasehold improvements	Term of Lease
Motor Vehicles	20% per annum
Equipment	14% - 33% per annum
Furniture and Fittings	10% - 33% per annum

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g. Property plant & equipment (continued)

Depreciation (continued)

Assets under $500 are not capitalised.

The assets' residual values and useful lives are reviewed at least annually and adjusted if applicable at each year end.

Property plant & equipment are derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Gains and losses on disposal are determined by comparing proceeds with the carrying amount. These are included in the Statement of comprehensive revenue and expense.

h. Intangible assets

All intangible assets have a finite useful life. Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses.

Intangible assets are amortised over their useful lives commencing from the time the asset is held and ready for use. The estimated useful life and amortisation method are reviewed at the end of each year end.

Intangible assets are amortised on a straight-line basis as follows:

- Software Intangibles 6% - 50% per annum
- Securitisation programme 20% - 33% per annum

i. Impairment Testing of Non-Financial Assets

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Value in use is determined by estimating future cash flows from the use and ultimate disposal of the asset and discounting these to their present value using a pre-tax discount rate that reflects the current market rates and the risks specific to the asset. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Any excess of the asset's carrying value over its recoverable amount is expensed to the Statement of comprehensive revenue and expense.

j. Leases

Leases of premises and equipment are operating leases as the substantial risks and benefits incidental to ownership of the asset are retained by the legal owner. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Statement of comprehensive revenue and expense on a straight-line basis over the period of the lease.

k. Employee benefits

Liabilities for wages and salaries, annual leave, long service leave, accumulated sick leave, and superannuation (including KiwiSaver) expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Obligations to defined contribution superannuation schemes are recognised as an expense when the contribution is paid.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l. Business combinations

Business combinations are accounted for using the acquisition method. Goodwill is calculated as the excess of the acquisition date fair value of the consideration given and the acquisition date fair value of the acquiree's identifiable assets acquired and liabilities assumed.

When mutual entities combine by an 'equity interest' only exchange, consideration is deemed to be the acquisition-date fair value of the acquiree's equity interests. Net assets are recognised as a direct addition to equity in the Statement of Financial Position.

For business combinations that do not meet the criteria of an 'equity interest' only exchange, consideration is deemed to be the liabilities incurred by the acquirer to the former owners of the acquiree. This situation is likely to arise when the acquiree's liability for member deposits exceeds the net assets available to repay those member deposits.

Acquisition related costs are expensed as incurred.

m. Presentation of cash flows

The Statement of Cash Flows has been prepared using the direct approach modified by the netting of certain items as disclosed below:

Definitions of Terms Used in the Statement of Cash Flows:

"Investing Activities" are predominantly those activities relating to the acquisition and disposal of non-current assets.

"Financing Activities" are those activities relating to changes in the size and composition of the funding structure of the Group.

"Operating Activities" include all transactions and other events that are not investing or financing activities.

Netting of Cash flows

Certain cash flows are presented net in order to provide more meaningful disclosure reflecting the activities of the Members rather than those of the Group. These include member's loans and deposits. Cash flows relating to Property, plant, & equipment and term investments reflect the net cash position throughout the period.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n. Critical Estimates, Judgements and Assumptions in Applying the Accounting Policies

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. This has an impact on the critical estimates, being the impairment provision for doubtful loans (refer to note 10), the fair value judgements, and any impairment of Capital Notes (refer to notes 13 & 14).

(i) Impairment of loans
Estimates and assumptions have been made when assessing the impairment provision on loans. The loan portfolio is reviewed to assess impairment at least monthly in line with the criteria per policy note 2a. Impairment: Loans and receivables. The impairment provision is also adjusted based on evidence relating to borrowers circumstances including the period that loans are in arrears and the value of the security held. The resulting accounting estimates will seldom equal the related actual results and there is a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Judgement was used to assess the impact of the COVID-19 pandemic when determining provisioning. There is a risk that the economic impact may be different to the judgement applied.

(ii) Fair value judgements
Judgement has been used in determining fair values of Available for Sale Assets (note 13), and the value of assets acquired on consolidation (note 14). In both cases the fair values have been determined in reference to available market data.

(iii) Impairment of Capital Notes
The determination of whether an impairment event has occurred in relation to Capital notes requires judgement. Refer note 13, which details the key assumptions in determining the recoverable amount of the Capital Notes in the June 2020 year (the capital notes were redeemed in the year ending 30 June 2021). There is no active market for these securities which have no guaranteed rate of return.

Actual results may differ from these estimates under different conditions and may materially affect financial results or the financial position reported in future periods.

o. Comparatives

The comparative figures reported are consistent with the current year.

p. Accounting standards issued but not yet effective

The following standards are issued but not yet effective and the Group has yet to assess the impact of the new standards:

- PBE IPSAS 41 *Financial instruments* - effective for reporting periods on or after 1 January 2022.

3. REVENUE AND EXPENDITURE

	Note	Jun 21 $'000	Jun 20 $'000
a. Interest revenue			
Interest on non-impaired loans		35,555	38,332
Interest on impaired loans		1,252	1,101
Interest on term investments		1,666	2,931
Total interest revenue		38,473	42,364
b. Interest expenditure			
Interest on Members' call deposits		694	1,453
Interest on Members' term deposits		5,495	9,566
Total interest expenditure		6,189	11,019
c. Other income			
Commissions earned		858	1,115
Banking services revenue		1,753	-
Sundry income		728	7
Total other income		3,339	1,122
d. Bad and impaired loans expenditure			
Bad loans written off		3,783	8,802
Bad debt recoveries		(725)	(621)
Movement in allowance for specific loan impairments	**10a**	130	(2,136)
Movement in allowance for collective loan impairments	**10b**	(788)	(554)
Total bad and impaired loans expenditure		2,400	5,491

3. REVENUE AND EXPENDITURE (CONTINUED)

	Jun 21 $'000	Jun 20 $'000
e. Employee expenditure		
Short term employee benefits	15,650	15,073
Post employment benefits	545	603
Total employee expenditure	16,195	15,676
f. Depreciation & amortisation		
Depreciation		
Buildings	19	5
Premises improvements	397	564
Equipment	305	314
Furniture and fittings	83	102
Motor vehicles	85	98
	889	1,083
Amortisation		
Intangible assets	1,213	596
Total Depreciation & amortisation	2,102	1,679

g. Other expenditure

Other expenditure includes the following disclosable items and items of significance

	Jun 21 $'000	Jun 20 $'000
Auditors' Remuneration (including GST) - PricewaterhouseCoopers New Zealand		
External Audit - Group	250	261
External Audit - Subsidiaries	144	-
Other - treasury related analysis and commentary	30	29
Other - taxation consulting services	30	
Other - assurance and other services*	94	35

*Includes expenditure related to half year review, trust deed and member register requirements provided to the Group and IT controls assurance provided to the subsidiary.

	Jun 21 $'000	Jun 20 $'000
Advertising and promotion	989	1,361
Information technology	1,269	819
Consulting	1,592	1,394
Communications	644	638
Travel	284	491
Premises - lease expenditure	1,727	1,659
Premises - other expenditure	810	736

4. EQUITY

The equity of the Credit Union comprises of Accumulated Comprehensive Revenue and Expense. The Trust Deed requires the Credit Union to maintain a minimum risk weighted capital ratio of 8%, as the Credit Union has a credit rating with an approved rating agency.

On 1 March 2021, Fitch Ratings services affirmed the rating of 'BB' whilst at the same time revised the outlook to stable on the long term issuer default rating. This is a change from the previous rating of 'BB' with a negative outlook. The capital ratio is calculated in accordance with the Deposit Takers (Credit Ratings, Capital Ratios and Related Party Disclosures) Regulations 2010. The Credit Union has a risk weighted capital ratio of **10.82**% as at 30 June 2021 (June 2020: 10.39%).

5. CASH AND CASH EQUIVALENTS

	Jun 21 $'000	Jun 20 $'000
Cash and on call deposits	33,957	32,719
Total cash and cash equivalents	33,957	32,719

All cash and cash equivalents are current assets.

6. TERM INVESTMENTS

	Jun 21 $'000	Jun 20 $'000
Term deposits - Banks	98,006	114,718
Total term investments	98,006	114,718

There is a restriction on withdrawing the deposits at Westpac NZ Ltd below the value of the settlement bond. The settlement bond is based on the extent the Group utilises the overnight bank settlement service via Banzpay. As at 30 June 2021 the settlement bond was $8,054k (June 2020: $8,054k). All term investments are current assets except for the settlement bond.

The Settlement Bond is an agreement between Credit Union Baywide, consented to by the Supervisor, whereby a sum of up to 3% of the Credit Union's total tangible assets is excluded from the Supervisor's Security Interest over those assets. In the event that the Credit Union is unable to settle its inter-bank requirements the Settlement Bond enables Banzpay to make the required payment.

7. OTHER INVESTMENTS

	Jun 21 $'000	Jun 20 $'000
Loan to Co-op Money NZ	-	3,362
Total other investments	-	3,362

On the 5 June 2019 the Credit Union entered into a term loan facility with Co-op Money NZ. The terms of this loan contain a number of conditions and restrictions on access to, use of, and repayment of, the funds. This loan was secured by way of a charge over Co-op Money NZ's assets under the terms of a Security Agreement. Subsequent to 30 June 2020 the loan facility was amended to extend the repayment terms and increase the total amount of funds available under the facility, and on 31 March 2021 the loan was transferred from Co-op Money to Banzpay (and eliminated on consolidation of the group).

8. PREPAYMENTS AND RECEIVABLES

	Jun 21 $'000	Jun 20 $'000
Sundry prepayments	259	228
Banking software	-	2,444
Receivables and Accrued income	2,180	34
Total prepayments and accrued income	2,439	2,705

Banking Software access rights are expensed over a 10 year period and $2,118k of this balance was non-current at 30 June 2020, at 30 June 2021 this balance was eliminated on consolidation with the acquisition of Banzpay (refer to note 14). The remainder of the balance of prepayments and accrued income are current assets.

9. MEMBERS' LOANS

	Note	Jun 21 $'000	Jun 20 $'000
a. Members' loans comprise:			
Personal loans		175,105	154,234
Home loans		147,706	195,213
Gross loans receivable		322,811	349,447
Provision for impairment	**10**	(4,316)	(4,974)
Net loans receivable		318,495	344,473
b. Loan maturity			
Current portion of loans		48,553	66,885
Non current portion of loans		269,942	277,588
Net loans receivable		318,495	344,473
c. Credit quality - security dissection			
Secured by first mortgages over real estate			
home loans insured by Kāinga Ora – Homes and Communities		8,260	12,327
over 80% LVR*		26,875	65,754
under 80% LVR*		112,210	117,126
Secured by Members' deposits		1,785	2,653
Secured by other assets **		65,845	98,024
Unsecured loans and overdrafts		107,836	53,563
Gross loans receivable		322,811	349,447

* LVR is the current loan balance as a percentage of the property valuation.
**Secured by other assets includes the use of motor vehicles, boats, personal guarantees, second and subsequent mortgages and insurance policies registered on the Personal Property Securities Register (PPSR) as security. This is not an exhaustive list. It is impracticable to provide a valuation of the collateral security held against loans because of the complexity and the potential volatility of the security values.

Loans are made in accordance with the lending policy of the Group (refer to note 21(b)). A provision for impairment has been made at the end of the reporting period (refer to note 10).

10. IMPAIRMENT OF MEMBERS' LOANS

Provision for impairment

a. **Individual impairment allowance**	**Note**	**Gross loans**	**Provision**	**Carrying value**
		$'000	**$'000**	**$'000**
Opening balance 1 July 2020		8,132	(3,127)	5,005
Increase in allowance		9,480	(5,513)	3,967
Bad debts written off		(3,783)	3,783	-
Unused allowance reversed		(6,307)	1,599	(4,708)
Closing balance 30 June 2021		7,521	(3,257)	4,264
Opening balance 1 July 2019		9,140	(5,263)	3,877
Increase in allowance		10,981	(8,012)	2,968
Bad debts written off		(8,802)	8,802	-
Unused allowance reversed		(3,187)	1,346	(1,841)
Closing balance 30 June 2020		8,132	(3,127)	5,005

b. **Collective impairment allowance**	**Jun 21**	**Jun 20**
	$'000	**$'000**
Opening balance	(1,847)	(2,401)
(Increase) / decrease in allowance	788	554
Closing balance	(1,059)	(1,847)
Total impairment allowance	(4,316)	(4,974)

The collective impairment allowance at 30 June 2021 includes $261k (June 2020: $783k) in relation to the additional economic risks that have come about due to the COVID–19 pandemic. This figure is an estimate, and involves significant judgment in the estimation of the amount. Refer note 2 n.(i).

10. IMPAIRMENT OF MEMBER'S LOANS (CONTINUED)

c. Loan status	Jun 21 $'000	Jun 20 $'000
Performing loans		
Neither past due nor individually impaired	302,438	322,327
Past due but not individually impaired		
1-10 days	3,158	3,518
11-20 days	2,055	4,790
21-30 days	592	2,215
Beyond 30 days	3,139	8,403
Total performing loans	311,382	341,253
Impaired assets		
Restructured loans	3,908	62
Individually impaired loans	7,521	8,132
Gross loans receivable	322,811	349,447
Individually impaired loans		
Up to 90 days	4,435	4,256
Beyond 90 days	3,086	3,876
Total individually impaired loans	7,521	8,132
Provision for specific impairment	(3,257)	(3,127)
Individually impaired loans carrying value	4,264	5,005

The vast majority of loans categorised as 1-10 days in arrears at 30 June 2021 $3,158k (June 2020: $3,518k) are loans to Members considered to be meeting their contractual repayment obligations. These loans are classified as in arrears due to the timing of their repayments.

Past due loans

Past-due loans are loans or similar facilities in arrears when a member has failed to make payment when contractually due.

Restructured loans

Means an impaired asset, for which:

(a) the original terms have been changed to grant the member(s) a concession that would not otherwise have been available, due to the counterparty's difficulties in complying with the original terms;

(b) the revised terms of the facility are not comparable with the terms of new facilities with comparable risks; and

(c) the yield on the asset following restructuring is equal to, or greater than, the institution's average cost of funds, or a loss is not otherwise expected to be incurred.

Restructured loans do not include loans which have received COVID-19 related temporary repayment relief.

Assets obtained by taking possession of collateral:	Jun 21 $'000	Jun 20 $'000
Property	-	75
Motor Vehicles	-	8

The Group's policy is to pursue a timely realisation of the collateral in an orderly manner. The Group does not use the non-cash collateral for its own operations.

11. PROPERTY, PLANT & EQUIPMENT

a. Classes of Property, plant, & equipment

	Note	Leasehold improve-ments $'000	Land & Buildings $'000	Equip-ment $'000	Furniture & fittings $'000	Motor vehicles $'000	Total $'000
Carrying amount 30 June 2021							
Cost		4,566	-	5,851	1,240	444	12,101
Accumulated depreciation		(3,336)	-	(5,022)	(852)	(277)	(9,487)
Carrying amount 30 June 2021		1,230	-	829	388	168	2,614
Carrying amount 30 June 2020							
Cost		3,318	1,636	2,576	822	542	8,894
Accumulated depreciation		(1,633)	(14)	(2,106)	(352)	(245)	(4,350)
Carrying amount 30 June 2020		1,685	1,622	470	470	297	4,544

b. Movements in carrying amounts

	Note	Leasehold improve-ments $'000	Land & Buildings $'000	Equip-ment $'000	Furniture & fittings $'000	Motor vehicles $'000	Total $'000
Carrying amount 01 July 2020		1,685	1,622	470	470	297	4,544
Acquisition on consolidation		-	-	114	22	-	136
Additions		20	-	553	14	-	587
Disposals		(79)	-	(3)	(35)	(44)	(161)
Transfer to available for sale assets	**13**	-	(1,603)	-	-	-	(1,603)
Depreciation expense		(397)	(19)	(305)	(83)	(85)	(889)
Carrying amount 30 June 2021		1,230	-	829	388	168	2,614
Carrying amount 01 July 2019		2,060	1,627	580	535	300	5,102
Additions		250	-	229	70	113	662
Disposals		(61)	-	(25)	(33)	(18)	(137)
Depreciation expense		(564)	(5)	(314)	(102)	(98)	(1,083)
Carrying amount 30 June 2020		1,685	1,622	470	470	297	4,544

There were no impairment losses in respect of property, plant, & equipment (June 2020: $nil). All Property, plant, & equipment are non current assets.

12 INTANGIBLE ASSETS

	Jun 21 $'000	Jun 20 $'000
a. Intangible assets - Software and securitisation programme		
Cost	30,914	5,610
Accumulated amortisation	(11,148)	(2,216)
Carrying amount	19,766	3,394
b. Movements in carrying amounts		
Balance at beginning of the year	3,394	2,664
Acquisition on consolidation	14,452	-
Additions	3,133	1,326
Disposals	-	-
Amortisation expense	(1,213)	(596)
Carrying amount at the end of the year	19,766	3,394

All intangible assets are non current assets.

13. AVAILABLE FOR SALE ASSETS

	Note	Jun 21 $'000	Jun 20 $'000
Available for sale investments		1,603	-
Comprising of:			
Co-op Money NZ Base Capital Notes			
Opening Balance		-	2,906
Additions		-	5,077
Transfer to Investment in associates	**14**	-	(7,983)
Closing balance		-	-
Land and Buildings			
Opening Balance		-	-
Transfer from Property Plant & Equipment	**11**	1,603	-
Closing balance		1,603	-

As at 30 June 2019 Co-op Money NZ Base Capital Notes were classified as 'available for sale' financial assets and were issued by the Co-op Money NZ Business Services Division Trust as Base Capital Notes (Capital Notes). These represented monies invested with the Co-op Money NZ Business Services Division Trust. The Capital Notes constituted unsecured obligations of the Co-op Money NZ Business Services Division Trust and ranked equally and without priority or preference among themselves. Capital Notes could only be sold or transferred to another Credit Union that was a member of the Co-op Money NZ Business Services Division Trust and with the consent of the Co-op Money NZ Business Services Division Trust Board of Directors.

There was no active market for these securities which have no guaranteed rate of return. The Credit Union measured Capital Notes at cost under the exemption in PBE IPSAS 29 *Financial Instruments: Recognition and Measurement* .

On 19 November 2019 the Group acquired the remaining Base capital notes (BCNs) of Co-op Money NZ. In this process the Group went from being a 53% owner of the equity interest in Co-op Money NZ to a 100% owner and its voting interest increased from 14.3% to 33.3%. At this point it was determined that the Group had significant influence over the financial and operating decisions of Co-op Money NZ and the investment would be measured using the equity method. Refer note 14.

Land and Buildings accounted for as available for sale assets are land and buildings being marketed for sale at the 30 June 2021 balance date.

The Credit Union reviews Available for Sale Assets for impairment at each reporting date. In determining whether an impairment loss should be recorded, the Credit Union makes judgements as to whether there is observable data indicating that there is a measurable decrease in the estimated future cash flows. Impairment losses are recognised in the Statement of comprehensive revenue and expense.

14. INVESTMENT IN ASSOCIATES

	Note	Jun 21 $'000	Jun 20 $'000
Opening Balance		7,886	-
Transfer from available for sale investments	13	-	7,983
The Group's share of total comprehensive income		(476)	(97)
Net assets of Co-op Money NZ		7,410	7,886
Fair value adjustment in asset values		311	-
Business disposal, sale to Banzpay Technology Holdings Limited		(7,721)	-
Closing balance		-	7,886
Proportion of ownership interest held by the Group in Co-op Money NZ		100%	100%
Proportion of voting rights held by the Group in Co-op Money NZ		33%	33%

On 19 November 2019 the Group acquired the remaining Base capital notes (BCNs) of Co-op Money NZ. In this process the Group went from being a 53% owner of the equity interest in Co-op Money NZ to a 100% owner and its voting interest increased from 14.3% to 33.3%. At this point it was determined that the Group had significant influence over the financial and operating decisions of Co-op Money NZ and the investment would be measured using the equity method.

The Group provided a lending facility to Co-op Money NZ. As at 31 March 2021 the outstanding balance was $2,200k (June 2020: $3,362k).

On 31 March 2021 the Group completed an entity restructure whereby the assets and operations of Co-op Money NZ were transferred to Banzpay, a wholly owned and controlled subsidiary of the Credit Union. The restructure is a business combination resulting in the acquisition of the assets of the Co-op Money NZ entities at their acquisition date fair value. Immediately prior to the business acquisition the investment in associate was revalued to the fair value of the investment resulting in a fair value adjustment of $311k.

The consideration paid for the business combination, which was achieved in stages, consists of the acquisition date fair value of the previously held investment in associate, less the acquired cash and cash equivalents, after adjusting for elimination adjustments on consolidation. The consideration is set out in the table below:

	$'000
Investment in Associate at 31 March 2021	7,721
Less Cash and Cash Equivalents acquired	(9,116)
Cash balance held with Banzpay (eliminated on consolidation)	7,462
Consideration Paid	**6,067**

Summarised financial information of Co-op Money NZ	**Mar 21**	**Jun 20**
ASSETS	**$'000**	**$'000**
Cash and Cash Equivalents	9,116	10,686
Investments	1,274	8,986
Intangible Assets	14,142	14,465
Other Assets	2,479	1,973
TOTAL ASSETS	**27,011**	**36,110**
LIABILITIES		
Deposits Received	12,193	18,350
Deferred Revenue	3,039	3,735
Borrowings	2,200	3,350
Other Liabilities	2,169	2,789
TOTAL LIABILITIES	**19,601**	**28,224**
Equity attributable to owners of the Group	**7,410**	**7,886**

REVENUE	**Mar 21**	**Jun 20**
Interest revenue	127	292
Interest expenditure	148	393
Net interest revenue	**(21)**	**(101)**
Banking Services Revenue	10,867	14,336
Other Revenue	2,225	776
Total Revenue	**13,071**	**15,011**
Expenditure	13,547	16,474
Net Surplus / (Deficit) From continuing operations	**(476)**	**(1,463)**
Net Surplus / (deficit) from discontinued operations	-	(205)
Total Comprehensive revenue of expense	**(476)**	**(1,668)**

14. INVESTMENT IN ASSOCIATES (CONTINUED)

Reconciliation of the above summarised financial information to the carrying amount of the investment in associate recognised in the consolidated statement of financial position. As at 30 June 2021 there was no net assets due to business disposal.

	Note	Mar 21 $'000	Jun 20 $'000
Net assets of associate		-	7,886
Proportion of the Group's ownership interest in the associate		100%	100%
Carrying amount of the Group's interest in the associate		-	7,886

	Mar 21	Jun 20
The Group's share of profit/(loss) from continuing operations	(476)	(97)
The Group's share of other comprehensive income	-	-
The Group's share of total comprehensive income	(476)	(97)
Fair value adjustment in asset values	311	-
Share of surplus / (deficit) of the investment in associate	(165)	(97)

15. TRADE AND OTHER PAYABLES

	Jun 21 $'000	Jun 20 $'000
Overnight settlements	1,637	7,001
Banzpay banking customer deposits	5,182	-
Trade payables	2,033	1,221
Employee entitlements	1,563	1,248
Sundry accrued expenses	2,379	812
Other payables	12,794	10,282

Non current employee entitlements at 30 June 2021 were $25k (June 2020: $36k). All other trade and other payables are current liabilities.

16. MEMBERS' DEPOSITS

	Jun 21 $'000	Jun 20 $'000
Call accounts	126,364	118,541
Call accounts not bearing interest	55,930	46,769
Total call account deposits	182,294	165,310
Term deposits - current	188,332	242,584
Term deposits - non current	31,136	37,623
Total term deposits	219,468	280,206
Total Members' deposits	401,762	445,517

Members’ deposits are secured by a first ranking equitable assignment by way of security over the whole of the Credit Union’s present and future undertaking, property, assets and revenues. The equitable assignment by way of security was granted in favour of Trustees Executors Limited, the Prudential Supervisor of the Credit Union, under the Replacement Trust Deed dated 18 December 2019.

The Credit Union has also granted to Trustees Executors Limited a security interest in all of its present and after-acquired personal property as additional security for the Members’ shares. Trustees Executors Limited has registered a financing statement under the Personal Property Securities Act 1999 in respect of the same. The grant of this security is per the Trust Deed dated 18 December 2019.

17. COMMITMENTS

a. Capital commitments

The Credit Union had no capital commitments at 30 June 2021 (June 2020: $nil).

b. Operating lease commitments

The Credit Union has the following operating lease commitments for properties occupied:

	Jun 21 $'000	Jun 20 $'000
Within 1 year	1,143	1,183
2-5 years	1,920	2,182
Over 5 years	813	1,193
	3,876	4,557

The Group leases 12 sites under non-cancellable operating lease agreements, as well as a number of sites on cancellable operating leases. The leases have varying terms and renewal rights (2021 - 2029). Lease expense is charged to the profit and loss (refer to note 3g).

The Supervisor has agreed to the Group leasing assets from Fuji Xerox Finance Limited that is a deemed security interest registered on the Personal Property Securities Register "PPSR". This security interest does not secure the payment or performance of an obligation of the Credit Union as it registers Fuji Xerox's interest in its own property being leased office photocopiers to protect ownership of that property under the PPSR.

c. Outstanding loan commitments

Loans and credit facilities approved but not disbursed or drawn at the end of the financial period:

	Jun 21 $'000	Jun 20 $'000
Loans approved but not yet disbursed	3,433	3,281
Undrawn overdraft and line of credit	260	280
	3,693	3,561

18. STANDBY BORROWING FACILITIES

	Jun 21 $'000	Jun 20 $'000
Uncommitted overdraft facility	-	-
Unused facility	-	-

The group has no external borrowing facilities

19. CONTINGENT LIABILITIES

There are no material contingent liabilities at 30 June 2021 (June 2020: $nil).

20. SECURITISATION

Prior to the Transfer of Engagements on 1 May 2019, Credit Union South operated a securitisation programme. The programme was novated across to the Credit Union on 1 May 2019 as part of the transfer process.

The Securitisation Programme was created by establishing a special purpose trust - Credit Union Warehouse Trust A ("the Trust") that can purchase loans from the Credit Union.

As a result of structural constraints on the novation of the scheme to the new merged Group, the Credit Union repurchased all securitised receivables and cancelled the Westpac facility on 28 June 2019. The Credit Union has the ability to establish a new Warehouse Trust under the existing Securitisation Programme. As a part of this process a new borrowing facility would be established with Westpac and the securitisation programme will continue with the new special purpose vehicle (the New Trust). At year end there were no balances in the New Trust and there is no intention to disestablish the securitisation programme in the next financial year.

21. 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. The Banzpay board maintain a risk management framework which includes the reporting of material risks to the Credit Union. Where relevant the risks are captured in the risk management framework 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

The Group has undertaken the following strategies to minimise the risks arising from financial instruments.

a. Market risk

The Group is subject to interest margin risks. This is where the return on loans provided to Members (i.e. interest rate on loans) falls relative to the cost of borrowing funds from Members (paid out in the form of dividends / interest).

The risk is managed by maintaining a balanced "on book" strategy by ensuring the net interest rate gaps between financial assets and liabilities are not excessive. These gaps are measured monthly to identify any large exposures to interest rate movements and to rectify the excess through the use of financial instruments, including derivatives. The Group's exposure to interest rate risk (refer to note 24) details the interest rate change profile.

The table below summarises the sensitivity of financial assets and financial liabilities to a change in interest rate risks using a reasonable possible change in these rates. In doing the calculation the assumptions applied are that:

> Interest rate changes would be applied in accordance with the repricing profile
> The rate change would be as at the beginning of the period and no other rate changes would be effective during the period
> Term deposits reprice to the new interest rate at the term maturity, or be replaced by deposits with similar terms and rates
> All loans be repaid in accordance with the contractual repayment terms and replaced with loans of a similar rate and term
> The value and mix of call savings to term deposits will be unchanged
> The value and mix of personal loans to home loans will be unchanged
> No change in basis risk

As such the impact on profit and equity does not illustrate the change in the carrying value.

	30 June 2021			30 June 2020		
	Carrying Value	-1% Profit and Equity	+1% Profit and Equity	Carrying Value	-1% Profit and Equity	+1% Profit and Equity
Financial Assets	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Cash & cash equivalents	33,957	(340)	340	32,719	(327)	327
Term deposits - Banks	98,006	(695)	695	114,718	(845)	845
Term deposits - Co-op Money NZ	-	-	-	-	-	-
Loan - Co-op Money NZ	-	-	-	3,362	(34)	34
Members' loans	318,495	(1,420)	1,420	344,473	(1,698)	1,698
		(2,455)	2,455		(2,904)	2,904
Financial Liabilities						
Members' deposits - call	182,294	1,264	(1,264)	165,310	1,185	(1,185)
Members' deposits - term	219,468	1,115	(1,115)	280,206	1,423	(1,423)
Trade payables	11,157	52	(52)	3,282	-	-
		2,431	(2,431)		2,608	(2,608)
Total Increase/(Decrease)		(24)	24		(296)	296

There has been no policy change to the Group's exposure to market risk or the way the entity manages market risk in the reporting period.

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

b. Credit risk - Loans

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the Group incurring a financial loss. This usually occurs when borrowers fail to repay their loans.

The Group has a credit policy for loans to manage credit risk. The key points are:

- > Loans may only be made to Credit Union Members
- > Credit assessment and approval of loans and facilities for acceptable risk and security requirements
- > Specifying the level and type of security required for a loan (LVR requirements for home loans)
- > Setting exposure limits for individual borrowers
  - > Limiting unsecured loans to 5% of the value of Group assets and to 10 years
  - > Limiting secured loans to 10% of the value of Group assets and to 30 years
- > Reassessment and review of the credit exposures on loans and facilities
- > Monitoring and reviewing loans in arrears
- > Establishing appropriate provisions for the impairment of loans
- > Maintaining and reviewing the performance of debt recovery
- > Regularly monitoring compliance with the above policies as part of the internal audit scope.

The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken. All secured loans require collateral security which the Group can enforce by disposing of the secured assets in the event of default. Unsecured loans are made available to Members who meet more strict lending criteria.

Daily reports monitor the loan repayments to detect delays in repayments and recovery action is undertaken after 7 days if not rectified. For loans where repayments are not being met after normal internal collection procedures, external consultants may be engaged to conduct recovery action. The exposures to losses arise predominantly from personal loans. Refer to note 25(a) for maximum credit risk exposure.

The significant accounting judgements that are related to the determination of the provision for impairment of loans are set out in note 2a.

c. Credit risk – Debt securities, term investments, cash and cash equivalents

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

The Group has a credit policy to manage credit risk of financial instruments. The key points are:

- > Maintaining and reviewing an authorised investment criteria which includes a minimum credit rating requirement
- > Specified exposure limits for financial instruments covering:
  - > counterparty limits
  - > maximum investment holdings
  - > maximum term limits
- > Ensuring the Trust Deed limits set out below are met at all times:
  - > Not permitting the aggregate of Secured Investments, Unsecured Investments and Listed Securities, to exceed 15% of Total Tangible Assets.
  - > Not permitting the aggregate of Unsecured Investments to exceed 3% of Total Tangible Assets, except as may otherwise be agreed with the Supervisor in respect of any advances to subsidiaries.

The Group has a preference for placing investments with New Zealand registered banks on terms not greater than 2 years. In addition the amount required for transactional banking services and derivative collateral is placed with Banzpay. Where investments have been transferred into the Credit Union through an amalgamation and are not with a New Zealand registered bank then the Group's preference is to liquidate these assets.

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

d. Credit risk - Geographic concentration

The concentration of loans and deposits from Members in an area or areas can create a risk from those groups of Members having a similar likelihood of default due to common underlying factors, e.g. economic sector or geographical location.

The geographic concentration of the loan portfolio as at 30 June 2021 is shown in note 25(b).

e. Liquidity risk

Liquidity risk is the risk that the Group may encounter difficulties raising funds to meet commitments associated with financial instruments, e.g. deposit repayments. The Group's policy is to maintain adequate cash reserves and committed credit facilities so as to meet member withdrawal demands when requested.

Liquidity risk inherent in the expected maturity profile in note 23 is managed by:

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

Under the Credit Union's Trust Deed the minimum liquidity ratio is 8% and the Group's policy is to maintain a liquidity ratio of at least 12%. The ratio is checked daily. Should the liquidity ratio fall below the policy limit then the Group will obtain new deposits, utilise borrowing facilities and assess what assets can be sold. The Group had a liquid asset ratio of **16.4**% at 30 June 2021 (June 2020: 18.7%).

The ability to demand repayment of all member loans provides the Group with ready access to funds if some or all Members' deposits required repayment. The Group also has the right at any time to require a sixty day notice period for repayment of Members deposits.

The contractual and expected maturity profiles of the financial assets and liabilities are set out in note 22 and 23.

In the case of loans and deposits, the contractual maturity profile table shows the period over which the principal outstanding plus future interest receivable and future interest payable will be repaid assuming contractual repayments are maintained.

The expected maturity profile table shows the period over which the loan principal outstanding plus future interest receivable and deposits outstanding plus future interest payable is expected to be repaid based on historic loan repayments and deposit reinvestment rates and is subject to change in the event that current repayment conditions vary.

The primary difference between the contractual and expected maturity profiles are the expected early repayment of loans of approximately 22% (June 2020: 25%) and an expected Members deposit reinvestment rate of approximately **79**% (June 2020: 80%).

Future interest receivable and future interest payable represent the expected future interest cashflows arising from the contractual and expected obligations of the underlying monetary assets and liabilities respectively.

f. Capital adequacy management

The capital of the Credit Union is its accumulated comprehensive revenue and expense. Refer to note 4. The Capital Ratio covenant under the Trust Deed has been complied with throughout the year.

As at 30 June 2021, the Credit Union's regulatory risk weighted Capital Ratio was **10.82**% (June 2020: 10.39%).

22. LIQUIDITY RISK - Contractual maturity profile

As at 30 June 2021	On Demand $'000	Within 1 Month $'000	1 - 3 Months $'000	3 - 6 Months $'000	6 - 12 Months $'000	1 to 2 Years $'000	2 to 5 Years $'000	Over 5 Years $'000	Total $'000
Financial assets									
Cash and cash equivalents	33,957	-	-	-	-	-	-	-	33,957
Term deposits - Banks	-	22,094	30,129	30,661	7,289	64	193	8,376	98,806
Loan - Co-op Money NZ	-	-	-	-	-	-	-	-	-
Members' loans	-	7,607	14,686	21,317	39,287	71,642	147,503	179,878	481,919
Investments in Associates	-	-	-	-	-	-	-	-	-
Total financial assets	33,957	29,701	44,815	51,979	46,575	71,706	147,695	188,253	614,682
Financial liabilities									
Trade payables	-	2,033	-	-	-	-	-	-	2,033
Overnight settlements	1,637	-	-	-	-	-	-	-	1,637
Members' deposits	177,360	24,995	44,848	63,822	61,312	26,191	6,320	-	404,848
Total financial liabilities	178,996	27,028	44,848	63,822	61,312	26,191	6,320	-	408,517
Loan commitments	3,693								
Cumulative liquidity (shortfall)/surplus	(148,732)	(146,060)	(146,093)	(157,936)	(172,672)	(127,157)	14,219	202,472	

As at 30 June 2020	On Demand $'000	Within 1 Month $'000	1 - 3 Months $'000	3 - 6 Months $'000	6 - 12 Months $'000	1 to 2 Years $'000	2 to 5 Years $'000	Over 5 Years $'000	Total $'000
Financial assets									
Cash and cash equivalents	32,719	-	-	-	-	-	-	-	32,719
Term deposits - Banks	-	25,339	37,373	41,414	3,075	64	193	8,376	115,834
Loan - Co-op Money NZ	-	12	24	36	1,267	2,203	-	-	3,540
Members' loans	-	8,342	15,198	22,721	40,942	70,808	130,279	241,535	529,826
Investments in Associates	-	-	-	-	-	-	-	7,886	7,886
Total financial assets	32,719	33,693	52,595	64,171	45,284	73,075	130,472	257,797	689,805
Financial liabilities									
Trade payables	-	1,248	-	-	-	-	-	-	1,248
Overnight settlements	7,001	-	-	-	-	-	-	-	7,001
Members' deposits	160,782	31,145	53,445	83,977	83,133	31,358	9,074	-	452,913
Total financial liabilities	167,782	32,393	53,445	83,977	83,133	31,358	9,074	-	461,161
Loan commitments	3,561								
Cumulative liquidity (shortfall) / surplus	(138,624)	(137,324)	(138,174)	(157,980)	(195,829)	(154,111)	(32,714)	225,083	

Balances may differ to the Consolidated Statement of Financial Position as the cash flows above are undiscounted.
The Credit Union manages liquidity on expected maturities, not contractual, as set out in note 21(e).

23. LIQUIDITY RISK - Expected maturity profile

As at 30 June 2021	Within 1 Month $'000	1 - 3 Months $'000	3 - 6 Months $'000	6 - 12 Months $'000	1 to 2 Years $'000	2 to 5 Years $'000	Over 5 Years $'000	Total $'000
Financial assets								
Cash and cash equivalents	33,957	-	-	-	-	-	-	33,957
Term deposits - Banks	22,094	30,129	30,661	7,289	64	193	8,376	98,807
Loan - Co-op Money NZ	-	-	-	-	-	-	-	-
Members' loans	18,702	32,062	50,805	89,055	99,512	62,899	15,506	368,542
Investments in Associates	-	-	-	-	-	-	-	-
Total financial assets	74,753	62,192	81,467	96,345	99,577	63,093	23,882	501,306
Financial liabilities								
Trade payables	2,033	-	-	-	-	-	-	2,033
Overnight settlements	1,637	-	-	-	-	-	-	1,637
Members' deposits	12,227	23,986	41,697	95,986	90,154	61,148	94,705	419,904
Total financial liabilities	15,897	23,986	41,697	95,986	90,154	61,148	94,705	423,574
Loan commitments	3,693							
Cumulative liquidity (shortfall)/surplus	55,163	93,369	133,139	133,497	142,920	144,864	74,041	

As at 30 June 2020	Within 1 Month	1 - 3 Months	3 - 6 Months	6 - 12 Months	1 to 2 Years	2 to 5 Years	Over 5 Years	Total
Financial assets								
Cash and cash equivalents	32,719	-	-	-	-	-	-	32,719
Term deposits - Banks	25,339	37,373	41,414	3,075	64	193	8,376	115,835
Loan - Co-op Money NZ	12	24	36	36	3,421	-	-	3,528
Members' loans	16,078	30,230	48,133	81,848	105,577	88,811	36,240	406,915
Investments in Associates	-	-	-	-	-	-	7,886	7,886
Total financial assets	74,148	67,627	89,583	84,959	109,062	89,004	52,502	566,882
Financial liabilities								
Trade payables	1,248	-	-	-	-	-	-	1,248
Overnight settlements	7,001	-	-	-	-	-	-	7,001
Members' deposits	10,209	19,024	38,272	91,367	116,438	71,580	115,551	462,440
Total financial liabilities	18,457	19,024	38,272	91,367	116,438	71,580	115,551	470,689
Loan commitments	3,561							
Cumulative liquidity (shortfall) / surplus	52,129	100,732	152,043	145,635	138,259	155,683	92,635	

Balances may differ to the Consolidated Statement of Financial Position as the cash flows above are undiscounted.

24. INTEREST RATE RISK

Interest repricing profile

	Floating interest rate		Fixed interest rate maturing in: 0 to 6 months		6 to 12 months		1 to 2 years		2 to 5 years		Over 5 years		Non-interest		Total	
	Jun-21	Jun-20	**Jun-21**	Jun-20	**Jun-21**	Jun-20	**Jun-21**	Jun-20	**Jun-21**	Jun-20	**Jun-21**	Jun-20	**Jun-21**	Jun-20	**Jun-21**	Jun-20
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Financial assets																
Cash & cash equivalents	**33,957**	32,719	-	-	-	-	-	-	-	-	-	-	-	-	**33,957**	32,719
Term deposits - Banks			**90,719**	111,715	**6,005**	3,002	**1,281**	-	-	-	-	-	-	-	**98,006**	114,717
Investment - Co-op Money NZ	-	3,362	-	-	-	-	-	-	-	-	-		-	-	-	3,362
Members' loans	**53,260**	78,452	**91,883**	93,219	**79,230**	85,821	**81,903**	73,262	**12,219**	13,720	-		-	-	**318,495**	344,474
Investments in Associates	-	-	-	-	-	-	-	-	-	-	-	-	-	7,886	-	7,886
Total financial assets	**87,217**	114,532	**182,602**	204,934	**85,236**	88,823	**83,184**	73,262	**12,219**	13,720	-	-	-	7,886	**450,457**	503,158
Financial liabilities															-	-
Members' deposits - call	**126,364**	118,541	-	-	-	-	-	-	-	-	-	-	**55,930**	46,769	**182,294**	165,310
Members' deposits - term	-	-	**128,753**	162,969	**59,922**	80,230	**25,074**	29,082	**5,719**	7,925					**219,468**	280,206
Trade payables	**5,182**	-	-	-	-	-	-	-	-	-	-	-	**5,975**	3,282	**11,157**	3,282
Overnight settlements	-	-	-	-	-	-	-	-	-	-	-	-	**1,637**	7,001	**1,637**	7,001
Total financial liabilities	**131,546**	118,541	**128,753**	162,969	**59,922**	80,230	**25,074**	29,082	**5,719**	7,925	-	-	**63,541**	57,052	**414,556**	455,799
Total mismatch	**(44,329)**	(4,009)	**53,849**	41,965	**25,314**	8,593	**58,109**	44,180	**6,500**	5,795	-	-	**(63,541)**	(49,166)	**35,901**	47,359

25. OTHER CREDIT RISKS

a. Maximum credit risk exposure

The Group's maximum credit risk exposure, without taking into account the value of any collateral or other security, in the event other parties fail to perform their obligations under financial instruments in relation to each class of recognised financial asset, is the carrying amount of those assets as indicated in the Statement of Financial Position and any loan commitments not yet disbursed.

	Jun 21 $'000	Jun 20 $'000
Cash and cash equivalents	33,957	32,719
Term investments	98,006	114,718
Members' loans	318,495	344,473
Other investments	-	3,362
Total credit risk	450,458	495,272
Unrecognised loan commitments	3,693	3,561
Maximum credit risk	454,151	498,833

For details on collateral held as security against Members' loans refer to note 9. No collateral is held for cash and cash equivalents or term investments.

b. Concentrations of credit risk

The Group minimises concentrations of credit risk in relation to loans by undertaking transactions with a large number of Members. Credit risk is currently managed to reduce the exposure to potential failure of counterparties to meet their obligations under the contract or arrangement. Accordingly, loans are concentrated in and limited to the area of the 'common bond' and consequently the Group's lending is almost exclusively to individuals residing within New Zealand. The table below outlines the geographic concentration of risk, based on NZ Post Office districts, greater than 4% in either current or prior year-end.

	Jun 21 $'000	Jun 21 %	Jun 20 $'000	Jun 20 %
Auckland City	39,356	12%	30,877	9%
Christchurch City	33,017	10%	39,587	11%
Hastings District	14,330	4%	14,815	4%
Lower Hutt City	12,117	4%	15,187	4%
Napier City	15,836	5%	20,765	6%
Rotorua District	10,009	3%	13,202	4%
Tararua District	10,855	3%	13,518	4%
Whanganui District	16,038	5%	18,964	5%

25. OTHER CREDIT RISKS (CONTINUED)

c. Counterparty exposure

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

	Number of counterparties	
	Jun 21	**Jun 20**
	Assets	Assets
Greater than 100% of equity	-	-
Between 90% and 100% of equity	-	-
Between 80% and 90% of equity	-	-
Between 70% and 80% of equity	-	-
Between 60% and 70% of equity	1	-
Between 50% and 60% of equity	1	2
Between 40% and 50% of equity	-	1
Between 30% and 40% of equity	2	2
Between 20% and 30% of equity	-	-
Between 10% and 20% of equity	1	2

d. Members' loans

The Group loan agreements provide that any and all deposits may be used to offset an individual loan to the limit of their liability. Under the Group rules, the maximum indebtedness and repayment terms of a member shall not, without the prior consent of the Registrar, exceed the following limits:

Unsecured Loan 5% of the value of the assets of the Group and 10 Years
Secured Loan 10% of the value of the assets of the Group and 30 Years

	Jun 21	**Jun 20**
Loans to individual or related groups of Members which exceed 10% of equity	Nil	Nil
The proportion of loans owed in aggregate by the six largest debtors at period end was:	1.12%	1.02%
The Group offers a short term overdraft facility which Members utilise from time to time. The amount drawn under this facility was:	$464k	$280k

There are no known concentrations of Member's Loans to individuals employed in any particular industry.

26. CONCENTRATION OF FUNDING

The Group's funding is predominantly derived from its Members' deposits. Accordingly, the funding is concentrated in and limited to the area of the 'common bond' and consequently the Group funding is almost exclusively from individuals residing within New Zealand. The funding from Members is recorded as Members' Deposits in the Statement of Financial Position. The table below outlines the geographic concentration of funding, based on NZ Post Office districts, greater than 4% in either current or prior year-end.

	Jun 21	**Jun 21**	**Jun 20**	**Jun 20**
	$'000	**%**	**$'000**	**%**
Central Hawkes Bay District	18,789	5%	18,058	4%
Dunedin City	22,197	6%	22,173	5%
Hastings District	60,877	15%	64,467	15%
Invercargill City	18,565	5%	19,339	4%
Lower Hutt City	14,116	4%	19,477	4%
Napier City	90,234	23%	97,477	22%

pwc

27. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES AND CLASSIFICATIONS

Fair value has been determined on the basis of the present value of expected future cash flows under the terms and conditions of each financial asset and financial liability. The significant assumption used in determining the cash flows is that the cash flows will be consistent with the contractual cash flows under the respective contracts. The information is only relevant to circumstances at balance date and will vary depending on the contractual rates applied to each asset and liability, relative to market rates and conditions at the time. No assets held are regularly traded by the Group.

	Jun 21 Fair Value $'000	Jun 21 Carrying Value $'000	Jun 20 Fair Value $'000	Jun 20 Carrying Value $'000
Financial assets				
Loans and receivables (amortised cost)				
Members' loans (net of provision)	319,513	318,495	345,368	344,473
Total financial assets	**319,513**	**318,495**	**345,368**	**344,473**
Financial liabilities				
Financial liabilities at amortised cost				
Members' deposits	401,254	401,762	444,223	445,517
Total financial liabilities	**401,254**	**401,762**	**444,223**	**445,517**

The fair value estimates were determined by the following methodologies and are fair valued according to the following hierarchy.

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities.
Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices).
Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets - Members loans (Level 3)

Members' loans - Personal
As detailed in the accounting policies, personal loans are carried at amortised cost after providing for impairments. The carrying value approximates fair value because the loan periods are relatively short and can be changed to "on demand".

Members' loans - Home loans
These loans are comprised of a mix of floating and fixed rate loans. The carrying value of home loans with floating interest rates approximates the fair value. The fair value of home loans with fixed interest rates is calculated by discounting the determined cashflows at the relevant benchmark interest rate prevailing at the reporting date.

Financial liabilities - Members' deposits (Level 2)

Call or short term
The fair value of Members' deposits at call approximates the carrying value due to the short-term nature of the instruments.

Term deposits
The cash flows are determined and then discounted at the relevant benchmark interest rate prevailing at the reporting date.

28. CASH FLOW STATEMENT RECONCILIATION

Reconciliation of operating (deficit) / surplus to operating cash flows	Jun 21 $'000	Jun 20 $'000
Operating (deficit)/ surplus	3,442	(396)
Non cash items		
Depreciation	889	1,082
Amortisation	1,213	597
Bad & impaired loan expense (excluding debt recoveries)	3,125	6,111
Share of (surplus) / deficit of the investment in associate	165	97
Changes in assets and liabilities		
Decrease / (Increase) in Members' loans	25,282	36,374
(Decrease) / Increase in Members' deposits	(46,996)	(5,445)
Decrease / (Increase) in term investments	17,537	(25,505)
Decrease / (Increase) in prepayments and accrued income	1,484	246
Decrease / (Increase) in accrued interest on loans and investments	(1,976)	(196)
(Decrease) / Increase in accrued interest on member's deposits	(1,672)	(1,120)
(Decrease) / Increase in trade and other payables	(984)	(492)
Net operating cash flows	1,509	11,353

29. RELATED PARTY TRANSACTIONS

	Jun 21 $'000	Jun 20 $'000
Key management is defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including Directors and the Executive team of the Group.		
Deposits owing to key management at balance date	374	639
Loans owing from key management at balance date	13	4
Interest expense paid to key management during the period	3	8
Interest income received from key management during the period	1	12

All key management deposits and loans are made at the same rates and terms as for other Members. There are no impairment provisions against any of the loans.

As at 30 June 2021 A Connolly, G Earle, and G Travis were directors of Banzpay.

	Jun 21 $'000	Jun 20 $'000
Co-op Money NZ		
- various service charges paid	6,966	7,219
The amount owing to Co-op Money NZ at the end of the period was:		
Payable for various service charges	-	551
The amount owing by Co-op Money NZ at the end of the period was:		
Co-op Money Call and Transaction accounts	-	15,248
Co-op Money NZ Loan	-	3,362
Co-op Money Base Capital Notes (carrying amounts - see notes 13 and 14)	-	7,886

In addition, the carrying value of the equity investment in Co-op Money NZ is disclosed in note 14

Amounts payable and receivable relating to operating expenses and commissions are expected to be settled within one month of balance date and are unsecured and non interest bearing. No guarantees have been given or received. There are no provisions for doubtful debts relating to related party receivables.

The number of key management personnel at 30 June 2021 was **5** (June 2020: 5)

Key management remuneration for the period:	Jun 21 $'000	Jun 20 $'000
Short term employee benefits - Directors	308	454
Short term employee benefits - Executive	1,097	1,084
Post employment benefits - Executive	35	25
Total key management remuneration	1,440	1,563

pwc

30. COVID-19 PANDEMIC

In response to the initial COVID-19 Pandemic, the New Zealand Government implemented COVID-19 Alert Level 4 between 25 March 2020 and 27 April 2020. This alert status required a range of measures across New Zealand including restrictions on individuals and businesses, and was followed by a gradual relaxing of restrictions.

The Group was an essential service and provided services to members remotely via the contact centre and digital channels. Branches provided limited face to face services during level 4 and 3 and supported remote channels when closed to the public. Alert levels were subsequently reduced, and the country was moved to COVID-19 Alert Level 1 on 8 June 2020.

The table below outlines the main impacts the COVID-19 has had on the Group:

Loan Repayment Relief	The Group supported members adversely impacted by COVID-19 by offering deferred payment arrangements within approved criteria. This support allowed members time to assess the impact of COVID-19 on their individual circumstances and adjust accordingly.
Impairment of Member Loans	The Group raised a provision for impairment of member loans to reflect the expected increase in credit losses related to COVID-19. At 30 June 2021 the value of this provision was $261k (June 2020: $783k). The impact of COVID-19 on the economy, businesses, and consumers is uncertain and actual credit losses may differ to the impairment assessment.
Team members	The majority of team members worked remotely or supported the branch sites under reduced opening hours during the lock down period.
Investment in Subsidiary	Banzpay was impacted by COVID-19 as a result of reduced card and ATM transactions occurring during lockdown.

In the 2021 financial year, the majority of the period was conducted under "Level 1" alert level conditions. There have been three occurrences where the Auckland alert level has been raised to Level 3, and Level 2 for the rest of the country, and one occurrence where the Wellington alert level was raised to Level 2 and remained at Level 1 for the rest of the country.
The Group did not experience any significant adverse impact from the increased COVID-19 Alert levels and has remained so for the remainder of the reporting period.

31. SUBSEQUENT EVENTS

On 9 July 2021 entered into an agreement for the sale and purchase of real estate. The sale related to a property classified as held for sale and the sales proceeds approximated the carrying value as at 30 June 2021. The sale was settled on 22 July 2021 and the Group became a tenant of the property.

On 17 August 2021 the New Zealand Government increased the COVID-19 Alert status to Level 4 for all of New Zealand due to COVID-19 transmission being found in the community. After accessing government assistance available to it, the Group did not experience any significant adverse impact from the 2020 country wide Alert levels, and is not expecting significant impacts of the renewal of these. No adjustment for the raised alert levels has been made as this is treated as a non-adjusting subsequent event.

Independent auditor's report

To the Members of Credit Union Baywide

Our opinion

In our opinion, the accompanying consolidated financial statements of Credit Union Baywide (the Credit Union), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 30 June 2021, its financial performance and its cash flows for the year then ended in accordance with Public Benefit Entity Standards.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 30 June 2021;
- the consolidated statement of comprehensive revenue and expense for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the *International Code of Ethics for Professional Accountants (including International Independence Standards)* issued by the International Ethics Standards Board for Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Group in the areas of half year review, members register reporting, supervisor reporting, treasury related analysis and commentary and reporting on the design and operating effectiveness of information technology controls in the Flexcube banking system. In addition, certain partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the Group. These matters have not impaired our independence as auditor of the Group.

Key audit matters

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

Description of the key audit matter	How our audit addressed the key audit matter
Recoverability of members loans Members loans, as disclosed in Note 9 to the consolidated financial statements, represent the Credit Union's core activity and is a significant asset. The Credit Union is exposed to credit losses from overdue loans and loans in default. Determining an appropriate provision for impairment on these members loans, as disclosed in Note 10 to the consolidated financial statements, is an area of significant management estimation and judgement. We consider this a key audit matter due to the judgement involved regarding the recoverability of members loans and the related provision for impairment. Management determine an individual impairment allowance provision, and for those loans not specifically provided for, a collective impairment allowance. In determining the individual impairment allowance, management estimate the potential impairment based on individual circumstances of each loan, including the length of time a loan has been in arrears and the value and nature of security held. The collective impairment allowance is based on a formula developed by the Credit Union. This provision and formula are compared to write-offs and adjusted when necessary. The Credit Union has concluded that this formula remains appropriate.	Our audit procedures included the following: • We obtained an understanding of the lending process and particularly the process for assessing the recoverability of members loans and the calculation of the provision for impairment and obtained an understanding of relevant controls for impairment assessment and provisioning of members loans, to ensure that impairment allowances are recognised in a timely manner. • To gain comfort over the approval control for loans, we selected a sample of new loans issued, and inspected the loan agreement, security provided (including assessing the valuation of the security) and other available information to determine whether key new loan data inputs were correctly input into the system. • We obtained a sample of management's monthly reviews of the loan book and associated impairment allowances to ensure appropriate review of the loan book and exposures has been undertaken by the Board throughout the year. For the individual impairment allowance model, we: • Reperformed management's calculation of the individual impairment allowance for individual loans based on the Board approved percentages and based on the ageing of loan arrears. • Assessed the judgements made by management in any decisions to adjust the calculated provision from the standard ageing percentages and concluded that overall adjustments from the standard ageing percentages were not material. For the collective impairment allowance model, we: • Recalculated the allowance based on the input factors (ageing and security profile) identified by management. • Assessed the judgements made by management regarding the assumptions used, including challenging the appropriateness of those assumptions. • Compared history of write-offs to provisioning to ensure that the impairment provisioning is supported by the history of write-offs. We have no material matters to report.

Description of the key audit matter	How our audit addressed the key audit matter
Restructure of operations of Banzpay	
The Credit Union restructured the operations of Banzpay into a new subsidiary (Banzpay Technology Holdings Limited) from 1 April 2021. This means that from 1 April 2021 the Credit Union fully controls the operations of Banzpay as compared to the significant influence which existed over the previous Banzpay (formerly Co-op Money New Zealand) entity up until 31 March 2021. This is disclosed in Note 14 to the consolidated financial statements. The allocation of the consideration in this transaction is an area of significant management estimation and judgement therefore we consider this to be a key audit matter. Management have considered the transaction and performed a detailed analysis to recognise the assets and liabilities of Banzpay at fair value.	Our audit procedures included the following • Obtaining an understanding of the process used by management to recognise this transaction. • Reviewing the legal contract and documents relating to this transaction. • Reviewing the detailed analysis performed by management to recognise the assets and liabilities of Banzpay at fair value. • Assessing the judgements made by management regarding the assumptions used, including challenging the appropriateness of those assumptions. • Ensuring the treatment of this transaction is in line with the relevant accounting standards. We have no material matters to report.

Our audit approach

Overview

Overall group materiality: $4.7 million, which represents approximately 1% of total assets.

The Group is an asset-based organisation managing the assets of its members for their benefit. The Group generates the majority of its total operating revenue from interest on these assets. We chose total assets as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark.

As reported above, we have two key audit matters, being:

- Recoverability of members loans
- Restructure of operations of Banzpay

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual report, but does not include the consolidated financial statements and our auditor's report thereon. The Annual report is expected to be made available to us after the date of this auditor's report.

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

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

When we read the other information not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Directors and use our professional judgement to determine the appropriate action to take.

Responsibilities of the Directors for the consolidated financial statements

The Directors are responsible, on behalf of the Credit Union, for the preparation and fair presentation of the consolidated financial statements in accordance with Public Benefit Entity Standards, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

A further description of our responsibilities for the audit of the consolidated financial statements is located at the External Reporting Board's website at:

https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-1/
This description forms part of our auditor's report.

Who we report to

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

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants — Napier
27 September 2021