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2021 ANNUAL REPORT

CREDIT UNION AUCKLAND Inc

Trading as NZCU AUCKLAND

Chairman's Report

It is my pleasure as Vice-Chairman to present the 56th Annual Report for Credit Union Auckland Incorporated on behalf my fellow Directors. The 2020/21 year has been difficult year owing to the Covid situation and peoples' reluctance to borrow owing to the uncertainty of the market. On a positive note, I am pleased to say that the Board, management and staff have risen to that challenge of continuing to provide Members with the products and services they require to maintain their lifestyle.

The Board is extremely proud of the way our team served our membership under difficult circumstances whilst also ensuring their own health and safety as well those of our valued Members.

Financial

Our financial result was a loss of -$81,925 for the year. The loss was the result of refunding the wage subsidy we received in May 2020. On review the directors believed that the income loss during the period was marginal and believed prudent course of action was to return the wage subsidy. The Credit Union experienced growth in the last 3 months of the year indicating strong support for your credit union. In conjunction with Management, there has been scrutiny of all costs associated with the organisation and the Board has regularly challenged management in that respect. While your Credit Union is not-for-profit, we do need to make some profit so that we can continue to reinvest in the business to provide lower cost services for Members.

Although Covid-19 has had a significant impact on the world I am pleased to report that your Credit Union has absorbed the financial impact and remains in a strong position with Reserves of $3.179m and all our ratios in excess of the Reserve Bank requirements.

Banzpay

During the year Co-op Money NZ, the supplier of our data processing systems was renamed Banzpay. The computer system installed in 2018 is still causing some issues resulting in services not being available. Our management team are actively pursuing Banzpay to improve the system.

Regulation

Government policies and regulations have continued to impose rules and additional costs on the Credit Union Movement. On 1st December 2021, the amended Credit Contract and Consumer Finance Act comes into force. According to the government this act was designed to give greater protection to borrowers. However, for all the good intentions of the politicians the CCCFA has imposed stringent conditions on lenders, particularly the changes to the Responsible Lending Code. Under this Code the Credit Union must collect more information from the potential borrower to ensure they can afford their loan. However, the Friendly Societies & Credit Unions Act requires the Credit Union to act in the

best interest of its Members. Your Credit Union will combine these two pieces of legislation for the good of the Member and the Credit Union.

Many of regulations imposed on Credit Unions and other mutuals are not imposed on banks or other financial organisations to our disadvantage. The board decided the Credit Union should join CUBS NZ. CUBS NZ is an organisation to support customer-owned, mutual and charitable financial sector in New Zealand. One of the aims of CUBS is to provide representation to the government and officials on behalf of the customer owned financial organisation.

Governance

During the year just completed, your Board held 12 monthly meetings and a day-long strategic planning session. As well, the Credit Committee, Remuneration, Audit, Risk and Compliance, Education Committee and Nomination Committees all met in addition to the normal Board meetings. During the lockdowns the Board meet regularly to review the Credit Union's operations and to ensure we were providing the safest environment we could for our staff and Members while protecting our finances. I thank the Board for their commitment during this period.

A special thanks to Doug McLaren and Teresa Davies who resigned from the board during the year. Thank you, Doug and Teresa for your many years of service to our Credit Union. In June we welcomed Sasha Lockley as an independent director. Sasha is experienced in the financial services industry. In her short time on the board Sasha contributions have been welcome by the board. Unfortunately, Sasha has accepted another position and will leave the board early in the new year. Thank you Sasha for your contribution to Credit Union Auckland

The Future

Credit Union Auckland operates in the most competitive market in New Zealand. We are successful because of our Credit Union still follows the Credit Union principals of:

- Encouraging thrift among Members;
- Providing loans to Members at reasonable rates;
- Paying a fair rate of return on Member savings;
- We exist not for profit but to serve the economic well-being of our Members.

Provided we continue to follow these guiding principles your Credit Union will continue to be successful.

Farewell and Welcome

After 15 years as CEO Rob Collins retires from Credit Union Auckland. Under Rob direction Credit Union Auckland has continued to serve our Members while ensuring the Credit Union is a financial success. Rob on behalf of the Members and the board I thank you for your 15 years of service and wish you all the best in your retirement.
In September we welcome Rudolf Laumatia as CEO of Credit Union Auckland. Rudolf has worked in the financial services industry for the last 20 years - 16 as South Auckland

Regional Manager for Westpac. It's times like this that we need the calibre of a senior executive like Rudolf to carry us forward. I wish to thank all the staff for the dedication this year. Your commitment to serving our Members during a pandemic is exemplary and is appreciated by the board

Finally, a special thanks to our Members for your continued support, for without Members we have no Credit Union.

G.J. Carll

Greg Carll
Vice-Chairman

Chief Executive's Report

Thank you again for this opportunity to talk to you tonight albeit that we are unable to see you all. One of the enjoyments of these meetings has always been the chance to meet face-to-face with our Members and this is another pleasure that Covid has robbed us of. And personally, it is an even greater disappointment that this is the last time I will have the honour of addressing you as your CEO, but more of that later.

Let's look first of all at the year just gone. We thought that 2020 was bad enough but the series of lockdowns forced upon us this financial year was even harder to bear. Just as we thought we were back into our stride again, we got hit with another lockdown. This has made the management of the business tougher and very disjointed. And for this reason alone, I am very proud of the results we attained. While an $82k loss might sound poor, in relation to the business environment and against some of our peers, I believe it is a very strong result, made possible by a number of positive factors. There is no doubt that our traditionally strong Balance Sheet has allowed us to weather these storms intact. If we had not gone into the pandemic with the financial resources behind us, we would be in a much worse position now.

Then we have had the support of our Members who have shown such solidarity with us when many of them were in difficult circumstances themselves. Throughout the lockdowns, when we asked for compliance with all the health and safety and Government restrictions, there has been hardly a murmur of dissent and total co-operation. This has allowed our staff to work safely without additional stress which meant we could do more for Members in the long run.

Then there has been the staff themselves and I cannot praise them too highly for their positive spirit, openness to battling difficult conditions and their readiness to look after our Members. I am really proud of the manner in which everyone has carried out their job professionally, compassionately and efficiently.

As we saw earlier in the year, I believe there is still great fear in the community about Coronavirus. However, with high vaccination rates and a sensible approach in everything, we will not only survive but grow and expand – that's if our regulators and service providers let us. We continue to face ever increasing compliance responsibilities and costs. The Government and RBNZ especially, seem hellbent on crushing Credit Unions in a quagmire of red tape and fees without fully understanding the service we provide to often ill-served segments of the community while letting shady finance companies and loan sharks get away scot-free.

On top of this, while we are seeing cost reductions in many areas through better technology, our core banking provider continues to ramp up their costs to the point where the amount we pay them annually has grown by over a third in three years with very little change in the transaction levels. This level of cost is unsustainable for us and changes must be made.

Despite all that has eventuated, we retained our objectives of keeping Dividends paid on savings significantly higher than the banks and other financial institutions, while at the same time remaining very competitive with our interest rates on loans. While our Assets were relatively static, both our Loans book and Members Savings increased during the year as we lent some of the cash liquidity we had built up in 2020. Our loan impairment statistics remain under good control and our need for bad debt provisioning declined significantly as a result which is a major credit to our sole Collections Manager.

With the help of the Colin Smith Memorial Fund and the NZ Credit Union Foundation, we again enjoyed our annual School Scholarship presentations in March and met another 20 wonderful Primary and Secondary pupils from our family of Members. Everyone is most grateful for the financial assistance of the two Credit Union charities and it is my personal wish that we can carry it on again in 2022 for our thirteenth year.

But back to the present. Despite another lockdown in the last few months and working from home orders which has driven this AGM online, we've started the new financial year strongly. In the first four months, we have successfully managed our loan arrears and achieved a positive variance to profit budget which should give us a good platform to build into 2022.

However, as I said earlier, this is my last time in front of you all as CEO. I know that my 15plus years in the role has been the best job of my career and I will miss it. It has been a pleasure and an honour to have met some wonderful people, be they Members, staff, Directors or fellow Credit Union colleagues - it's been a blast. To our Chairman Greg Carll, thank you for your guidance and support throughout the years and I can say that there is no one with a truer and more compassionate Credit Union heart than Greg.

To my staff, I can't say any more than thank you from the bottom of my heart – your work is fabulous and over the years you've made me look good when I know the real credit is yours. I know that you remain in good hands with Rudolf and if you work as hard for him as you have done for me, the Credit Union will rocket to further successes.

Again as always, I have the same message to Members – please look after your Credit Union, talk to your friends, family and workmates about NZCU Auckland and how they can get a better deal on savings and loans. Just ask one person to join you as a Member and 2022 will be a huge growth year.

Thank you.

Rob Collins
Chief Executive

Treasurer's Report

I am pleased to present the Audited Annual Financial Statements of Credit Union Auckland Incorporated (trading as NZCU Auckland) for the year ended 30 June 2021. With Level 4 lockdown in Auckland declared on 17th August and our Auditors restricted to working from home, the completion of this Year's Audit was delayed considerably.

While we failed to meet the regulatory deadline for completion of our Annual Accounts, we sought and received an extension of our filing period from the Registrar of Credit Unions and a "no action" relief from the FMA matters beyond our control. A 'no action' approach means that the FMA would not take action against a person or entity for breach of a statutory or regulatory obligation.

I would like to express the gratitude of the Board to PwC for their efforts on our behalf in getting these Accounts to you tonight. It has been a difficult time for all of us and we appreciate the effort and support we received from the PwC Partners and staff, not just this year, but throughout our association with them.

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

While this has again been an extraordinarily challenging year, we were able to keep Dividends on Shares above the market and interest on Loans less than other lenders. For those of you with savings in the Credit Union, our better rates meant that we paid you more than you would otherwise get from the banks. Alternatively, for those of you with Loans, our lower interest rates gave you a considerable benefit and help for your household budget through lower repayments.

As reported already tonight, the Operating Loss for the full year was -$81,925 (2020 Loss -$198,741). Given that we were again severely impacted by the Covid-19 pandemic and still managed to repay the wage subsidy received in 2020, I am very pleased with this result. I remain comfortable that our Balance Sheet remains one of the strongest amongst Credit Unions with a high Capital Adequacy Ratio of 14.89% on a risk weighted basis.

In summary, your Board is very happy with the financial position of the Credit Union. We have managed to grow both our Members' deposits and the Loans book again which provides continuing benefits of real value to you – our Members.

I move to approve the Annual Financial Statements as shown in the Annual Report.

Lionel Pereira
Treasurer

CREDIT UNION AUCKLAND INCORPORATED

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FOR THE YEAR ENDED 30 JUNE 2021

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CREDIT UNION AUCKLAND INCORPORATED

STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSES

FOR THE YEAR ENDED 30 JUNE 2021

	Note	2021 $	2020 $
Interest revenue	3(a)	1,751,100	1,803,742
Interest expense	3(b)	(265,882)	(412,233)
Net interest revenue		**1,485,218**	**1,391,509**
Other revenue	3(c)	1,062,843	1,314,721
Total revenue		**2,548,061**	**2,706,230**
OTHER EXPENSES			
Bad and doubtful loans	3(d)	81,782	178,542
Employee benefits	3(e)	1,083,317	1,189,682
Occupancy - operating leases		298,501	307,533
Depreciation and amortisation	3(f)	92,659	86,525
Other administration expense	3(g)	1,073,727	1,142,689
		2,629,986	**2,904,971**
Operating deficit for the year		**(81,925)**	**(198,741)**
Total comprehensive revenue		**(81,925)**	**(198,741)**

The attached notes to the financial statements form part of and should be read in conjunction with the financial statements.

CREDIT UNION AUCKLAND INCORPORATED

STATEMENT OF CHANGES IN MEMBERS' FUNDS

FOR THE YEAR ENDED 30 JUNE 2021

	Note	Accumulated Comprehensive Revenue $	Total $
Balance at 1 July 2020		3,261,246	3,261,246
Operating deficit for the year		(81,925)	(81,925)
Total comprehensive revenue		(81,925)	(81,925)
Balance at 30 June 2021	**4**	**3,179,321**	**3,179,321**
Balance at 1 July 2019		3,459,987	3,459,987
Operating deficit for the year		(198,741)	(198,741)
Total comprehensive revenue		(198,741)	(198,741)
Balance at 30 June 2020	**4**	**3,261,246**	**3,261,246**

The attached notes to the financial statements form part of and should be read in conjunction with the financial statements.

CREDIT UNION AUCKLAND INCORPORATED

STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 30 JUNE 2021

	Note	2021	2020
		$	$
MEMBERS' FUNDS			
Accumulated comprehensive income		3,179,321	3,261,246
Total members' funds	**4**	**3,179,321**	**3,261,246**
Assets			
Cash and cash equivalent	**5**	5,268,858	5,802,475
Trade and other receivables	**6**	234,450	238,263
Loans to members	**7**	15,711,843	15,242,163
Property, plant and equipment	**9**	266,895	295,234
Intangible assets	**9**	192,692	223,032
Total assets		**21,674,738**	**21,801,167**
Liabilities			
Trade and other payables	**10**	378,764	413,412
Employee entitlements		231,124	335,196
Members' deposits	**11**	17,885,529	17,791,313
Total liabilities		**18,495,417**	**18,539,921**
Net assets		**3,179,321**	**3,261,246**

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

G. J. Coll

Director 24/11/2021

Director 24/11/2021

The attached notes to the financial statements form part of and should be read in conjunction with the financial statements.

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CREDIT UNION AUCKLAND INCORPORATED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2021

	Note	2021	2020
Cash flows from operating activities		**$**	**$**
Interest received		1,741,196	1,817,501
Fees and commissions received		1,062,843	1,177,732
Bad loans recovered		7,158	5,432
Other income		-	136,069
Interest paid		(287,481)	(433,530)
Payments to suppliers and employees		(2,558,949)	(2,701,629)
Net cash generated/(used) from operating activities	**20**	**(35,233)**	**1,575**
Cash flows from investing activities			
Net movement in members' loans		(558,620)	(831,802)
Decrease in deposit over 3 months		-	800,000
Payments for property, plant and equipment & intangibles	**9**	(33,980)	(41,037)
Proceeds from sale of property, plant and equipment & intangibles	**9**	-	920
Proceeds from sale of Capital Notes - Co-op Money NZ		-	268,925
Net cash provided by/(used in) investing activies		**(592,600)**	**197,006**
Cash flows from financing activities			
Net increase/(decrease) in members' deposits		94,216	(56,995)
Net cash (used in)/provided by financing activities		**94,216**	**(56,995)**
Total net increase/(decrease) in cash and cash equivalents held		(533,617)	141,586
Cash and cash equivalents at the beginning of the year		5,802,475	5,660,889
Cash and cash equivalents at the end of the year		**5,268,858**	**5,802,475**
Represented by:			
Cash and cash equivalent	**5(a)**	3,663,375	3,346,992
Deposits under 3 months	**5(b)**	1,605,483	2,455,483
Total cash and cash equivalents		**5,268,858**	**5,802,475**

The attached notes to the financial statements form part of and should be read in conjunction with the financial statements.

CREDIT UNION AUCKLAND INCORPORATED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

1 GENERAL INFORMATION

Reporting entity
Credit Union Auckland Incorporated ("the Credit Union") is a financial institution that is registered as a credit union under the Friendly Societies and Credit Unions Act 1982 ("the Act") and licensed by the Reserve Bank of New Zealand under the Non-Bank Deposit Takers Act 2013. The purpose of the Credit Union is to promote savings among its members and to use those savings for their mutual benefit. It operates primarily in the greater Auckland area in New Zealand and is incorporated in New Zealand with its registered office at 695 Great South Road, Penrose, Auckland. As the Credit Union is providing a community and social benefit, it is designated as a public benefit entity. The Credit Union is not a public entity defined in the Public Audit Act 2001 and hence is a not-for-profit public benefit entity for the purposes of complying with Generally Accepted Accounting Practice ("GAAP").

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

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

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

2 STATEMENT OF ACCOUNTING POLICIES

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

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

These financial statements were authorised for issue by the Directors on 24 November 2021.

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

The application of PBE Standards required management to make judgements, estimates and assumptions about the carrying values of assets and liabilities not readily available from other sources, the estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimated. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods. These financial statements have been prepared using the going concern assumption on the basis that the Directors believe that the Credit Union can continue to fulfil its financial obligations for at least 12 months from the date of signing these financial statements.

The measurement base adopted is historical cost. The accounting policies adopted are consistent with those of the previous financial year. Comparative information has been reclassified or restated to ensure consistency with presentation in the current reporting period. These reclassifications and restatements have no impact on total Comprehensive Revenue and Expense.

The presentational and functional currency is New Zealand dollars and figures are rounded to the nearest dollar unless otherwise stated.

(b) Revenue recognition
Interest revenue on loans
Interest revenue on loans is calculated on the daily loan balance outstanding and is recognised on a time-proportionate basis using the effective interest method. This is the effective interest method which allocates the interest over the term of the loans to which they relate. Interest income on impaired loans is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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

Loan application fee revenue
Loan application fee revenue is recognised at the time the loan is disbursed and is not spread across the duration of the loan.

Cost recovery fees revenue
Cost recovery fees revenue is recognised at the time the loan is disbursed.

Commissions earned revenue
Commissions are recognised historically at the time the premium is charged.

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

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

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

(e) Goods & Services Tax (GST)
Revenues, expenses, and assets are recognised net of the amount of GST except:
- When the GST on a purchase of assets or services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable; and
- In the case of receivables and payables, which are stated with the amount of GST included.

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

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

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

(g) Cash and cash equivalents
Cash and cash equivalents
Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

Deposits at Banzpay Technology Limited
Deposits at Banzpay Technology Limited (“Banzpay”) (formerly New Zealand Association of Credit Unions trading as Co-op Money NZ) are initially recognised at fair value and subsequently measured at amortised cost, less any impairment losses.

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

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

(j) Impairment of loans
An assessment is made at each balance date whether there is objective evidence that loans are impaired. A loan is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the loan and can be reliably estimated. Objective evidence that a loan receivable is impaired includes observable data that comes to the attention of the directors about the following loss events:
- significant financial difficulty of the member.
- a breach of contract, such as a default or delinquency in interest or principal payments.
- a concession granted to the borrower that the lender would not otherwise consider for economic or legal reasons relating to the borrower's financial difficulty; or
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation.

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

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

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

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

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

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

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

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

The various components of impaired assets are as follows:

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

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

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

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

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

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

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

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each financial reporting period for any impairment in value.

(l) Impairment of non-financial assets
An asset's carrying amount other than those measured at Fair Value, is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

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

Amortisation is charged on straight line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period.

Intangible asset amortisation
Intangible assets are amortised over their useful lives to the Credit Union commencing from the time the asset is ready for use. Intangible assets are amortised on a straight-line basis. A summary of the rates used is:
- Computer Software - 10-50%
- Other Intangible Assets - 20%

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

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

(p) Employee benefits
Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are recognised in employee benefits in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable. The liability for employee entitlements is carried at the present value of the estimated future cash flows. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made if material.

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

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

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

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

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

(s) Statement of Cash Flows
Definitions of terms used in the Statement of Cash Flows:
Cash includes coins and notes, demand deposits and other highly liquid investments with original maturities of three months or less and includes at call borrowings, used by the Credit Union as part of its day-to-day cash management.

Investing Activities are those activities relating to the acquisition and disposal of current and non-current investments and any other non-current assets. They include loans to members and repayments of loans by members.

Financing Activities are those activities relating to changes in the size and composition of the members' deposits of the Credit Union.

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

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

(t) Critical estimates, judgements and assumptions in applying the accounting policies
Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. This has an impact on the two critical estimates, being the impairment of loans to members and the liquidity and funding structure of the Credit Union.

Impairment of loans to members
The Credit Union makes estimates and assumptions concerning the future when assessing the impairment provision on loans. The Credit Union reviews its loan portfolio to assess impairment at least monthly. The impairment provision is adjusted based on evidence relating to borrowers' circumstances including the period that the loans are in arrears. The resulting accounting estimates will seldom equal the related actual results and there is a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

The Credit Union considers the provision for impairment of its loans to members as an area that requires significant management judgement and estimation. The continued COVID-19 lockdowns have not significantly increased the estimation of uncertainty of recoverability of the loans to members during the financial year ended 30 June 2021. A number of members have been financially impacted by the pandemic and there is continuing uncertainty as to the severity and duration of the expected domestic economic downturn and effectiveness of Government relief measures.

The impacts of the pandemic have been considered when:
(i) Judging whether there is significant increase in credit risk of whether an amount is post-due or credit-impaired; and
(ii) Estimating future repayment probabilities

Refer to note 8 for the basis of the Credit Union's impairment of loans to members and how the pandemic has impacted the impairment of loans to members.

Funding structure and liquidity
The Credit Union relies on deposits from members as its core funding source. Management makes estimates and assumptions concerning the future when assessing the reinvestment level of the members' deposits. As disclosed in Note 14, on a contractual basis, there is a liquidity deficiency within one month at 30 June 2021 of $8,425,353 (30 June 2020: $7,141,418). Note 15 shows the maturity profile of financial liabilities and Note 14 describes how the Directors manage liquidity. In their forecasting of cash flows, the Directors expect the deposits due within one month to be retained, with reinvestment by members continuing at historical levels when term deposits mature.

Refer to Notes 14 and 15 for further details on how management has managed its funding structure and liquidity and maturity profile of the Credit Union respectively.

(u) Standards issued but not yet effective
The following accounting standards which may impact the Credit Union have been issued but are not yet effective for the Credit Union.

PBE FRS 48 Service Performance Reporting
PBE FRS 48 replaces the service performance reporting requirements of PBE IPSAS 1 Presentation of Financial Statements and is effective for the year ending 30 June 2023, with earlier adoption permitted. The assessment of the impact of this change has not been performed yet.

Amendment to PBE IPSAS 2 Cash Flow Statement
An amendment to PBE IPSAS 2 requires entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes arising from both cash flows and non-cash changes. This amendment is effective for the year ending 30 June 2022, with early application permitted. This amendment will result in additional disclosures.

PBE IPSAS 41 Financial Instruments
PBE IPSAS 41 addresses the classification, measurement and recognition of financial assets and financial liabilities. PBE IPSAS 41 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through Other Comprehensive Revenue and Expense ('OCRE') and fair value through surplus or deficit. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through surplus or deficit with the irrevocable option at inception to present changes in fair value in OCRE not recycling.

The expected loss impairment model will apply to debt instruments measured at amortised cost or fair value through other comprehensive revenue and expense, lease receivables, and certain written loan commitments and financial guarantee contracts. The loan loss allowance will be for either 12-month expected losses or lifetime expected losses (the latter applies if credit risk has increased significantly since initial recognition). A different approach applies to purchased or originated credit-impaired financial assets, and there are some simplifications and/or accounting policy choices in relation to trade receivables and lease receivables.

For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive revenue and expense for liabilities designated at fair value through surplus or deficit.
PBE IPSAS 41, although based on NZ IPSAS 41, has incorporated PBE specific differences that currently exist between the requirements in NZ IAS 39 and PBE IPSAS 29 (e.g., requirements for concessionary loans and guidance on initial recognition of financial assets arising from non-exchange transactions).

Alignment to existing PBE Standards has also been addressed - e.g., there is no PBE Standard-equivalent for NZ IFRS 13 Fair Value Measurement, therefore the current fair value guidance in PBE IPSAS 29 has been incorporated into PBE IPSAS 41.

PBE IPSAS 41 has an effective date for annual periods beginning on or after 1 January 2022, with early application permitted. Management is in the process of assessing the impact the adoption of PBE IPSAS 41 will have on the Credit Union's financial statements.

(v) COVID-19

2020
The World Health Organisation (WHO) declared the coronavirus (COVID-19) to be a global pandemic on 11 March 2020 and the outbreak has spread across many countries, causing significant disruption to business and economic activity.

On 11 August 2020 it was announced that community transmission of COVID-19 that occurred in New Zealand after a significant period of no community transmission cases. As a result of this from 12 August 2020 Auckland moved to Alert Level 3 and the rest of New Zealand moved to Alert Level 2 which meant that for the Auckland region all non-essential businesses once again ceased face-to-face operations, The Alert level was reduced to Alert Level 2 on 24 September 2020 and the rest of New Zealand has moved to Alert Level 1 on 21 September 2020. Subsequently, Auckland moved to Alert Level 1 from 8 October 2020.

2021
Auckland moved to alert level 3 again from 15 February 2021 due to the detection of three positive cases of COVID-19 along with rest of the New Zealand being kept at level 2. Alert levels were revised to level 2 for Auckland and rest of New Zealand to level 1 from 18 February 2021 and eventually level 1 for Auckland from 23 February 2021. Another positive case of COVID-19 was discovered late February. Auckland was moved to alert level 3 again on 28 February 2021 and the rest of New Zealand moved to alert level 2. Alert levels were revised to level 2 for Auckland and rest of New Zealand to level 1 from 7 March 2021. Subsequently Auckland moved to alert level 1 from 12 March 2021.

The impact on collection of loans and lending due to lockdowns during the current reported financial year has been minimal.

Below outlines the main impacts COVID-19 has had on the Credit Union:

Loan repayment relief:
The Credit Union supported members adversely impacted by COVID-19 by offering restructured loan arrangement within approved criteria. This support allowed members time to assess the impact of COVID-19 on their individual circumstances and adjust accordingly.

Impairment of members' loans:
The Credit Union maintained the provision for impairment at appropriate levels. The impact of COVID-19 on the economy, businesses, and consumers is uncertain and actual credit losses may differ from the impairment assessment.

Team members:
Many of our team members worked remotely or supported the branch sites under reduced opening hours during the lockdown period to allow safe "bubbles".

Other than the uncertainty created by the on-going COVID-19 global pandemic, there were no known other significant post balance sheet date events that will materially impact the current period's financial statements. (Refer to Note 22 for subsequent COVID-19 Alert status updates.)

As at 30 June 2020 and 30 June 2021, management has assessed the impact of COVID-19 on the financial performance and financial position of the Credit Union. The below accounting impacts have been identified by management.

- Impairment of loans to members (notes 2(t) and 8)
- Liquidity & credit risk (note 14)
- Events occurring after balance sheet date (note 22)

3 REVENUE AND EXPENSES

	2021 $	2020 $
(a) Interest revenue		
Interest on loans	1,739,682	1,738,220
Interest on investments	11,418	65,522
Total interest revenue	**1,751,100**	**1,803,742**
(b) Interest expense		
Interest on members' call shares	105,210	164,403
Interest on members' term shares	160,672	247,824
Interest other	0	6
Total interest expense	**265,882**	**412,233**
(c) Other revenue		
Fee income – ATM	118,418	133,725
Fee income – Loan application fees	286,530	313,544
Fee income – Cost recovery fees	518,787	490,889
Commissions earned	214,052	218,197
Other fees charged	18,127	21,377
Other income	(93,071)	136,069
Gain on disposal of Property, Plant and Equipment	0	920
Total other revenue	**1,062,843**	**1,314,721**
(d) Bad and doubtful loans		
Bad loans written off	48,259	128,833
Movement in provision for loan impairment	40,681	55,141
Loans previously written off subsequently recovered	(7,158)	(5,432)
Total bad and doubtful loans	**81,782**	**178,542**
(e) Employee benefits		
Salaries and wages	1,046,704	1,151,161
KiwiSaver contributions	22,705	22,498
Other staff costs	13,908	16,023
Total employee benefits	**1,083,317**	**1,189,682**

CREDIT UNION AUCKLAND INCORPORATED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

	2021	2020
	$	$
(f) Depreciation		
Leasehold improvements	28,486	28,577
Plant and equipment	25,725	21,018
Motor vehicles	8,109	8,109
Total depreciation	62,320	57,704
Amortisation expense		
Intangible assets – computer software	30,339	28,821
Total amortisation expense	30,339	28,821
Total depreciation and amortisation expense	**92,659**	**86,525**
(g) Other administration expenses		
AML/CFT audit	0	6,900
Auditors' remuneration		
External audit – PricewaterhouseCoopers	68,775	40,555
Register compliance assurance – PricewaterhouseCoopers	2,100	1,903
ATM costs / Accesscard, AccessCredit	81,595	90,060
Advertising and marketing	51,308	63,069
Bank and cash delivery charges	6,577	67,831
Data processing costs / IT	516,423	408,384
Directors' fees	9,000	37,685
Directors' expenses and training	3,742	2,441
Donations made / community support	4,057	9,680
Lending and debt recovery costs	34,780	42,387
Training and seminars	1,730	615
Office and administration	207,627	257,981
Other occupancy costs	43,213	36,354
Other sundry expenses	42,800	76,844
Total other administration expenses	**1,073,727**	**1,142,689**

(h) Interest rates

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

Call Shares	2021	2020
Everyday Account	0.00%	0.00%
Bill Pay Account	0.00%	0.00%
Goal Saver	0.25%	1.00%
Loyalty Saver	0.50-0.75%	1.00-1.50%
Success Saver	0.75-1.00%	1.50-2.00%
Christmas Saver	2.00%	3.00%
Kids Cash Saver	2.00%	3.00%
Term Shares		
3 months Term Deposit	0.60%	1.30-1.40%
6 months Term Deposit	1.05-1.10%	2.00-2.10%
9 months Term Deposit	1.05-1.10%	2.00-2.10%
12 months Term Deposit	1.10-1.15%	2.00-2.10%
18 months Term Deposit	1.10-1.15%	2.10-2.20%
24 months Term Deposit	1.20%	2.10-2.20%

4 RESERVES

Reserves as at 30 June 2021

	Accumulated Comprehensive revenue	Total reserves
	$	$
Balance brought forward	3,261,246	3,261,246
Deficit	(81,926)	(81,926)
Balance carried forward	3,179,320	3,179,320
Reserve % to total assets	14.67%	14.67%

Reserves as at 30 June 2020

	Accumulated Comprehensive revenue	Total reserves
	$	$
Balance brought forward	3,459,987	3,459,987
Deficit	(198,741)	(198,741)
Balance carried forward	3,261,246	3,261,246
Reserve % to total assets	14.96%	14.96%

5 CASH AND CASH EQUIVALENTS

(a) Cash and bank balances	2021	2020
	$	$
Cash on hand	222,518	212,449
Bank balances	3,440,857	3,134,543
	3,663,375	3,346,992
(b) Deposits under 3 months		
Term deposits at Westpac (Banzpay – Card Settlement Bond)	455,483	455,483
Term deposits at Westpac	1,150,000	2,000,000
	1,605,483	2,455,483
Total cash and cash equivalents	5,268,858	5,802,475

The Credit Union does not hold tradable securities. Effective interest rates are the original contracted values. All balances are available within 3 months. The deposits with Banzpay's central banking facility are excess funds held on behalf of the Credit Union. Banzpay minimises its exposure to credit risk by maintaining a diversified portfolio with the majority of investments with deposits in banks and money market securities. Movements in market rates will not affect the recorded value of these investments. The Credit Union is required to keep a minimum level of deposits with Banzpay for card settlements. As at 30 June 2021 this was $455,483 (30 June 2020: $455,483).

6 TRADE AND OTHER RECEIVABLES

	2021	2020
	$	$
Accrued interest	47,185	37,281
Sundry debtors	41,565	99,285
Capital Notes sale – Deferred settlement	89,641	89,641
Prepayments	56,056	12,056
	234,447	238,263

All trade and other receivables are due within 1 year, except for Capital Notes sale which is non-current.

7 LOANS TO MEMBERS

Loans are made in accordance with the lending policy of the Credit Union and are repayable on demand under certain conditions. A provision for impairment has been made at the end of the reporting period. Bad loans are written off against the provision for impairment and the provision is adjusted accordingly. Loans to members current balances as at 30 June 2021 are $5,203,147 (30 June 2020: $5,268,255) and the non-current balances as at 30 June 2021 are $10,854,894 (30 June 2020: $10,279,425). The total amount of restructured loans as at 30 June 2021 are $1,020,395 (30 June 2020: $1,049,412).

(a) Loans to Members	2021	2020
	$	$
Neither past due nor impaired	14,334,661	13,864,039
Past due but not impaired		
1 to 30 days	1,032,737	1,128,071
31 to 60 days	93,687	55,601
61 to 90 days	33,965	55,523
Over 90 days	0	0
Impaired loans		
Impaired individually	562,991	444,446
Gross loans	16,058,041	15,547,680
Less:		
Allowance for individually impaired loans	312,057	281,757
Allowance for collectively impaired loans	34,141	23,760
	346,198	305,517
	15,711,843	15,242,163

(b) Credit quality – security dissection	2021	2020
	$	$
Secured by first mortgage over real estate	5,027,160	5,096,621
Secured by second mortgage over real estate	17,769	28,175
Secured by members' shares in the Credit Union	982,313	1,045,515
Partially secured by motor vehicle and other collateral	9,900,415	9,205,409
Unsecured loans	130,384	171,960
	16,058,041	15,547,680

The Credit Union uses various disposal methods (such as auctions) to convert an asset into cash where required. The decision on the method of disposal depends on management's view of the potential to generate the best value for the asset.

Additionally, it is impracticable to provide a valuation of the all the collateral security held against loans because of the complexity and the potential volatility of security values. A breakdown of the quality of the security on a portfolio basis is as follows:

Security held as mortgage against real estate is on the basis of:		
• loan to valuation ratio of less than 80%	4,579,843	4,194,992
• loan to valuation ratio of more than 80%	465,086	929,804
	5,044,929	5,124,796

(c) Credit quality – concentration of loans	2021	2020
(i) Loans to individual or related groups of members which exceed 10% of equity	5 loans	3 loans
(ii) Loans to members concentrated to individuals employed in any particular industry	Nil	Nil
(iii) Loans to members concentrated in the greater Auckland area which is the common bond of the Credit Union are:	96.15%	96.24%
(iv) Loans drawn down by member type:		
Loans to natural persons	$	$
Residential loans and facilities	5,044,929	5,124,796
Personal loans and facilities	11,013,112	10,422,884
	16,058,041	15,547,680

8 IMPAIRMENT OF LOANS TO MEMBERS

(a) Total provision for impairment	2021	2020
	$	$
Opening balance	305,517	250,376
Increase / (Decrease) in provision for impairment for the year	40,681	55,141
Balance carried forward	346,198	305,517

(b) Key assumptions in determining the provision for impairment

Uncertainty due to the Covid-19 pandemic is causing significant economic and social disruption. Auckland particularly has been impacted by lockdowns and the impact of these lockdowns on employment and members' financial wellbeing is difficult to be fully determined. While there have been some signs of business and consumer confidence rebounding and spending levels improving, continuous changes to COVID-19 Alert System levels and varying degrees of lockdown will create even greater uncertainty for the Credit Union and its members.

The Credit Union has agreed to restructure a number of member Loans and is willing to assist any member who believes they face financial stress. However, agreement to restructure a Loan or make other relief packages available is not automatic evidence of loan impairment.

In the course of the preparation of these financial statements the Credit Union has determined the likely loss on loans which have not maintained loan repayments in accordance with the loan contract, or where there is other evidence of potential impairment such as industrial restructuring, job losses or economic circumstances. Each loan is either individually or collectively assessed.

Where there is evidence of impairment, an estimation is made of the potential impairment based on individual circumstances of the member, including the estimated impact of COVID-19 (individually impaired loans) or on the length of time the loans are in arrears but not impaired (collectively assessed loans), taking into account information such as security, repayment plans, and other relevant factors.

Where there is no evidence of impairment, the impairment provision is collectively assessed based on a formula developed by the Credit Union driven by the length of time the loans are in arrears. This provision and formula are compared to historical write-offs and adjusted when necessary. The Credit Union has concluded that this formula remains appropriate for the collective assessment.

(c) Individually impaired loans

	Individually Impaired Loans
Gross individually impaired loans	$
Carrying amount at 1 July 2020	444,446
Additions	461,475
Written off	(48,259)
Deletions	(294,671)
Carrying amount at 30 June 2021	562,991
Allowance for individually impaired loans	
Carrying amount at 1 July 2020	281,757
Additions	146,514
Written off	(39,975)
Deletions	(76,239)
Provision for impairment at 30 June 2021	312,057
Carrying amount of individually impaired loans at 30 June 2021	**250,934**

	Individually Impaired Loans
Gross individually impaired loans	$
Carrying amount at 1 July 2019	396,528
Additions	368,863
Written off	(128,833)
Deletions	(192,112)
Carrying amount at 30 June 2020	444,446
Allowance for individually impaired loans	
Carrying amount at 1 July 2019	237,707
Additions	241,226
Written off	(122,322)
Deletions	(74,854)
Provision for impairment at 30 June 2020	281,757
Carrying amount of individually impaired loans at 30 June 2020	**162,689**

Loans with enforcement of security

There were no loans where real estate was acquired through the enforcement of security at 30 June 2021 (30 June 2020: Nil). There were no loans where other assets were acquired through the enforcement of security at 30 June 2021 (30 June 2020: Nil). All 90 day past due assets are included in the individually impaired loan category.

(d) Interest and other revenue recognised and forgone	2021	2020
	$	$
Interest revenue on individually impaired loans recognised	40,243	51,751
Interest forgone on individually impaired loans	27,620	21,997

9 PROPERTY, PLANT AND EQUIPMENT & INTANGIBLE ASSETS

(a) Classes of property, plant & equipment	2021	2020
	$	$
Leasehold improvements		
At cost	742,023	741,802
Accumulated depreciation	(556,431)	(527,945)
	185,592	213,857
Plant & equipment		
At cost	496,628	462,868
Accumulated depreciation	(426,136)	(400,411)
	70,492	62,457
Motor vehicles		
At cost	80,393	80,393
Accumulated depreciation	(69,582)	(61,473)
	10,811	18,920
Total property, plant & equipment	266,895	295,234

(b) Classes of intangible assets	2021	2020
	$	$
Software		
At cost	392,449	392,449
Accumulated amortisation	(199,757)	(169,417)
	192,692	223,032
Other intangible assets		
At cost	20,000	20,000
Accumulated amortisation	(20,000)	(20,000)
	0	0
Total intangible assets	192,692	223,032

Other intangible assets include an NZCU license purchased for $20,000, the cost of which has been amortised over 5 years and is fully amortised as of 30 June 2021 (30 June 2020: fully amortised).

(c) Movements in carrying amounts
Reconciliation of the carrying amounts of each class of property, plant and equipment between the beginning and end of each period:

2021	**Leasehold Improvements**	**Plant & Equipment**	**Motor Vehicles**	**Total**
	$	$	$	$
Balance at 1 July 2020	213,857	62,457	18,920	295,234
Additions	221	33,760	0	33,981
Depreciation expense	(28,486)	(25,725)	(8,109)	(62,320)
Carrying amount at 30 June 2021	185,592	70,492	10,811	266,895
2020				
Balance at 1 July 2019	242,434	50,718	27,029	320,181
Additions	0	32,757	0	32,757
Depreciation expense	(28,577)	(21,018)	(8,109)	(57,704)
Carrying amount at 30 June 2020	213,857	62,457	18,920	295,234

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

Reconciliation of the carrying amounts of each class of intangible assets between the beginning and end of each period:

2021	**Software**
	$
Balance at 1 July 2020	223,032
Additions	0
Disposals	0
Gain / (Loss) on disposal	0
Amortisation expense	(30,340)
Carrying amount at 30 June 2021	192,692
2020	
Balance at 1 July 2019	243,573
Additions	8,280
Disposals	0
Gain / (Loss) on disposal	0
Amortisation expense	(28,821)
Carrying amount at 30 June 2020	223,032

All intangible assets are non-current assets.

10 TRADE AND OTHER PAYABLES

	2021	2020
	$	$
Accrued interest payable	28,718	50,317
Resident withholding tax	3,004	5,476
GST provision	7,188	7,412
Sundry creditors and accrued expenses	249,318	285,766
ATM and EFTPOS card settlement	90,536	64,441
	378,764	413,412

Trade and other payables are current liabilities.

11 MEMBERS' DEPOSITS

	2021	2020
Call shares	$	$
Savings accounts	8,201,201	6,859,342
Christmas Saver	1,018,837	960,951
Loyalty Saver	2,399,721	2,476,113
Total call shares (all current liabilities)	11,619,759	10,296,406
Term shares		
Original maturity terms		
0-3 months	3,410	348,984
4-6 months	1,729,580	1,430,781
7-9 months	287,391	436,618
10-12 months	2,400,792	2,291,343
Greater than 12 months	1,844,597	2,987,181
Total term shares	6,265,770	7,494,907
Total members' deposits	17,885,529	17,791,313

Members' shares are secured by a first ranking equitable assignment by way of security over the whole of the Credit Union's present and future undertaking, property, assets and revenues, including the proceeds received for the subscription shares and unpaid capital (if any). The equitable assignment by way of security was granted in favour of Covenant Trustee Services Limited, the Supervisor of the Credit Union, under the Trust Deed which has been registered with the Registrar of Friendly Societies and Credit Unions.

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

12 COMMITMENTS

(a) Future capital commitments	2021	2020
	$	$
As at balance date, the Credit Union has contracted to purchase property, plant and equipment and software to the value of:	40,543	54,129

(b) Operating lease commitments

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

Non-cancellable operating leases contracted for but not capitalised in the financial statements, payable:		
No longer than 1 year	318,926	162,312
Longer than 1 year and not longer than 5 years	393,463	402,718
Longer than 5 years	97,321	160,971
	809,710	726,001

The property leases are for varying terms, with rent payable a month in advance. They are non-cancellable leases. An option exists to renew the lease for some of the branches and usually new leases would be renegotiated at the end of the existing leases

(c) Outstanding loan commitments

Loans and credit facilities approved but not paid out at the end of the financial period:		
Loans approved but not paid out	16,000	14,850
Undrawn overdrafts	39,324	28,281
	55,324	43,131

13 CONTINGENT LIABILITIES

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

14 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

COVID-19 impact on the risk management of the Credit Union
Management continued to implement the current risk management policies to manage the uncertainty caused by COVID-19 during the lockdowns in New Zealand during the year ending 30 June 2021. Upon the request from RBNZ management reported to RBNZ on a fortnightly basis from July to December 2020 on the liquidity, members' deposits and withdrawals, loans restructured (including due to COVID-19), overdue loans, and top 10 largest loans in arrears. From January 2021 to June 2021 this report was no longer required.

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

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

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

The policy of the Credit Union to manage the risk is to maintain a balanced "on book" strategy by ensuring the net interest rate gaps between members' loans and members' shares are not excessive. The measured gap in each 3-month range is to be maintained between 8.0% and 11.00% of the difference between interest on loans and members' deposits. The gap is measured monthly to identify any large exposures to the interest rate movements and to rectify the excess through targeted fixed rate interest products available through investment assets, and term deposit liabilities to rectify the imbalance within acceptable levels. The Credit Union's exposure to interest rate risk is set out in Note 16 which details the contractual interest rate change profile.

The following tables summarise the sensitivity of the Credit Union's financial assets and liabilities to 1% movement in interest rates on the Credit Union's financial position and results. The 1% movement is used because management believes that this is the reasonably possible change to Official Cash Rate within the next 12 months.

	2021 – Interest rate risk			2020 – Interest rate risk		
	Carrying amount	-1% Profit & equity	+1% Profit & equity	Carrying amount	-1% Profit & equity	+1% Profit & equity
Financial assets	$	$	$	$	$	$
Banzpay and bank deposits	5,060,079	(34,546)	34,546	5,590,026	(31,345)	31,345
Loan receivables – Variable interest	16,058,041	(160,580)	160,580	15,547,680	(155,477)	155,477
		(195,126)	195,126		(186,822)	186,822
Financial liabilities						
Members' deposits	17,885,529	116,198	(116,198)	17,791,313	102,964	(102,964)
		116,198	(116,198)		102,964	(102,964)
Total (decrease) / increase		(78,928)	78,928		(83,858)	83,858

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

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

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

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

The Credit Union has established policies or procedures over the:

- Credit assessment and approval of loans and facilities covering acceptable risk assessment and security requirements.
- Limits of exposure over the value to individual borrowers, non-mortgage secured loans, commercial lending and concentrations to geographic and industry groups considered at high risk of default.
- Reassessing and review of the credit exposures on loans and facilities.
- Establishing appropriate provisions to recognise the impairments of loans.
- Debt recovery procedures; and
- Review of compliance with the above policies.

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

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

Credit Risk - Liquid Investments
Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the Credit Union incurring a financial loss. This usually occurs when members fail to settle their loan obligations to the Credit Union.

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

Credit Risk - Equity Investments
The Credit Union does not have investments in equity investments.

Liquidity Risk
Liquidity risk is the risk that the Credit Union may encounter difficulties raising funds to meet commitments associated with financial instruments, e.g., borrowing repayments. It is the policy of the Board of Directors that the Credit Union maintains adequate cash reserves and committed credit facilities so as to meet the member withdrawal demands when requested.

The Credit Union manages liquidity risk by:

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

The Credit Union's policy has a Trust Deed requirement under section 7.2(b) to maintain a Liquidity Coverage Ratio (LCR) of at least 1.2 or more. At 30 June 2021, LCR was 1.45 (30 June 2020: 1.54). This ratio is monitored and reported to management, the Credit Union Board and its Supervisor and Trustees on a regular basis. Should the Liquidity Coverage Ratio fall below this level, the management and Board are to address the matter and ensure that the liquid funds are obtained from new deposits or borrowing facilities available.

The maturity profile of the financial liabilities, based on the contractual repayment terms, is set out in the specific note 15. Whilst there is liquidity deficiency for the within one month period of $8,425,353 as at 30 June 2021 (30 June 2020: $7,141,418), based on the contractual arrangements, the Directors can manage any potential mismatch and meet its obligations as they fall due, due to the continued reinvestment of shares at historical levels and as all loans to members are repayable on demand under certain conditions. In addition, the profile assumes that all members' shares are repaid when they mature. In the ordinary course of business, the Credit Union normally retains the members' deposits which are due within 1 month ensuring that it does not need to demand repayment of the members' loans.

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

Capital Management
The Credit Union is regulated under the Friendly Societies and Credit Union Act 1982 and licensed by the Reserve Bank of New Zealand under the Non-Bank Deposit Takers Act 2013. There is a statutory requirement over the minimum reserves required to be maintained. The Credit Union operates under a Trust Deed which requires the minimum reserves to be held by the Credit Union to be 10% of total tangible assets. The Credit Union reserves as at the end of the reporting period are stated in note 4.

The Credit Union's capital is determined as follows:

	2021	2020
Tier 1	$	$
Accumulated revenue	3,179,320	3,261,246
General reserves	-	-
Total Tier 1 reserves	3,179,320	3,261,246
Tier 1 capital ratio	14.83%	15.11%
Tier 2		
Tier 2 reserves	-	-
Total Tier 2 reserves	-	-
Tier 2 capital ratio	0.00%	0.00%
Total Tier 1 and 2 reserves	3,179,320	3,261,246
Tier 1 and 2 capital ratios to total tangible assets	14.83%	15.11%

In addition, the Credit Union must comply with the "Deposit Takers (Credit Ratings, Capital Ratios and Related Party Exposures) Regulations 2010" which came into effect on 1 December 2010. These regulations require a minimum of 10% capital ratio (equity to risk weighted assets) and the Credit Union will meet the requirements of these regulations. This covenant is covered in section 7.2 (b) (i) of the Trust Deed.
As at 30 June 2021, the Credit Union's capital ratio was 14.83% (30 June 2020: 15.11%).

To manage the Credit Union's capital, which can be affected by excessive growth and by changes in total assets, the Credit Union regularly reviews the capital adequacy ratio and monitors major movements in the asset levels. Policies have been implemented to require reporting to the board and the trustee if the capital ratio falls below 12%. Further, an annual capital budget projection of the capital level is maintained to address how strategic decisions or trends may impact on the capital level.

15 MATURITY PROFILE OF FINANCIAL LIABILITIES

Monetary liabilities have differing maturity profiles depending on the contractual term, and in the case of loans the repayment amount and frequency. The associated table shows the period in which different monetary liabilities held will mature and be eligible for renegotiation or withdrawal. Future interest payable represents the expected future interest cash flows arising from the contractual obligations of the underlying monetary liabilities respectively. Actual cash flows may differ significantly from the contractual cash flows presented below as a result of changes in market conditions and future actions of the Credit Union and its counterparties.

The Credit Union does not manage its liquidity risk on the basis of the information below.

As at 30 June 2021	**Within 1 month**	**1-3 months**	**3-6 months**	**6-12 months**	**1-2 years**	**2-5 years**	**Over 5 years**	**Total**
Monetary liabilities payable								
Trade and other payables	329,550	-	-	-	-	-	-	329,550
Members' deposits	12,556,621	1,206,910	1,906,315	1,962,639	253,044	-	-	17,885,529
Future interest payable on members' deposits	9,313	20,756	17,369	14,631	1,460	-	-	63,529
Total monetary liabilities payable	12,895,484	1,227,666	1,923,684	1,977,270	254,504	-	-	18,278,608
Loan commitments	55,324							55,324

As at 30 June 2020	**Within 1 month**	**1-3 months**	**3-6 months**	**6-12 months**	**1-2 years**	**2-5 years**	**Over 5 years**	**Total**
Monetary liabilities payable								
Trade and other payables	326,261	-	-	-	-	-	-	326,261
Members' deposits	11,008,518	1,588,609	2,251,456	1,764,792	1,177,938	-	-	17,791,313
Future interest payable on members' deposits	19,166	44,300	39,108	37,749	20,216	-	-	160,539
Total monetary liabilities payable	11,353,945	1,632,909	2,290,564	1,802,541	1,198,154	-	-	18,278,113
Loan commitments	43,131							43,131

CREDIT UNION AUCKLAND INCORPORATED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

16 INTEREST RATE RISK

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

	Floating interest rate		Fixed Interest Rate Maturing in:														Non-interest sensitive		Total		Weighted average effective interest rate*	
			0 to 3 months		3 to 6 months		6 to 12 months		1 to 2 years		2 to 5 years		Over 5 years		No maturity							
	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	**Jun-21**	Jun-20	**Jun-21**	Jun-20		
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**Jun-21**	Jun-20
Monetary assets	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Cash	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**223**	212	**223**	212	**N/A**	N/A
Bank balances	**3,455**	3,135	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**3,455**	3,135	**0.00%**	**0.00%**
Deposits at Bank and Co-op Money NZ	**0**	**0**	**1,605**	2,455	**0**	0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**1,605**	2,455	**0.80%**	**1.15%**
Trade & other receivables	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**165**	226	**165**	226	**N/A**	N/A
Loans to members	**16,058**	15,548	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**16,058**	15,548	**10.82%**	**10.88%**
Total monetary assets	**19,513**	18,683	**1,605**	2,455	**0**	0	**0**	0	**0**	0	**0**	0	**0**	0	**0**	0	**388**	438	**21,506**	21,576		
Monetary liabilities	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Members' deposits - call	**11,620**	10,296	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**11,620**	10,296	**0.77%**	1.46%
Members' deposits - term	**0**	**0**	**3**	2,301	**1,730**	2,251	**2,688**	1,765	**1,845**	1,178	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**6,266**	7,495	1.71%	3.12%
Other payables	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**330**	326	**330**	326	**N/A**	N/A
Total monetary liabilities	**11,620**	10,296	**3**	2,301	**1,730**	2,251	**2,688**	1,765	**1,845**	1,178	**0**	0	**0**	0	**0**	0	**330**	326	**18,216**	18,117		

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

17 OTHER CREDIT RISKS

(a) Maximum Credit Risk Exposure
The Credit Union's maximum credit risk exposure, without taking into account the value of any collateral or other security, in the event other parties fail to perform their obligations under financial instruments in relation to each class of recognised financial asset, is the carrying amount of those assets as indicated in the Statement of Financial Position and loan commitments.

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

(c) Large counterparties
The Credit Union has exposure to counterparties in excess of 10% of equity as follows. However, none of them are above 20% of the equity:

	Number of counterparties	
	2021	2020
Between 10% and 20% of equity	5	3

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

(d) Loans to members
Loans can only be made to Credit Union members. Loan interest rates range from 5.15% to 19.00% p.a. (30 June 2020: 5.45% to 19.00% p.a.) The Credit Union has a lending policy that requires various levels and types of security for loans and includes that a portion of loans may be secured over the borrowing member's shares. The Friendly Societies and Credit Unions Act 1982 limits the risk of any one member and provides, along with the loan agreement that, any and all shares might be used to offset an individual loan to the limit of their liability.

18 CONCENTRATION OF FUNDING

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

19 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

20 CASH FLOW RECONCILIATION

	2021	2020
Reconciliation of net cash flow from operating activities to operating profit	$	$
Operating (deficit) / surplus for the year	(81,925)	(198,741)
Noncash items:		
Depreciation and amortisation	92,659	86,525
Gain on disposal of Property, Plant & Equipment, Motor Vehicles	0	(920)
Bad loans written off	48,259	128,833
Increase / (Decrease) in provision for loan impairment	40,681	55,141
	181,599	269,579
Changes in assets and liabilities:		
Capital Notes Sale – Deferred Settlement	0	89,641
Decrease / (Increase) in trade and other receivables	3,814	(136,873)
(Decrease) in trade and other payables	(138,721)	(22,031)
	(134,907)	(69,263)
Net cash provided by operating activities	(35,233)	1,575

21 RELATED PARTY DISCLOSURES

(a) Remuneration of Directors and Key Management Persons (KMP)

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

Directors' and other KMP holdings at balance date are:	2021 $	2020 $
Owing to Directors and other KMP (shares)	203,607	140,760
Owing by Directors and other KMP (loans)	84,279	84,808
Interest expense to Directors and other KMP (on shares)	1,980	4,563
Interest income from Directors and other KMP (on loans)	7,025	9,302

There are no shares from Directors exceeding 12 months at 30 June 2021, (30 June 2020: Nil) and all Directors' loans are repayable on demand. The Directors received fees for the year to 30 June 2021 of $9,000 (30 June 2020: $37,685) for their services.

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

Key management remuneration for the year ended:	2021 $	2020 $
Short term employee benefits	164,319	215,415
Total remuneration	164,319	215,415
Number of persons recognised as Key Management Persons	8	8

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

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

Other related parties' holdings at balance date are:

Other related parties' holdings at balance date are:	2021 $	2020 $
Owing to other related parties (shares)	6,573	6,487
Owing by other related parties (loans)	636	3,331
Interest expense to other related parties (on shares)	71	102
Interest income from other related parties (on loans)	306	936

The Credit Union deals with other related parties on the same term and conditions applied to members.

No Director or related party loans have been written off for loan impairment during the year (June 2020: Nil) and no amounts are included in the provision for impairment at 30 June 2021 (refer to note 8) (30 June 2020: Nil).

22 EVENTS OCCURRING AFTER BALANCE DATE

On 17 August 2021 a positive case of COVID-19 (presumably of delta variant at the time) was discovered in the Auckland community after a long period of no community transmission. As a result of this all of New Zealand moved to Alert Level 4 which meant that all non-essential businesses once again ceased face-to-face operations. The Alert level was reduced to level 3 on 1 September 2021 for the rest of New Zealand while Auckland remained at alert level 4 for an additional two weeks. Subsequently, Auckland moved to Alert Level 3 from 22 September 2021. The current lockdown's impact on the Credit Union's ability to lend money to new and existing members has been considerable, however in previous lockdowns lending has recovered significantly upon return to Level 2 or Level 1. The impact on individually impaired loans and provision for doubtful debt has been negligible post year end.

Other than the uncertainty created by the ongoing COVID-19 global pandemic, there were no known other momentous post balance date events that will materially impact the current period's financial statements.

23 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

2021	Loans and receivables $	Total $
Financial assets as per Statement of Financial Position		
Cash and bank balances	3,454,596	3,454,596
Deposits at Banzpay and trading banks	1,605,483	1,605,483
Trade and other receivables (excluding prepayments)	164,653	164,653
Loans to Members	15,711,843	15,711,843
Total	20,936,575	20,936,575

	Other financial liabilities $	Total $
Financial Liabilities as per Statement of Financial Position		
Trade and other payables (excluding provisions and employee benefits)	376,578	376,578
Members' deposits	17,885,529	17,885,529
Total	18,262,107	18,262,107

2020	Loans and receivables $	Total $
Financial assets as per Statement of Financial Position		
Cash and bank balances	3,346,992	3,346,992
Deposits at Banzpay and trading banks	2,455,483	2,455,483
Trade and other receivables (excluding prepayments)	226,207	226,207
Loans to Members	15,242,163	15,242,163
Total	21,270,845	21,270,845

	Other financial liabilities $	Total $
Financial Liabilities as per Statement of Financial Position		
Trade and other payables (excluding provisions and employee benefits)	376,578	376,578
Members' deposits	17,791,313	17,791,313
Total	18,167,891	18,167,891

Independent auditor's report

To the members of Credit Union Auckland Incorporated

Our opinion

In our opinion, the accompanying financial statements of Credit Union Auckland Incorporated (the Credit Union) present fairly, in all material respects, the financial position of the Credit Union 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 Credit Union's financial statements comprise:

- the statement of financial position as at 30 June 2021;
- the statement of comprehensive revenue and expenses for the year then ended;
- the statement of changes in members' funds for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a statement of 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 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 Credit Union 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 Credit Union in the area of register compliance assurance. The provision of these other services has not impaired our independence as auditor of the Credit Union.

Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter
Impairment of loans to members (2021: $346,198, 2020: $305,517) Loans to members, as disclosed in Note 7 to the financial statements, represent the Credit Union's core activity and are 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 loans to members, as disclosed in Note 8 of the 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. In the course of the preparation of the financial statements, a determination is made by the Credit Union of the likely losses on loans to members who have not maintained loan repayments in accordance with the loan contract, or where there is other evidence of potential impairment. Each loan is either individually or collectively assessed. In determining the impairment provision, an estimation is made of the potential impairment based on individual circumstances of the member (individually impaired loans) or on the length of time the loans are in arrears but not impaired (collectively assessed loans), taking into account information such as security, repayment plans, any impact of COVID-19 alert level changes and other relevant factors. The collective provision is based on credit union industry guidance in New Zealand and considers the length of time a loan has been in arrears. The Credit Union has concluded this guidance remains appropriate in the current year.	Our audit procedures included the following: We obtained an understanding of management's process for estimating the provision for impairment to understand the key controls in place over credit risk management and the process for identifying and estimating impairment. We have assessed the design and operating effectiveness of the key controls, including the monthly review and approval of the loan ledger and associated provisioning and write-offs by the Board of Directors. Our work over the provision for impairment of loans to members also included: • Assessing management's calculated provision for impairment by: – Considering and challenging management's key assumptions against a trend analysis of provisions and actual impairments compared to the prior year; – Performing a high-level comparison of management's calculated provision for impairment of loans to members against the credit union industry guidance in New Zealand for reasonableness; – On a sample basis, tracing a sample of loans in arrears to the impairment provision to assess completeness of the provision for loans to members; – Selecting a sample of significant loans in arrears to independently assess the judgements applied by management in providing for individual loans to members; and – Considering the appropriateness of the provision for impairment in light of movements in loans in arrears subsequent to year end. • Considering the adequacy and accuracy of disclosures made in Notes 2(j), 2(t), 2(v), 7, 8, 14 and 22. These notes explain key details of the Credit Union's loan portfolio, its approach to impairment and that there is increased estimation uncertainty in the valuation of loans to members this year due to COVID-19. We have no matters to report.

Our audit approach

Overview	
Materiality	Overall materiality: $216,000 which represents approximately 1% of total assets. The Credit Union is an asset-based, not-for-profit organisation managing the assets of its members for their benefit. The Credit Union 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 Credit Union is most commonly measured by users, and is a generally accepted benchmark.
Key Audit Matters	As reported above, we have one key audit matter, being: ● Impairment of loans to members

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the 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.

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

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the 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 financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the 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 financial statements as a whole.

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 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 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 financial statements

The Directors are responsible, on behalf of the Credit Union, for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

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

https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-2/

This description forms part of our auditor's report.

Who we report to

This report is made solely to the 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 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 Philip Taylor.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
24 November 2021

Auckland

easy banking

PRODUCTS AND SERVICES

Everyday Account: Working account with money available by EFTPOS and ATM.

Bill Pay Account: A specific account to pay your bills, making the household budgeting that much easier.

Loyalty Saver: Ensures priority for loans and creates your Credit Union's lending pool. Savings attract monthly interest and are on 14-day notice of withdrawal.

Success Saver: Earn high rates of interest while your savings are on call. Interest is paid monthly.

Goal Saver: Tailor-make an account for your special goals.

Christmas Saver: Special savings account for that much-needed cash at Christmas.

Kids Cash Saver: Savings for your child; develops the saving habit at an early age.

Term Share Investments: A range of terms at competitive market-related rates.

Accessphone: 24-hour telephone banking from anywhere in the world.

Accesscard: 24-hour access to your funds through ATM and EFTPOS (only in New Zealand).

AccessDebit: Debit card giving access to your funds through ATM and EFTPOS anywhere in the world, as well as making purchases online and by phone.

Accessonline: 24-hour personal internet banking service. View account balances and transactions, make transfers and payments, and set up and amend automatic payments.

AccessMobile: App on your smartphone to give you 24-hour access to your personal internet banking.

Personal Loans: At competitive rates for any worthwhile purpose.

Home Loans: Mortgage finance to purchase your own home or investment property.

Loan Repayment Protection Insurance: Covers your loan payments in the event of death, sickness, accident, disability and redundancy.

Money Transfer Service: Overnight transfer of your Credit Union funds to any bank account of your choice.

Insurance: Fire, theft and accident cover for your vehicles, home and contents.

Credicare Bereavement Fund: Membership of this unique fund provides peace of mind for you and your family. On death, your next of kin receives an immediate tax-free payment.

Budget Advisory Service: Assisting Members to improve their money management skills in accordance with Credit Union philosophy.

Friendly Service and Advice - Our staff are always available to give you friendly, helpful advice with your money management - WE CARE!

NZCU Auckland is proudly a registered Credit Union – not a registered bank.

DIRECTORY

- **Board of Directors**

Greg Carll	Deputy Chairman
Robin Stevens	Secretary
Lionel Pereira	Treasurer
Keryn Corrigan	Independent Director
Sasha Lockley	Independent Director

- **Management and Staff**

Rob Collins	Chief Executive
Rudolf Laumatia	Chief Executive Designate
Ruth Rogers	Financial Services Manager
Melanie Lemusu	Operations Manager
John Cumming	Administration Manager
Chetan Patel	Accountant
Rhonda Clare	Risk and Compliance Officer
Rukhi Dahya	Administration Officer
Ana Leilua	Team Leader
Fou Alaimalo	Branch Manager
Tanya Work	Branch Manager
Uma Wati	Collections Manager
Nathaniel Macpherson	Senior Member Services Officer
Vilisi Buke	Senior Member Services Officer
Hika Dale	Senior Member Services Officer
Sala Scheck	Member Services Officer

- **Prudential Supervisor**
  Covenant Trustee Services, Auckland

- **Regulators**
  Reserve Bank of NZ (RBNZ)
  Financial Markets Authority (FMA)
  Registrar of Credit Unions

- **Auditors**
  PricewaterhouseCoopers (PwC), Auckland
  AML Solutions Limited, Auckland

- **Solicitors**
  Stace Hammond, Auckland & Hamilton
  Vlatkovich & McGowan, Auckland
  Ellis Tanner Hart

- **Branches/Sites**

Penrose (Head Office)
695 Great South Road
PO Box 12564
Penrose
Auckland 1642
Phone: (09) 579 1026 (all branches)
Fax: (09) 579 8396
Web: www.nzcuauckland.co.nz

Manukau
Mezzanine Floor
Westfield Shopping Mall
Manukau City
Fax: (09) 263 8057

Tip Top (Employees only)
Tip Top
113 Carbine Road
Mount Wellington
Fax: (09) 573 1107

Highbrook
Cnr Cryers Road & Allens Road
Highbrook
Fax: (09) 579 8396

Harbour (Employees only)
Ports of Auckland
Mechanics Bay

- **Bankers**
  Banzpay - Central Banking
  Westpac New Zealand Limited

- **Affiliations**
  NZCU Group
  Banzpay
  Provident Insurance
  Vero Insurance
  Financial Services Complaints Ltd