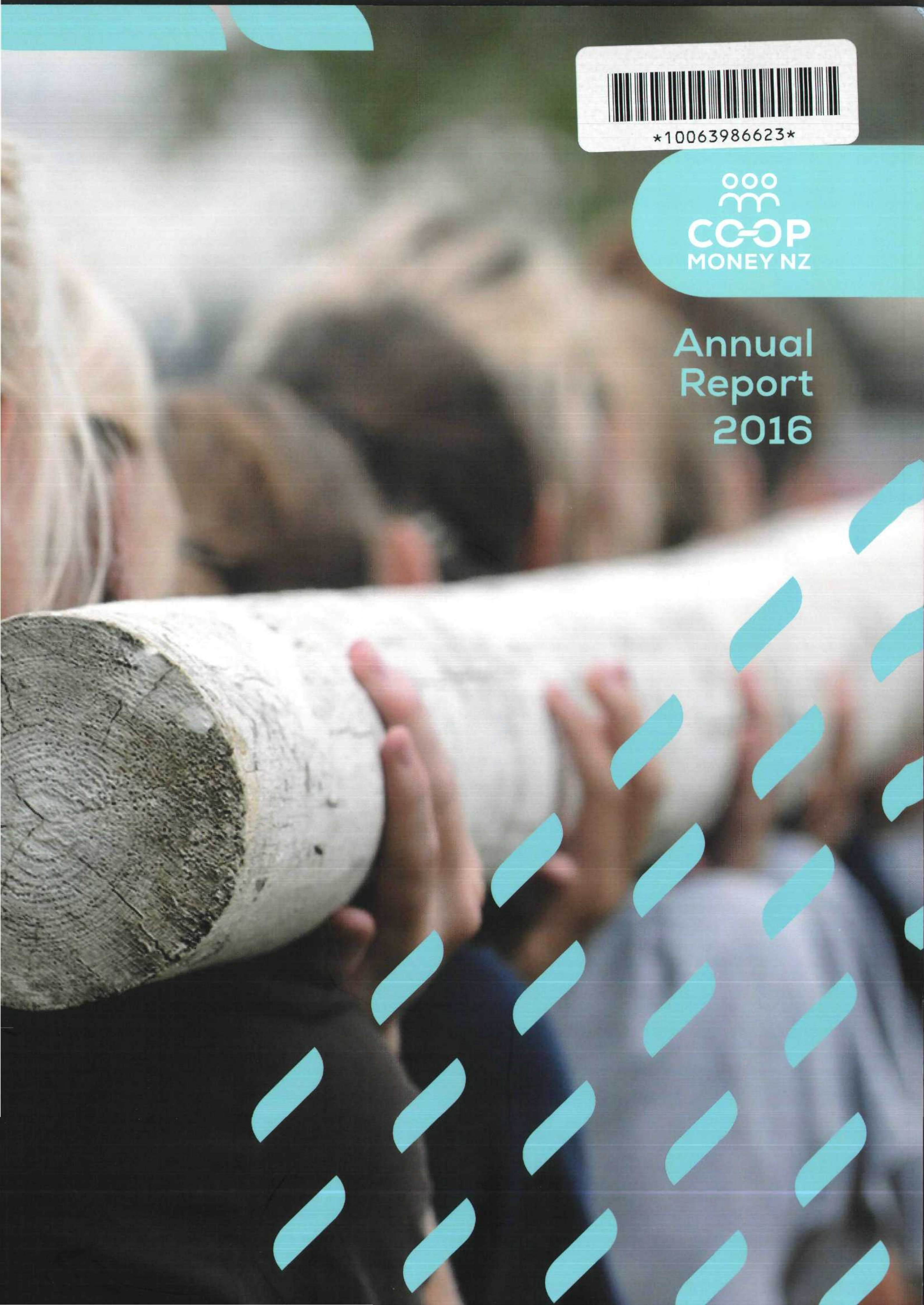
CO-OP MONEY NZ

# Annual Report 2016



CO-OP MONEY NZ

## INDEX



## CO-OP MONEY NZ DIRECTORY


**Registered Office:**
Level 3, 25 Teed Street
Newmarket, Auckland, 1023

**Postal Address:**
PO Box 9582, Newmarket
Auckland 1149
New Zealand

**Contact Us:**
E: info@coopmoneynz.org.nz
P: +64 9 520 0451

**Websites:**
www.coopmoneynz.org.nz
www.coopinsurancenz.co.nz
www.coopservicesnz.co.nz


**Solicitors:** Bell Gully

**External Auditors:**
PricewaterhouseCoopers

**Internal Auditors:** Deloitte

**Bankers:**
Westpac Institutional Bank

**Insurance Brokers:**
Crombie Lockwood Insurance Brokers

## Our Mission

**Co-op Money NZ** exists to represent, promote and support **Members** and provide cost effective business services.

## Our Vision

All **Members** and **Co-op Money NZ** cooperating together to grow.

## Our Values

Co-operation
Communication
Value to **Members**

## Our Members

**Co-op Money NZ** is proud to be the industry voice for our **Member** credit unions and mutual building societies in New Zealand. Our **Members** play an important role in the New Zealand financial services market and have been providing a valued service to Kiwi communities across the country for over 154 years.

### Executive Team

Henry Lynch
**Chief Executive Officer**

David Smart
**Chief Financial Officer**

Jonathan Lee
**Chief Operating Officer**

Deane Johns
**Chief Information Officer**

Graham Bunkall
**Insurance & Group Capability Manager**

### Management Team

Crystal McKeown
**Sales & Service Centre Manager**

Kevin Nolan
**Claims & Underwriting Manager**

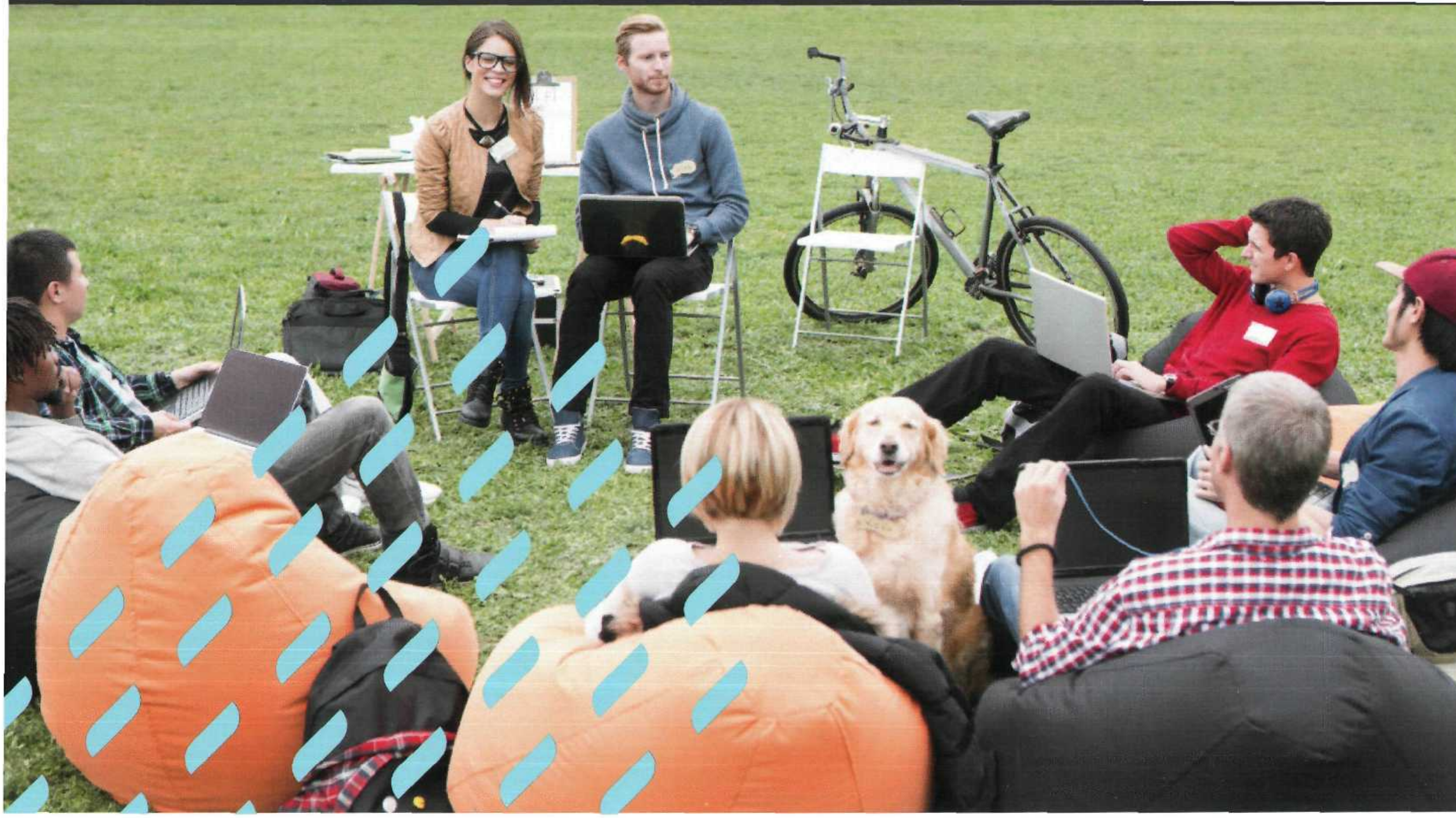
Kelvin Ho
**Development Manager**

Rene Brettenny
**Banking Operations Manager**

Sathya Ashok
**Communications Manager**

Steve Friis
**Manager, Risk & Compliance**

Toby Koller
**Infrastructure Manager**



## Our history and ownership

Co-op Money NZ started life as the New Zealand Credit Union League in 1961 with five original Member credit unions. As the credit union movement grew so did the League and in 1989 we became known as the New Zealand Association of Credit Unions (NZACU).

In 2014, now representing both credit unions and mutual building societies, we re-branded again as Co-op Money NZ to better reflect the broader nature of our Members and to provide a modern and fresh look and feel to the organisation.

Today, Co-op Money NZ is owned by 13 Member credit unions, and represents 14 credit unions and 4 mutual building societies all over New Zealand, with combined assets of over $1.5 billion.

## Our Members

Co-op Money NZ represents credit unions and mutual building societies that meet the financial services needs of nearly 200,000 New Zealanders–that's **nearly 1 in every 20 Kiwis!**

With a focus on members, not shareholders profits, customer satisfaction levels for our Members are among the highest in the market. Our Members work tirelessly to serve communities throughout New Zealand, from Invercargill to Whangarei – both in main centres and many smaller communities.

## Our future

The financial services sector like many other industries faces potential disruption and change as consumer preferences and expectations continue to evolve at an ever increasing pace. Co-op Money NZ and our Members have embraced this change through embarking on a modernisation programme that includes a core banking system upgrade and a direct relationship with MasterCard. These are exciting times for the Movement. Over the coming years we will benefit from these initiatives, and these benefits will flow through to better products and services and deeper relationships between our Members and their members.

## Co-op Money NZ and the International Credit Union Movement

As a member of the World Council of Credit Unions (WOCCU), which represents over 223 million people in 109 countries across the globe, Co-op Money NZ is committed to operating according to international Credit Union Operating Principles founded on the philosophy of cooperation and democracy. This membership with WOCCU, ensures we have up-to-date information and cooperation from credit union organisations worldwide.

## Cooperatives in New Zealand

Co-op Money NZ also supports the wider cooperative sector through our membership with Cooperative Business New Zealand.

Cooperatives in New Zealand employ 43,000 people directly, and their collective turnover represents almost 15% of New Zealand's Gross Domestic Product (GDP).

Co-op Money NZ, along with our members, is ranked at **number 28 in Cooperatives Business New Zealand's "top 40"** co-operative and mutual businesses in NZ by revenue.

# Key Highlights 2016

**8,634**
Kiwisaver members

**6,276**
Carminder policies

**7,410**
Funeral Plan policies

**54,418**
AccessDebit Cards issued

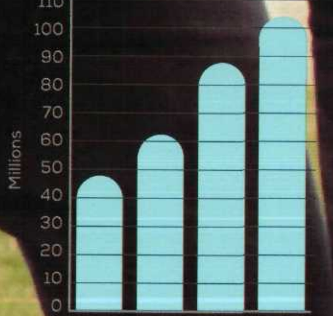
**99.94%**
Information Services uptime

**12,666**
Calls logged at Co-op Money NZ service desk

**69%**
Increase in value of Mobile Banking Transactions

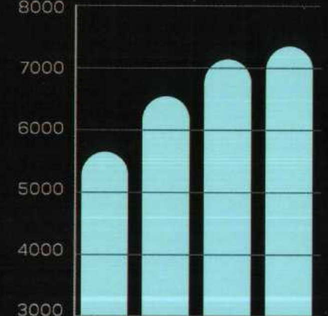
**16**
Graduates with NZQA Certificates

**KiwiSaver:**
Member FUM as at 30 June 2016

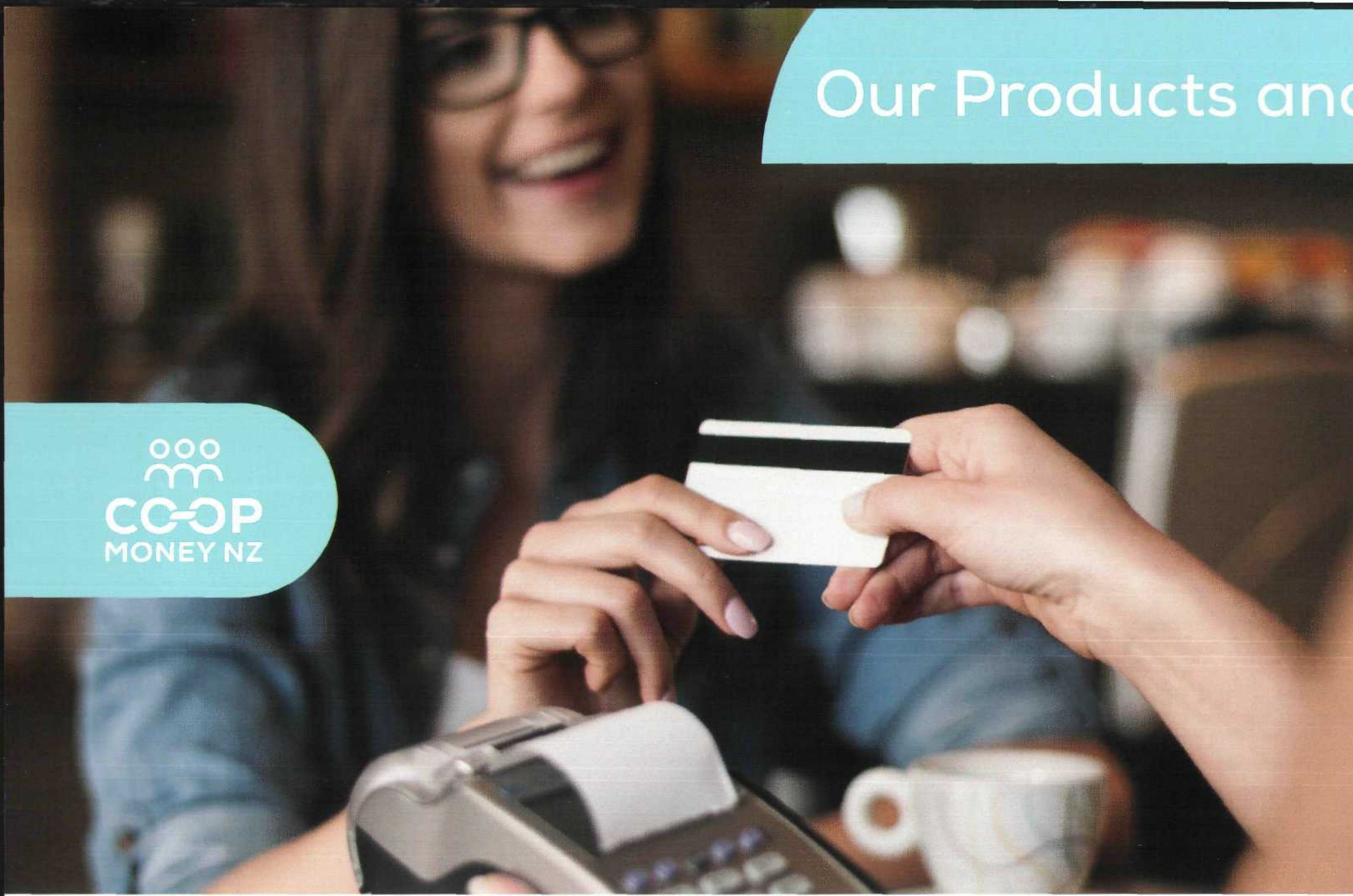



**Member Assets:**
as at 30 June 2016


**Funeral Plan Policies:**
as at 30 June 2016



# Our Products and




**Co-op Money NZ** is proud to provide our Members and other organisations with a range of banking, payments and insurance products and services.

With over 50 years of experience in providing products and services to our Members and customers, we are well equipped to help financial institutions with their daily business and IT challenges. In addition, we have:

- Established relationships with industry regulators
- Bilateral agreements in place with all major banks for ATMs and card services
- Principal licence with MasterCard
- Annual audits by PwC and Deloitte
- Network security audited annually by Security-Assessment.com
- Robust security and compliance on all network services and entry points
- Dual mirrored data sites providing secure disaster recovery systems
- Been admitted to Payments NZ's system as a direct payments provider

**we are well equipped to help financial institutions with their daily business and IT challenges**

## Our core products include:

### Core Banking and Bureau Services

A bureau and core banking service that provides access to the full range of products, services and channels expected of a banking platform, including transactional banking, savings and lending, card processing, and internet, telephone and text banking. Our latest enhancement, AccesssMobile, is a convenient and simple to use white label mobile banking app with state-of-the-art security that can be used to manage accounts on the go.

### ATM Services

Co-op Money NZ manages a nationwide AccessCash network of nearly 100 ATMs for our Members and customers, and has agreements for ATM switching services for a further 900 convenience ATMs throughout New Zealand. Therefore, we manage a total of 1,000 ATMS across the country, which makes us one of the largest ATM service providers in the country.

### Card Services

AccessDebit is a MasterCard® scheme Debit card which features the latest PayPass™ 'Tap & Go™' contactless technology and can be used online, and at ATMs and EFTPOS terminals throughout NZ, and at millions of locations overseas wherever MasterCard is accepted. In addition, Accesscard is an EFTPOS card which can be used at all ATMs and EFTPOS terminals throughout New Zealand, and overseas where the MAESTRO logo is displayed.

### Infrastructure Solutions

Together with a number of key partners, our dedicated team of highly skilled IT professionals provide total leading-edge technology solutions and services to effectively become the in-house 'IT department' for organisations.

# Services


**Co-op Insurance NZ** provides New Zealanders with a range of simple insurance products designed to meet the needs of everyday Kiwis, including,

**Loanminder**
Loanminder is a sensible and cost-effective way to ensure that your family is protected and your loan instalments are covered in the case of an unexpected event.

**Carminder**
With Comprehensive and Third-Party cover options, Carminder gives you the confidence of knowing that your vehicle is protected while you are on the road.

**Funeral Plan**
Funeral Plan from Co-op Insurance NZ is a simple, affordable way to give your family practical assistance to deal with funeral costs and other bills when they need it.

**Backstop**
Backstop Redundancy and Bankruptcy Insurance will help you protect your family's lifestyle and ensure that there is money coming in to pay the bills until you get back on your feet.

**Accidental Death**
A Co-op Insurance NZ Accidental Death Policy can help ease the financial pain for your family as it pays a lump-sum amount of up to $100,000 to your beneficiary or estate, if you die as a direct result of an accident.

As a member of the Insurance Council of New Zealand (ICNZ), Co-op Insurance NZ is committed to complying with the Fair Insurance Code. The Fair Insurance Code sets out industry best-practice standards for ICNZ members.

As a subsidiary of Co-op Money NZ, Co-op Insurance NZ is ultimately owned by our Member credit unions.

**As a result everything we do is underpinned by our "people-helping-people" co-operative values.**

**We are constantly listening to Member feedback and reviewing our products to ensure we are providing quality, market-leading insurance products that reflect the needs of everyday Kiwis**

# Member Locations

### Northland Region:

**ACU**
Whangarei
**NZCU Steelsands**
Marsden Point
**Westforce Credit Union**
Whangarei

### Auckland Region:

**ACU**
Clendon
Glen Innes
Mangere
Otara
Papakura
Papatoetoe
**Fisher & Paykel Credit Union**
Appliances, East Tamaki
Healthcare, East Tamaki
**NZCU Auckland**
Auckland Airport
Penrose
Manukau City
Mt Wellington
**NZCU Employees**
Penrose
**NZCU Steelsands**
Auckland City
Glenbrook
Waiuku
**Westforce Credit Union**
Avondale
Onehunga
Papakura
Pukekohe

### Waikato Region:

**ACU**
Hamilton
Hamilton-Te Kohao Health
**First Credit Union**
Hamilton City
Ngaruawahia
Te Aroha
Te Kauwhata
Thames

### Bay of Plenty Region:

**Caxton Employees Credit Union**
Kawerau

**Credit Union Central**
Edgecumbe
Kawerau
Kopeopeo
Murupara
Rotorua
Taneatua
Te Puke
**First Credit Union**
Bethlehem
Greerton
Kawerau
Mt. Maunganui
Rotorua
Tauranga Hospital
Taupo
Tokoroa
Whakatane

### Taranaki Region:

**NZCU Baywide**
New Plymouth

### Gisborne Region:

**Credit Union Central**
Gisborne
**NZCU Baywide**
Gisborne

### Hawkes Bay Region:

**Heretaunga Building Society**
Hastings
**Napier Building Society**
Napier
**NZCU Baywide**
Dannevirke
Hastings
Hastings Hospital
Napier
Taradale
Waipukurau
Wairoa

### Manawatu/ Wanganui Region:

**ACU**
Whanganui
**NZCU Baywide**
Palmerston North Palmerston
North Hospital
Wanganui

### Wellington Region:

**First Credit Union**
Johnsonville
**New Zealand Police & Families Credit Union**
Wellington
**NZCU Baywide**
Lower Hutt
Masterton
Porirua
Wainuiomata
**NZ Fire Fighter's Credit Union**
Petone
**Wairarapa Building Society**
Masterton

### Nelson Region:

**Nelson Building Society**
Nelson
Motueka
Richmond
Takaka
**NZCU South**
Nelson
Richmond
Nelson Port

### West Coast Region:

**Nelson Building Society**
Greymouth
Murchison
Westport
**NZCU South**
Greymouth

### Canterbury Region:

**Nelson Building Society**
Ashburton
**NZCU South**
Hornby
Sydenham
Timaru

### Otago Region:

**NZCU South**
Dunedin
Oamaru

### Southland Region:

**Alliance Group Credit Union**
Invercargill
**NZCU South**
Invercargill
Gore

# Project Gear3
## A New Beginning with Oracle

**The year has seen the start of a major transformation project for Co-op Money NZ and eleven of our Member credit Unions. Titled Project Gear3, this major project involves the replacement of our core banking system, FACTS, with a new Tier One core banking system in Oracle Flexcube. The name Project Gear3 is in reference to Co-op Money NZ, our Members and Oracle all working together to drive our Members' businesses forward into the future.**

Oracle Flexcube was chosen by our Members after a due diligence process that involved the review of a number of prospective suppliers and their systems. Oracle Flexcube has been installed in over 500 organisations worldwide and was selected by our Members because of its better workflow, ability to better adapt to future demands around channel access and provision of a single view of the member.

Project Gear3 is more than a technology project and will involve a business change programme across our Member organisations as systems and processes are reviewed for modern best practice. Our Members are embracing this opportunity to review the way they work and to ensure that they can maximise the benefits of this new technology to improve the products and services provided to their members.

Project Gear3 has been split into three major phases:

- The first phase of the project involves delivery of the core banking solution to ACU, the pilot credit union for Project Gear3.
- The second phase begins just prior to the launch of the pilot in Phase 1 and will see the solution rolled out to a further three participating Member credit unions.
- The final phase of the project will comprise of the solution being implemented for the remaining seven participating Member credit unions.

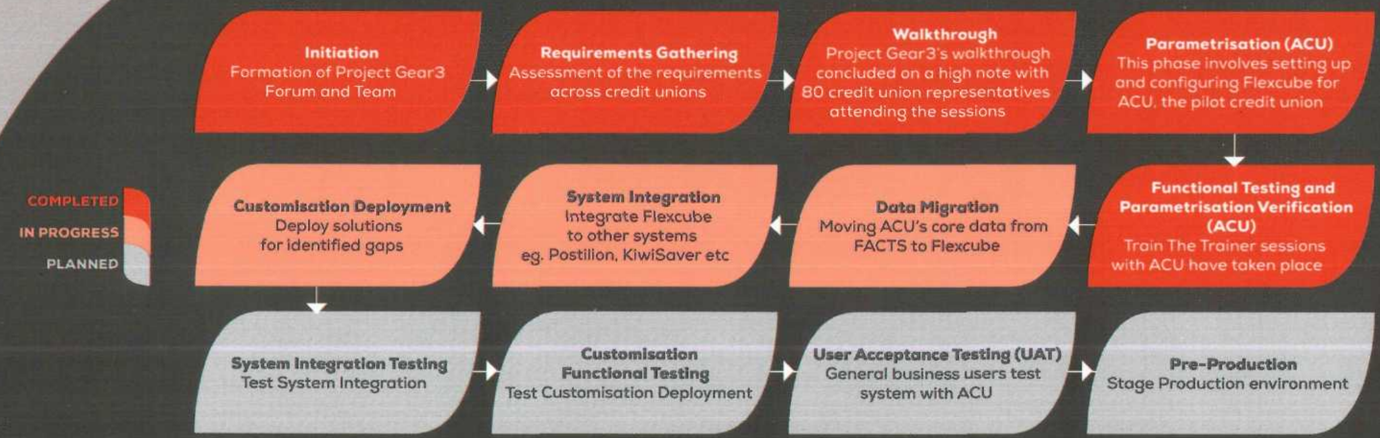
A relevant governance structure has been established to oversee the implementation of this critical project, which includes Members and a designated project manager and the project team.

Communication is key. Notices to Members are issued monthly and a Project Gear3 blog site has been established to communicate regularly with those involved and to answer questions from Members and their staff involved in the implementation.

As of July 2016, the Project Gear3 Forum confirmed NZCU Baywide, NZCU South and New Zealand Firefighters Credit Union as the participants in the second phase of Project Gear3. The End-User Training Plan was approved by the Project Gear3 Forum in May. Work has begun on the development of an End-User Training Programme. It will be developed and delivered to ACU, the pilot credit union, before being rolled out across other participating Member credit unions.

**Exciting times ahead!**

## Project Gear3 Key Steps (as at 1 August 2016)



CLAIRE MATTHEWS

# Chair's Report

This is my first Chair's report since being elected as Chair in August 2015, and what a period of time it has been. A lot has been achieved for the 2015/6 financial year but it hasn't been plain sailing.

From a group perspective, Co-op Money NZ and its subsidiaries achieved a group profit for the year to 30 June 2016 of $1,712,000 which is down from the previous year's profit of $1,811,000.

Total dividends paid during the year were $786,000 and the dividend rate was 5.74%. Risk weighted capital adequacy as at 30 June 2016 was 10%, which reflects Co-op Money NZ's own investment in the Oracle core banking (Project Gear3) for Members.

## Delivering on Value

This year has been seen the launch of Project Gear3, the implementation of a new, modern core banking system to better position Members for the demands of 21st century banking. The need to refresh our banking core infrastructure has been a topic for discussion for a number of years, and I am pleased that in the Oracle Flexcube solution we have a high quality tier one banking solution. The collaboration of 85% of Members to deliver this project demonstrates our cooperative strength in working together to provide better solutions for Members than if we each work individually. Oracle will be rolled out across the participating Members over the next 20 months, with the first Member (ACU) due to go live in November this year.

I would like to acknowledge the tremendous effort invested by the Co-op Money NZ team and the pilot credit union, ACU, in delivering this project. ACU, as the first participant, is really paving the way which will greatly help subsequent Members as they come on board.

Our highly successful AccessDebit card continues to grow in strength with over 54,000 cards in circulation as of 30 June 2016. As expected, the growth in AccessDebit cards has seen a decline in AccessCards and their use. This decline is expected to continue as AccessDebit with its improved functionality becomes the primary card for Members.

AccessMobile, our market-leading mobile banking product, was launched in May 2015, and has continued to achieve huge traction with your members. The app has been downloaded on Apple and Android platforms over 29,000 times. We expect this trend to continue as digitisation and instant access to services grows in importance to your members.

The team has also worked through the year on improving AccessWeb, our internet banking platform, with improved functionality.

## Co-op Insurance NZ

Co-op Insurance NZ has earned a profit of $380,000 for the year net of rebates of $889,000 GST inclusive. This compares with a profit of $194,000 and rebates of $1,324,000 GST inclusive for the prior year. Insurance commission for this year was $1,789,000 GST inclusive compared to $1,837,000 GST inclusive for the year ended 30 June 2015.

The Co-op Insurance NZ team are constantly looking at ways to improve products, service and profitability for the organisation. This year has seen enhancements to our Carminder product with the introduction of paperless direct debits, an automated underwriting system, and an innovative multi-year policy option to assist Members to match insurance to loan duration. In the coming year, we have enhancements planned to raise the cover amount for Funeral plan and Loanminder disability, and to introduce an agreed value option for Carminder.

A new board governance structure was put in place, with the addition of an independent director Steve Nichols. Director, Graham Clouston was initially retained as a director of Co-op Insurance NZ pending the implementation of the new governance structure. He has now retired from the Co-op Insurance NZ board following his retirement from the Co-op Money NZ main board. I would like to thank Graham for his service to both Boards for the last seven years and welcome Steve on board.

## Regulatory Changes

It has been a disappointing year from a regulatory perspective. We have gone from the high of our close working relationship with the Ministry of Business, Innovation and Employment and of having long awaited changes to the antiquated Friendly Societies and Credit Unions Act being endorsed in a Government sponsored Regulatory Systems Amendment Bill, to the low of

## Even as we embrace the future in technology, product and process, it is important to remember that our core fundamental reason for being will always be 'people-helping-people.'

having our changes pulled at the 11th hour due to some Member disunity. These changes would have allowed for credit unions to be established as bodies corporate and to be able to lend to small businesses owned by their members if they so wished. The changes had been well canvassed with Members and we have been advocating for them for well over a decade. To get so close and have the changes pulled for what essentially has been an "own goal" is very disappointing.

The challenges with Member unity regarding the changes to our Act has reinforced to me more than ever the need for Members and Co-op Money NZ to work together hand-in-hand to remain the strong voice for the customer owned banking sector and all the people Members help day in and day out.

At the time the 2014's Annual Report was being written we were awaiting to hear the final outcome of the Non-Bank Deposit Taker's Prudential Supervision regime review undertaken by the Reserve Bank of New Zealand. Two years later, we are still awaiting the Minister of Finance's report on the review.

The new Financial Market Conducts Act regime is fast approaching with some Members already having transitioned from the Securities Act regime to this new regime. Under the new regime, all Members have until 3 Nov 2016 to transition from a prospectus and investment statement disclosure to new Product Disclosure Statements. The new Product Disclosure Statements was another example of the success of Co-op Money NZ lobbying to simplify disclosure requirements for Members.

During the year the new Health & Safety at Work Act 2015 was enacted. We have always been strong advocates for providing a safe and healthy workplace, and with this new legislation, we have taken the opportunity to fully review our health and safety policy and procedures. This has resulted in minor enhancements to ensure compliance.

### The Future is Now

The future is no longer something that is about to happen to us. It is happening right now, in front of our eyes. And it is up to all of our Members to harness this future and make it work for them as individual organisations and together as a movement.

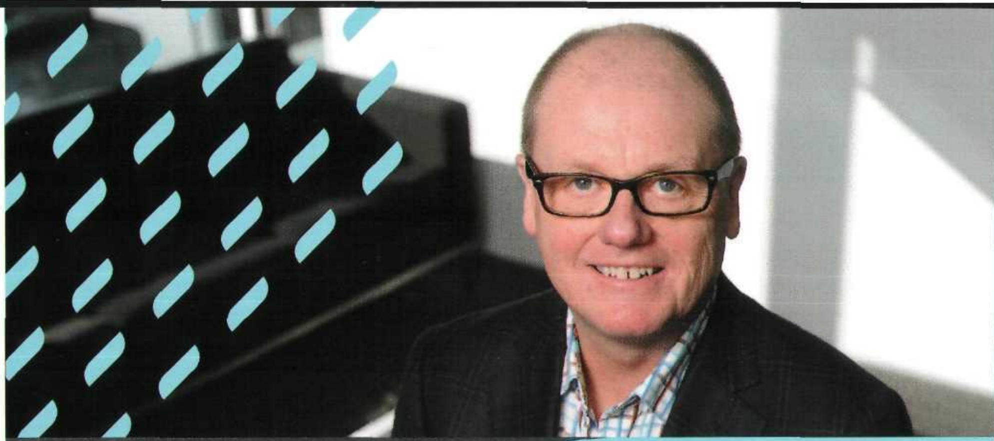
Our September 2016 conference theme 'The Future is Now' explores this cross roads we are at as we invest to modernise infrastructure and systems. We are also reviewing the Co-op Money NZ governance structure to ensure its fit-for-purpose to govern ourselves and to appropriately represent our Member's interests moving forward.

A particular challenge in the short term is managing the regretable on-going loss of business from First Credit Union.

Even as we embrace the future in technology, product and process, it is important to remember that our core fundamental reason for being will always be 'people-helping-people.' On this note, I would like to acknowledge the effort and commitment of the Co-op Money NZ and Co-op Insurance NZ board, staff and management. We should remember that the team works daily behind the scenes to deliver the products, services and initiatives needed by our Members to compete in the competitive banking and insurance environment.

Lastly, I would like to thank you, our Members, for your support over the year. We have achieved a lot this year, and together we can achieve a lot more.

CLAIRE MATTHEWS
**Chair**



HENRY LYNCH

# CEO's Report

**This year is likely to be marked as one of the most significant in terms of the opportunity to position Co-op Money NZ and our Members for the future. Together, we have embarked on a strategy to fundamentally change the cost base and operational capabilities of Members for the future. The first element was to refresh our core banking system—the thread that provides the common link across our products and services and is the key interface between your staff and your members. This refresh was required to enable member centricity—a single view of your member—and much improved workflow and operability for staff, and flexibility for Members to better configure solutions to respond to market demands.**

After extensive stakeholder engagement and research, the Information Systems Steering Committee chose the market leading Oracle Flexcube solution to replace our current system, FACTS. Project Gear3 was established with a governance structure agreed with participating Members that involved steering committee oversight and the Oracle Purchasing Group for wider participation. This governance structure has proved effective in providing the responsiveness required to achieve our ambitious implementation targets balanced with the need for Member participation in key decision making.

ACU, as the pilot credit union, has put a tremendous amount of effort into the project and is laying the ground that will become the basis by which all other participating Members will benefit. I would like to acknowledge and thank the ACU team for their immense contribution to the project.

With ACU scheduled to go live in November 2016, work to bring across the next three Member credit unions will soon commence with the remaining Members coming on board in late 2017. We are developing training for the platform which will be rolled out prior to the pilot.

It is important to note that Project Gear3 is a transformational project that will bring tremendous change to participating credit unions and is expected to provide them with the tools they need to address new requirements in the market in a proactive and timely fashion.

## Laying the platform for the future of the movement

The second element, the establishment of a direct relationship with MasterCard, was completed in January 2016. The cost savings from this will flow through to Co-op Money NZ and Members when the project costs have been recovered. Members are already seeing the benefits from this project with increased revenue from their ATMs through the ability to now accept international cards.

The third and final element to the movement's modernisation strategy is to become a direct participant in the New Zealand banking system. Entry has been a slow and tedious process, however, in June 2016 Payments NZ accepted Co-op Money NZ as a participant in the Bulk Electronic Clearing System (BECS). We expect this project to transition Members across during 2017/8. One benefit of the project will be the implementation of intra-day settlement for Members, a member benefit which we expect will become increasingly expected from consumers with their banking provider.

## Banking operations

Banking operations have continued to perform at an exceptionally high level with system uptime just short of our Key Performance Target of 99.95% across all member channels for the year. To leverage our existing surplus capacity on our Postilion switch we have also entered into relationships with ATM providers, Next Payments and DC Payments, to switch transaction traffic from their ATMs. On full implementation, we will be the largest ATM switch in the country, switching approximately 1,000 ATMs or 29% of all the ATMs in the country.

## Member Engagement

The successful *bilateral meetings* commenced last financial year between Co-op Money NZ's Executive Team and Members and has continued into this year. More than 14 meetings were conducted in the year up to 30 June 2016, and these have been invaluable in building close working relationships with our Member / Owners. In June we also held a Chairs and CEO / Managers Forum, and intend to continue these Forums in future.

In addition, we held Building Society Summit meetings on a regular basis for our mutual building society members.

# I would like to thank all our Members for the continuous support and involvement shown in these initiatives.

Notices to Members continue to provide regular updates to Members. In 2015/6 we issued 53 Notices on a range of matters from Board updates to keeping Members up-to-date on regulatory matters to moving forward on strategic projects, initiatives and services for Members.

Our FACTS and Co-op Insurance NZ User Groups have continued to meet through teleconferences through the year and add value by bringing staff from across credit unions together to share updates and progress on different fronts.

I would like to thank all our Members for the continuous support and involvement shown in these initiatives.

## Events supporting initiatives

Our Workshops, Forums, Summits and Annual Conference continue to foster positive sharing of ideas and learning opportunities for Members and we work hard to put together relevant events that both inform, motivate and inspire. The feedback from the recent April 2016 Forum showed a positive 88% of the Members rating the event as either "Very Good" or "Excellent". We were also fortunate to have the Minister of Commerce and Consumer Affairs, the Honourable Paul Goldsmith, address the audience as part of the Members' Dinner on the evening of the 2016 Forum.

Besides these events, we have continued to conduct bespoke tailored workshops for our Members that are targeted either towards learning or bringing Members together to understand projects that affect them better.

The NZQA qualifications that are offered in partnership with The Skills Organisation have continued to make an impact on the lives of credit union staff. This year 16 staff across the movement completed the programme and attained nationally recognised qualifications, bringing the total number of graduates to 30. This fantastic achievement was recognised at a graduation ceremony in April 2016–a ceremony that is fast becoming a tradition to look forward to for graduates.

## Co-op Insurance NZ improvements

Co-op Insurance NZ has seen significant changes in the past 12 months, including new product launches and process enhancements that have made life easier for staff dealing with insurance products across Member organisations.

The Carminder multi-year option, which allows for policies to be taken out by members up to 36 months at a time, has seen consistent growth since launch as the policies allow for Members to match insurance cover to the term of a loan. The bundling of the Carminder Comprehensive product with Vero's Home and Contents policy has also been very well received by Members and enables Members to be much more competitive.

One of our ongoing strategic goals is to leverage our investment in the insurance business to provide the benefits of scale back to our Members. In April 2015, we launched a new channel through Provident Insurance Corporation Limited, to distribute motor vehicle insurance through their network of registered motor vehicle traders. We have a good working relationship with Provident Insurance and report strong growth in their car insurance business. It is early days in the performance of this portfolio and we are keeping premium pricing and key financial ratios under review.

## Efforts in lobbying

Co-op Money NZ has continued its efforts to improve the legislative environment under which Member organisations function. Key among this has been our involvement in highlighting the impractical quorum regulations for special resolutions called for under Financial Markets Conduct regulations. The Ministry of Business, Innovation and Employment (MBIE) has agreed with this assessment. After consultation with Members, we have proposed that quorum requirements are better set within a Members' rules.

The cabinet has subsequently approved a change in FMC Rgulations to allow the quorum settings applying to special resolutions to be set in Member Trust Deeds. The specific wording is currently being drafted by the MBIE. We expect to hear back later this year on their proposed solution to fix this issue for Members.

This year we have also run a compliance roadshow to gauge how Members are meeting their compliance obligations and how Co-op Money NZ could continue to provide further assistance.

In addition, Co-op Money NZ has initiated quarterly compliance forums via conference calls to share knowledge, as well as identify and solve common issues.

Our ability to be both an industry association advocating for our Members, and the primary product and services provider, means we garner a lot of interest from overseas organisations looking at how they can improve the performance of their respective co-operative sectors. Recently, we have been asked for information by the Association of British Credit Unions to learn from our strategy, our products and services and our model, validating the world-leading system we have created together as a co-operative.

As we embark on a new financial year, I am excited about the positive changes we are likely to see in the coming months. I would like to express my genuine thanks to Co-op Money NZ and Co-op Insurance NZ staff and board members for their on-going commitment and dedication in serving our Members, and to our Members for their continued support and collaboration. The past 12 months have been an exciting period of change for us all, and the coming year will no doubt be filled with many more new challenges and opportunities.

I look forward to working with you all to achieve even greater success for our sector, and thank you for your continued support.

HENRY LYNCH
**Chief Executive**


**The Co-op Money NZ Forum 2016, which took place in April, recognised the graduates that completed their NZQA qualifications.**

# Board & Governance

Co-op Money NZ has adopted the Corporate Governance in New Zealand – Principles and Guidelines publication endorsed by the Financial Markets Authority to review and report on our governance practices. Details of the directors are set out on page 65 of this report.

Unless apparent from the context or otherwise noted, references to Co-op Money NZ refer to the Co-op Money NZ Group, including its subsidiaries.

At the 2015 Annual General Meeting it was announced that Bhikhu Bhana and Mary Martick were elected to the Co-op Money NZ Board. With these elections, the Board comprised Bhikhu Bhana, Bruce Bleakley, Mary Martick, Claire Matthews, Peter Taylor, Simon Scott, and Rob Nicholls (Independent Director). It was also announced that Claire Matthews and Peter Taylor had been re-elected as Chair and Deputy Chair respectively. The Audit & Risk Committee was appointed with Rob Nicholls continuing as Chair and Bhikhu Bhana and Bruce Bleakley serving as committee members.

In May 2016, the Co-op Insurance NZ Board was restructured to provide greater separation from the Co-op Money NZ Board. The newly formed Co-op Insurance NZ Board comprised continuing Directors Claire Matthews (Chair), Peter Taylor (Deputy Chair), Bruce Bleakley and Co-op Insurance NZ CEO Henry Lynch. Steve Nichols was appointed as an Independent Director. Bhikhu Bhana, Graham Clouston, Mary Martick, Rob Nicholls and Simon Scott resigned.

The Co-op Services NZ Board is comprised of the Co-op Money NZ Directors and the Chief Executive.

## 1. Ensuring solid foundations for management and oversight

There are procedures designed by Co-op Money NZ to:

- Ensure that strategic guidance and effective oversight of management is provided by the Board
- Clarify the respective roles and responsibilities of Board members and senior executives in order to facilitate Board and management accountability to both Co-op Money NZ and its Member credit unions
- Ensure that no single individual has unfettered powers and there is balanced authority

The value of Co-op Money NZ's assets and interests are protected and enhanced through the approval of appropriate organisational strategy and processes, with particular regard to investment portfolio composition and return expectations.

To achieve Board and management accountability, Co-op Money NZ uses terms of reference (policies), and a formal delegation of authority to the Chief Executive. Day-to-day leadership and management of Co-op Money NZ is managed by the Chief Executive.

## 2. Structuring the Board to add value

In order for the Board to be effective and to add value to Co-op Money NZ, the Directors believe that it needs to facilitate the efficient discharge of the duties imposed by law.

To achieve this, the Board is organised in such a way that it:

- Obtains a proper understanding of, and competence to deal with, the current and emerging issues of the business

- Can effectively review and challenge the performance of management and exercise independent judgment.

**Board composition**
The constitution (rules) governing Co-op Money NZ allows for a maximum of seven directors one of whom may be appointed by the Board as an Independent Director for one or more fixed terms not exceeding three years each.

The Co-op Money NZ Board appointed Rob Nicholls as Independent Director in November 2009.

**Committees of the Board**
The Co-op Money NZ board has two committees: the Audit and Risk Committee and Director Nomination Committee. In addition, the Board may create ad hoc committees from time to time. In May 2016, the Board established a special Committee to deal with a complaint to the Registrar of Friendly Societies and Credit Unions. Members of this committee are Claire Matthews (Chair), Peter Taylor, Bhikhu Bhana and Rob Nicholls.

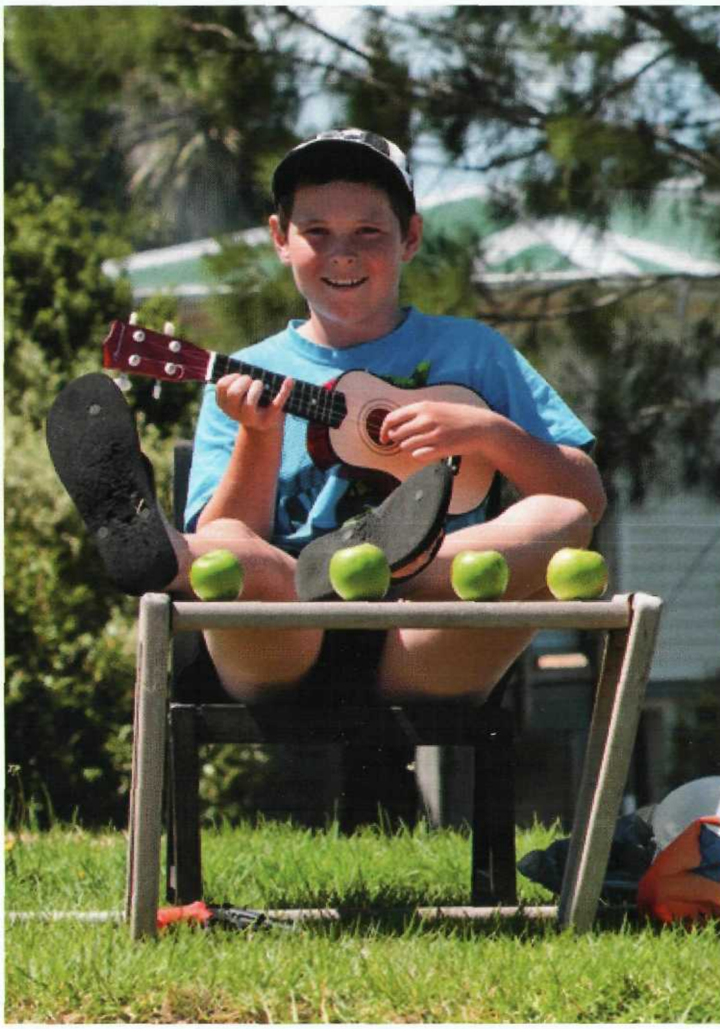
**Board process**
Member credit unions elect a majority of directors to help bring special expertise or perspectives to Board deliberations. Decisions of the board are made as a whole after taking each perspective into account. The decisions are made in the best interests of Co-op Money NZ.

Before each meeting, Directors receive comprehensive information on Co-op Money NZ's operations and have unrestricted access to any other information or records they require.

The Board can also utilise the help of senior management to attend relevant sections of Board meetings to address queries and to assist in developing the Board's understanding of the issues facing Co-op Money NZ and the performance of the business, which might not have otherwise been known.

In addition to regular Board meetings an annual strategic planning process occurs.

The Strategic Plan for 1 January 2016 to 31 December 2018 has been approved by the Co-op Money NZ Board and presented to Members. The Management reports regularly to Members on progress toward achievement of the plan.



## 3. Promoting ethical and responsible decision making

To deal appropriately with conflicts and/or interests Co-op Money NZ has written procedures in place to clarify the standards of ethical behaviour required of directors and management. Co-op Money NZ has an employee handbook, which embodies its values and supplements the code of conduct practices that are incorporated into all employees' terms of employment. An Ethics Committee can be formed when requested by the Board, or a Member credit union, for the purposes of reviewing any complaint received in accordance with the Code of Ethics.

Directors are required to make an annual affirmation to the Director Code of Conduct. This Code defines standards of professional conduct which the Board expects of its Directors.

## 4. Safeguarding the integrity of financial reporting

While the integrity of Co-op Money NZ's financial reporting is the sole responsibility of the Board, Co-op Money NZ has in place a structure of review and authorisation designed to ensure truthful and factual presentation of its financial position.

This includes:

- An Audit & Risk Committee that is appropriately resourced and operating under a written charter
- Review and consideration by the Audit & Risk Committee of the accounts and appropriate policies
- A process to oversee and ensure the independence and competence of Co-op Money NZ's external auditors
- Responsibility for appointment of the external auditors resides with the Audit & Risk Committee subject to approval by the Board
- Establishment of an independent external party that conducts the internal audit function with reporting responsibility to the Audit & Risk Committee


- The Audit and Risk Committee meet on a regular basis throughout the year and report directly to the Board.

## 5. Making timely and balanced disclosure

Accountability for compliance with disclosure obligations is with Co-op Money NZ's Secretary. The Chief Executive has been delegated the position of Secretary by the Board.

The Chief Executive and Chief Financial Officer must seek prior approval from the Audit & Risk Committee and the Board before making significant announcements, which include the interim half year and final full year results and dividend, the financial statements for those periods, and any advice on a change of earnings forecast.

## 6. Respecting the right of Members

Co-op Money NZ seeks to ensure that its Members understand its activities by:

- Maintaining effective and regular communications with them
- Giving Members ready access to balanced and clear information about Co-op Money NZ and any key organisational proposals
- To allow Member credit unions to easily and efficiently participate in general meetings and forums. To assist with this, Co-op Money NZ has developed an intranet, which is maintained on a daily basis with relevant information including copies of presentations, reports and media or Notice to Members. The annual report is available in electronic format from Co-op Money NZ.

## 7. Recognising and managing risk

A formalised system by Co-op Money NZ is in place for identifying, overseeing, managing and controlling risk. The Board is ultimately responsible for the oversight of risk management and setting Co-op Money NZ's risk appetite and tolerances. The Board is assisted by the Audit & Risk Committee in discharging its responsibilities with regards to the oversight of risk management. The processes involved requires the maintenance of a governance level Risk Management Framework and a Risk Register that identifies key operational risks facing the business and the status of various initiatives employed to reduce them. A Risk Appetite Dashboard is maintained which shows performance against Board approved risk tolerances and highlights any deviation from compliance with the risk tolerance.

The Audit and Risk Committee is responsible for designing an internal audit programme addressing the adequacy of internal controls related to Co-op Money NZ's credit, liquidity, market, operational and insurance risks. The committee is also responsible for overseeing the audit programme designed to test the adequacy of internal controls related to the Information Services delivered by Co-op Money NZ including the security of the FACTS system.

## 8. Encouraging enhanced performance

Directors and senior executives need to be equipped with the appropriate knowledge and information to discharge their responsibilities effectively and be assured that individual and collective performance is regularly and fairly reviewed.

Under the Board policy, Directors are provided with financial resources for ongoing training and education with a formal appraisal process that includes the chairman. An education and development allowance is granted to directors on appointment for their term. A Co-op Money NZ director can only use this resource for professional development, education and training that will be of direct benefit to their role. As part of the annual review of its governance processes, the Board is also responsible for annually evaluating the performance of the Chief Executive.

The criteria the evaluation is based on includes the performance of the business and the accomplishment of key strategic objectives and other non-quantitative objectives established at the beginning of each year. In addition to these annual performance reviews, the significant policy issues, annual budget and capital expenditure decisions of management are put through a formal Board review process.

## 9. Remunerating fairly and responsibly

**Remuneration philosophy**

Co-op Money NZ employs a remuneration strategy that aims to attract, retain and motivate high calibre employees at all levels of the organisation. This is aimed to drive performance and continue sustained growth of Member value.

A key philosophy underpinning this strategy is that all employees should be appropriately and competitively rewarded. Total remuneration for senior executives comprises of a base salary including the value of any benefits and may include a short term variable incentive. This may be in the form of an annual performance related payment that requires achievement of a mix of financial and business targets.

**Non-executive directors' remuneration**

The fees paid to non-executive directors for services in their capacity as directors of Co-op Money NZ during the year ended 30 June 2015 are as per the table on page 65. Co-op Money NZ's policy is to align directors' remuneration to the market measured against organisations of similar total asset value and similar annual revenues. Directors' fees are normally reviewed annually and any changes recommended to Members biennially, unless a significant market movement has occurred. The last review was in 2015 and at that AGM the pool of directors' fees payable in any one year was increased to $272,000. In addition a further sum of $26,000 per annum has been allowed for a new Independent Director for Co-op Insurance NZ.

In acknowledgment of the varying workloads of the Board's Audit & Risk Committee $8,000 from the director fee pool is set aside for the Chair of the Audit & Risk Committee and additional meeting fee expenses of $500 for a full day meeting or $250 per teleconference or half day meeting is paid to members of the Audit & Risk Committee. These are only paid if the meetings occur on a non-board meeting date.

**Travel expenses**

The directors are entitled to receive reimbursements for their travel, accommodation and out of pocket expenses whilst attending Board meetings. Co-op Money NZ also pays the travel and costs for directors and accompanying partners to attend Co-op Money NZ's Annual General Meeting, conferences and forums. When directors travel overseas to international meetings and conferences, their travel, registration

and accommodation expenses are paid. The costs of registration and attending official functions are also paid for a partner of official representatives of Co-op Money NZ attending such international meetings.

**Directors' development allowance**

Directors are allocated a $6,000 development allowance per term. This allowance is to be used with prior Board approval. This allowance is used by directors to help them to gain/achieve personal development relevant to the Director's identified needs to enhance their performance as a Co-op Money NZ / Co-op Insurance NZ Director.

**Directors' insurance protection**

Co-op Money NZ maintains appropriate Personal Accident cover as well as Directors' Liability Insurance for its directors. The Directors' Liability Insurance ensures that the directors will suffer no financial loss as a result of actions taken by them as directors, provided that they operate with due diligence and within the law. In the event of a claim being made, the Personal Accident cover provides for full proceeds being paid to the insured director or their estate.

**Chief Executive Officer's remuneration**

Executive managers do not receive any further remuneration in their capacity where they are appointed as a director of Co-op Money NZ or its subsidiaries.

## 10. Recognising the legitimate interest of stakeholders

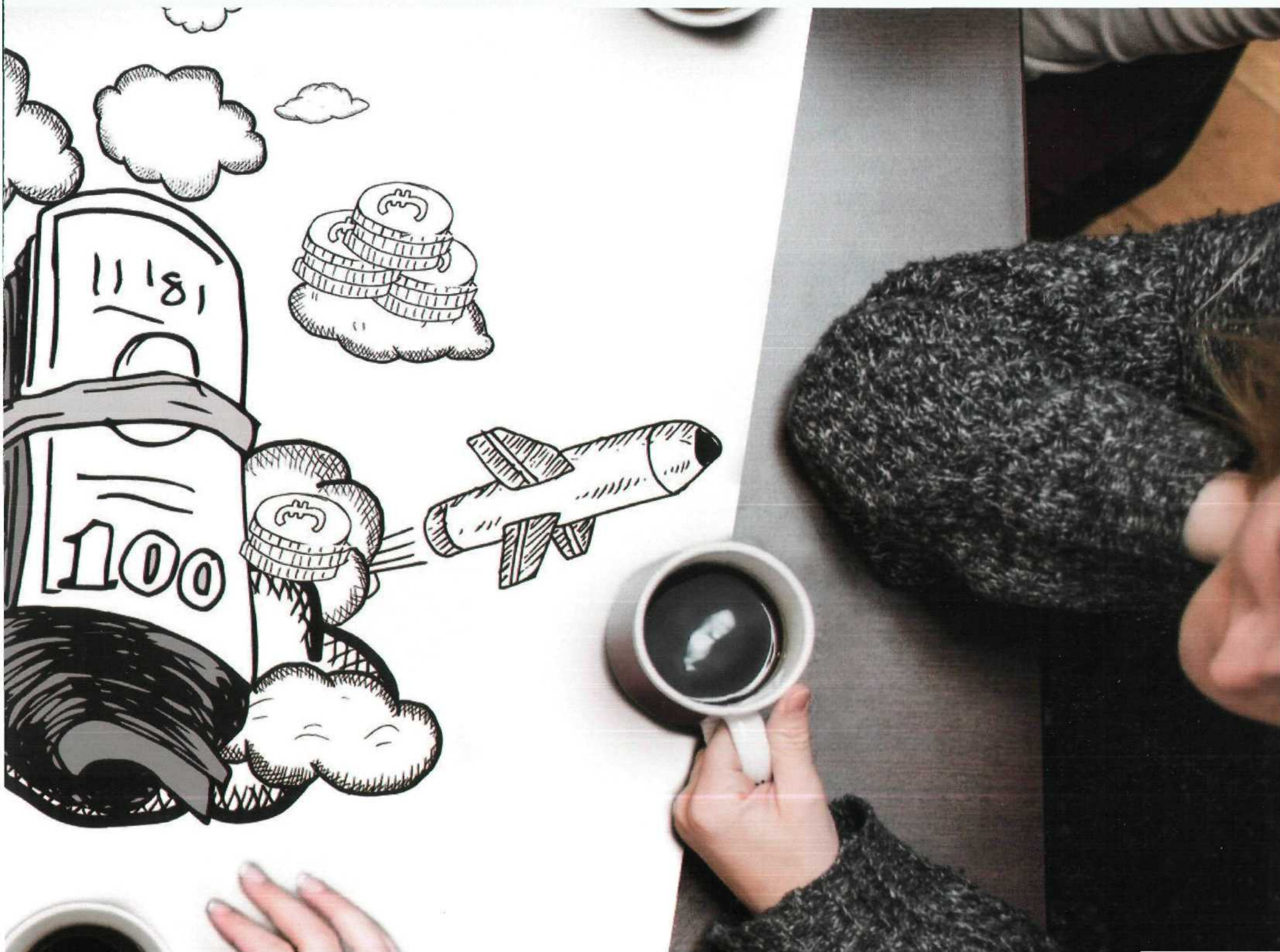
Co-op Money NZ recognises that it has a number of legal and other obligations to non-member stakeholders such as employees, regulatory authorities, suppliers and the community as a whole. Its commitment to these obligations is captured in our Code of Ethics and various policies and procedures for ethical conduct, the responsibility to employees and relationships with suppliers and customers. These are incorporated into the employment terms of all employees.

**Holding securities or other interests**

No director or executive of Co-op Money NZ holds any notes or any personal beneficial interest in Co-op Money NZ.

**Compliance with corporate governance best practice**

Co-op Money NZ seeks to meet the principles of best practice for New Zealand directors as promulgated by the Four Pillars of Effective Board Governance as published by the Institute of Directors in New Zealand Inc.



# Financial Statements

The directors are pleased to present the financial statements of Co-op Money NZ for the year ended 30 June 2016.

For and on behalf of the board of directors.

**Claire Matthews**
Chair
25 August 2016

**Peter Taylor**
Deputy Chair
25 August 2016

# Report of the Audit & Risk Committee

We wish to report to the members of Co-op Money NZ that we have attended to the requirements of the Rules as follows:

We have seen that PricewaterhouseCoopers have completed the annual Audit in accordance with the Friendly Societies and Credit Unions Act 1982.

We have determined that a written Auditors' Report is received, and reviewed the Auditors' Report on behalf of the Members.

We have reviewed Co-op Money NZ minutes and financial statements for the year to 30 June 2016 and determined that actions taken are in accordance with the Friendly Societies and Credit Unions Act 1982, Co-op Money NZ Policy and the Rules.

**Rob Nicholls**
Chair of the Audit & Risk Committee
25 August 2016

pwc

# *Independent Auditors' Report*

to the members of New Zealand Association of Credit Unions

## *Report on the Consolidated Financial Statements*

We have audited the consolidated financial statements of New Zealand Association of Credit Unions ("the Association") trading as Co-op Money NZ on pages 23 to 64, which comprise the consolidated statement of financial position as at 30 June 2016, the consolidated statement of comprehensive revenue and expense, the consolidated statement of changes in net assets/equity (members' funds) and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements that include a summary of significant accounting policies and other explanatory information for the Group. The Group comprises the Association and the entities it controlled as at 30 June 2016 or from time to time during the financial year.

### *Directors' Responsibility for the Consolidated Financial Statements*

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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Association's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the consolidated financial statements.

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

We are independent of the Group. Our firm carries out other services for the Group in the areas of tax compliance and related assurance services. The provision of these other services has not impaired our independence.

### *Opinion*

In our opinion, the consolidated financial statements on pages 23 to 64 present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2016, and its financial performance and cash flows for the year then ended in accordance with Public Benefit Entity Standards.

## *Restriction on Use of our Report*

This report is made solely to the Association's members, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditors' 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 Association and the Association's members, as a body, for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

Chartered Accountants — Auckland
31 August 2016

*PricewaterhouseCoopers, 188 Quay Street, Private Bag 92162, Auckland 1142, New Zealand*
*T: +64 (9) 355 8000, F: +64 (9) 355 8001, www.pwc.com/nz*

# Consolidated Statement of Comprehensive Revenue and Expense

FOR THE YEAR ENDED 30 JUNE 2016

| | Note | 2016 $000 | 2015 $000 |
|---|---|---|---|
| Interest Revenue | 2 | 2,966 | 4,612 |
| Interest Expense | 3 | 1,986 | 3,445 |
| **NET INTEREST REVENUE** | | **980** | **1,167** |
| Banking Services Revenue | | 14,000 | 13,595 |
| Insurance Premium Revenue | 7 | 10,388 | 9,137 |
| Other Revenue | 4 | 1,663 | 906 |
| **TOTAL REVENUE NET OF INTEREST EXPENSE** | | **27,031** | **24,805** |
| Employee Costs | 5 | 5,113 | 4,336 |
| Insurance Claims & Commissions | 7 | 8,196 | 6,955 |
| Transaction Costs | | 7,331 | 7,448 |
| Operating Expenses | 6 | 4,738 | 4,365 |
| **TOTAL EXPENDITURE** | | **25,378** | **23,104** |
| Dividend and Share of Profit/(Loss) of Joint Venture accounted for using the equity method | 30 | - | 82 |
| **NET PROFIT BEFORE IMPAIRMENT** | | **1,653** | **1,783** |
| Impairment Credit | 8 | 59 | 28 |
| **NET PROFIT BEFORE TAXATION** | | **1,712** | **1,811** |
| Taxation Expense | 9 | - | - |
| **TOTAL COMPREHENSIVE REVENUE AND EXPENSE FOR THE YEAR** | | **1,712** | **1,811** |

This statement should be read in conjunction with the accompanying notes.

# Consolidated Statement of Changes in Net Assets/ Equity (Members' Funds)

FOR THE YEAR ENDED 30 JUNE 2016

| | Base Capital Notes | (Accumulated Losses) / Retained Earnings | Total |
|---|---|---|---|
| | $000 | $000 | $000 |
| Balance at 1 July 2014 | 13,695 | (1,717) | 11,978 |
| Base Capital Notes Dividends Paid | - | (948) | (948) |
| Total Comprehensive Revenue and Expense for the Year | - | 1,811 | 1,811 |
| **Balance at 30 June 2015** | **13,695** | **(854)** | **12,841** |
| Balance at 1 July 2015 | 13,695 | (854) | 12,841 |
| Base Capital Notes Dividends Paid | - | (786) | (786) |
| Total Comprehensive Revenue and Expense for the Year | - | 1,712 | 1,712 |
| **Balance at 30 June 2016** | **13,695** | **72** | **13,767** |

This statement should be read in conjunction with the accompanying notes.

# Consolidated Statement of Financial Position

AS AT 30 JUNE 2016

| | Note | 2016 $000 | 2015 $000 |
|---|---|---|---|
| **NET ASSETS / EQUITY (MEMBERS' FUNDS)** | | | |
| Base Capital Notes | 10 | 13,695 | 13,695 |
| Retained Earnings / (Accumulated Losses) | 11 | 72 | (854) |
| **TOTAL EQUITY (MEMBERS' FUNDS)** | | **13,767** | **12,841** |
| **ASSETS** | | | |
| Cash and Cash Equivalents | 12 | 20,481 | 18,810 |
| Accounts Receivable | 14 | 7,805 | 4,004 |
| Expected Recoveries | 7 | 92 | 120 |
| Investments | 15 | 58,872 | 90,283 |
| Loans Receivable | 16 | - | - |
| Prepayments | 17 | 1,448 | 646 |
| Inventory | 18 | 123 | 83 |
| Property, Plant and Equipment | 19 | 866 | 575 |
| Other Intangible Assets | 20 | 4,180 | 1,291 |
| Non-current Deposit | | 147 | 147 |
| **TOTAL ASSETS** | | **94,014** | **115,959** |
| **LIABILITIES** | | | |
| Deposits Received | 21 | 68,654 | 94,412 |
| Accounts Payable | 22 | 3,656 | 3,703 |
| Unearned Premium Liability | 23 | 4,571 | 2,152 |
| Provisions | 24 | 407 | 409 |
| Outstanding Claims Liability | 7 | 2,959 | 2,442 |
| **TOTAL LIABILITIES** | | **80,247** | **103,118** |
| | | | |
| **NET ASSETS** | | **13,767** | **12,841** |

This statement should be read in conjunction with the accompanying notes.

**These financial statements were authorised for issue by the Board of Directors on 25th August 2016 and were signed for on its behalf.**

**Claire Matthews**
Chair

**Peter Taylor**
Deputy Chair

# Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2016

| | Note | 2016 $000 | 2015 $000 |
|---|---|---|---|
| **Cash Flows from operating activities** | | | |
| Cash was provided from | | | |
| Membership Contributions Received | | 628 | 685 |
| Insurance Premiums Received | | 10,282 | 10,363 |
| Other Receipts from Customers | | 14,241 | 15,050 |
| Loan Repayments from Customers | | 59 | 69 |
| Investment Interest Received | | 3,034 | 4,801 |
| Motor Vehicle Claims Recoveries | | 160 | 253 |
| Credit Union Foundation Grants and Donations | | 7 | 2 |
| | | **28,411** | **31,223** |
| Cash was applied to | | | |
| Payments to Suppliers and Employees | | 18,342 | 18,280 |
| Insurance Claims, Acquisition Costs and Rebates Paid | | 7,124 | 6,493 |
| Interest Paid | | 2,073 | 3,478 |
| | | **27,539** | **28,251** |
| **NET CASH FLOWS FROM OPERATING ACTIVITIES** | 33 | **872** | **2,972** |
| **Cash Flows from investing activities** | | | |
| Cash was provided from | | | |
| Sale of Fixed Assets and Intangibles | | 8 | 11 |
| *Proceeds from Sales and Maturities of Investment Securities* | | 670,491 | 606,040 |
| | | **670,499** | **606,051** |
| Cash was applied to | | | |
| Purchase of Property, Plant and Equipment | | 572 | 359 |
| Purchase of Intangible Assets | | 3,523 | 977 |
| Purchase of Investment Securities | | 639,237 | 592,111 |
| Return of Capital from NZ Bureau Ltd. | | - | 262 |
| | | **643,332** | **593,709** |
| **NET CASH FLOWS FROM INVESTING ACTIVITIES** | | **27,167** | **12,342** |
| **Cash Flows from financing activities** | | | |
| Cash was provided from | | | |
| *Net increase in Deposits* | | - | - |
| | | **-** | **-** |
| Cash was applied to | | | |
| Base Capital Note Dividend Paid | | 786 | 948 |
| Net Decrease in Deposits | | 25,582 | 6,346 |
| | | **26,368** | **7,294** |
| **NET CASH FLOWS TO FINANCING ACTIVITIES** | | **(26,368)** | **(7,294)** |
| Net increase in Cash and Cash Equivalents | | 1,671 | 8,020 |
| Cash and Cash Equivalents at the Beginning of the Year | | 18,810 | 10,790 |
| **Cash and Cash Equivalents at the End of the Year** | 12 | **20,481** | **18,810** |

This statement should be read in conjunction with the accompanying notes.

# Statement of Accounting Policies

FOR THE YEAR ENDED 30 JUNE 2016

## 1 SUMMARY OF ACCOUNTING POLICIES

### REPORTING ENTITY

The Economic Entity consists of Co-op Money NZ and its Controlled Entities, as detailed in note 1(e).

Co-op Money NZ, the trading name of New Zealand Association of Credit Unions (the "Association"), is an association of Credit Unions registered under the Friendly Societies and Credit Unions Act 1982. It comprises two Trusts ("Divisions"): a Member Services Division and a Business Services Division. The Divisions are established pursuant to the Rules of Association, which were approved by its members on 25 September 1994 and were first registered with the Registrar of Friendly Societies and Credit Unions on 10 November 1994.

The Association's wholly owned Controlled Entity, Credit Union Insurance Limited trading as Co-op Insurance NZ holds an Insurance licence issued by the Reserve Bank of New Zealand on 1 April 2013 under the Insurance (Prudential Supervision) Act 2010. Co-op Insurance NZ is registered under the Companies Act 1993 and is an FMC reporting entity under Part 7 of the Financial Markets Conduct Act 2013.

The 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 authoritative notices that are applicable to entities that apply PBE Standards as appropriate for Tier 1 not-for-profit public benefit entities. These are the first set of financial statements presented in accordance with PBE Standards.

The Association has adopted XRB A1 (FP Entities + PS PBEs + NFPs – FP Tier 1 Update). XRB A1 establishes a PBE tier structure and outlines which suite of accounting standards entities in different tiers must follow. The Association is a Tier 1 not-for-profit public benefit entity. The key impacts on the current and prior year financial statements relate to terminology changes. Given that the Association reported in accordance with New Zealand equivalents to International Financial Reporting Standards for Public Benefit Entities (NZ IFRS PBE) and other New Zealand standards and pronouncements that have authoritative support within New Zealand to be applied by not-for-profit public benefit entities that apply NZ IFRS PBE previously, there are no material measurement or recognition changes.

Co-op Money NZ is domiciled in New Zealand and its principal activities are to provide banking and other services for credit unions.

### GENERAL ACCOUNTING POLICIES

These financial statements have been prepared on the basis of historical cost, except for the revaluation of certain financial instruments. Cost is based on the fair value of the consideration given in exchange for the assets.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events are reported.

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in New Zealand Dollars, which is the Economic Entity's functional and presentation currency. All values have been rounded off to the nearest 1,000 dollars ($) unless otherwise stated.

Foreign currency monetary assets and liabilities have been translated into the functional currency at the rate of foreign exchange ruling as at balance sheet date. Transactions denominated in a foreign currency are converted to New Zealand dollars at the exchange rates in effect at the date of the transaction. Foreign exchange differences relating to monetary items and gains and losses arising from foreign exchange dealings by the Economic Entity are recognised in the Statement of Comprehensive Revenue and Expense.

### Presentation of the statement of financial position

The Economic Entity's insurance and related assets are realised and settled over periods of several years, reflecting the long-term nature of the Economic Entity's products. Accordingly, the Economic Entity presents the assets and liabilities in its statement of financial position in approximate order of liquidity, rather than distinguishing current and non-current assets and liabilities. The Economic Entity regards its intangible assets, and plant and equipment as non-current assets as these are held for the longer-term use of the Economic Entity.

## Significant Judgements, Estimates and Assumptions

In the application of PBE Standards management is required to make judgements, estimates and assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that management believe to be reasonable under the circumstances, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below:

**Allowance for Impairment Loss**
Where Loans Receivable are outstanding beyond the normal contractual terms, or where uncertainty exists over the recoverability of loans receivable, the likelihood of the recovery of these assets is assessed by management. The specific impairment loss is estimated with reference to the probability of recovery, the cost of possible enforcement through security and related costs and sale proceeds. Any collective provision is estimated using historical and industry trends.

**Estimation of Fair Value of Financial Instruments**
The determination of fair values of financial instruments is based on quoted market prices or dealer price quotations for financial instruments traded in active markets, or by using valuation techniques. Valuation techniques include discounted cash flow analysis and comparison to similar financial instruments for which a market observable price exists.

To the extent possible, models use only observable data. Inputs to valuation models such as credit risk, volatilities and correlations require management to make judgements and estimates. Changes in the assumptions used in these models and projections of future cash flows could affect the reported fair value of financial instruments.

**Estimation of Insurance Contract Liabilities**
Insurance contract liabilities are computed using statistical or mathematical methods. The computations are made by suitably qualified personnel on the basis of recognised actuarial methods, with due regard to relevant actuarial principles.

The methodology takes into account the risks and uncertainties of the particular classes of insurance business written.

The key factors that affect the estimation of these liabilities and related assets are:

- discontinuance experience, which affects the Economic Entity's ability to recover the cost of acquiring new business over the lives of the contracts
- the cost of providing benefits and administering these insurance contracts
- the discount rate applied to calculate the present value of future benefits.

In addition, factors such as regulation, inflation, interest rates, taxes, investment market conditions and general economic conditions affect the level of these liabilities.

Other judgements made by management in the application of PBE Standards that have significant effect on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

## PARTICULAR ACCOUNTING POLICIES

The particular accounting policies used in the preparation of the financial statements are as follows:

### (a) Revenue and Expense Recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Economic Entity and that revenue can be reliably measured. The principal sources of revenue are interest revenue, insurance premiums, transaction and other fees.

**Interest Revenue and Expense**
For all financial instruments measured at amortised cost, interest revenue or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The application of the method has the effect of recognising revenue and expense evenly in proportion to the amount outstanding over the expected life of the financial asset or liability.

The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest revenue or expense.

Other than for non-accrual items, once the recorded value of the financial asset or Economic Entity of similar financial assets has been reduced due to an impairment loss, interest revenue continues to be recognised using the original effective interest rate applied to the new carrying amount.

The Economic Entity recognises interest revenue and lending fees on an accrual basis when the services are rendered using the effective interest rate method.

**Lending Fees**
The calculation of the life of Loan Receivables is based on contractual data. The actual life of Loan Receivables is used to apportion loan origination and associated direct costs on a straight line basis.

**Banking Services Transaction and Other Fees**
Commissions or fees which relate to specific transactions or events are recognised in profit or loss on the Statement of Comprehensive Revenue and Expense when the service is provided to the Member or customer. When commissions and fees are charged for services provided over a period, they are taken to income on an accruals basis as the service is provided.

**Insurance Premiums**
Premium revenue is recognised from the attachment date as soon as there is a basis on which it can reliably be estimated. Premium revenue is recognised in profit or loss on the Statement of Comprehensive Revenue and Expense over the period of the contract in accordance with the pattern of incidence of risk expected under the insurance contract. Premium revenue excludes fire service and earthquake levies collected on behalf of statutory bodies. The unearned portion of premium is recognised as an unearned premium liability on the Statement of Financial Position.

**Reinsurance Expense**
Premium ceded to reinsurers is recognised as an expense that is evenly spread from the date of attachment of the risk to the end of the period of the reinsurance contract over the period of indemnity of the reinsurance contract.

**Expense Recognition**
All expenses are recognised in profit or loss on the Statement of Comprehensive Revenue and Expense on an accruals basis.

**Foreign Currency Transactions**
When a good or service is purchased in a foreign currency the cost is recognised at the rate of exchange at which the commitment is settled. All outstanding invoices at year end are valued at the ruling rate of exchange or at the rate of any foreign exchange contract held for settlement of that liability.

## (b) Valuation of Assets and Liabilities

**Financial Instruments**
Financial Instruments are transacted on a commercial basis to derive an interest yield / cost with the terms and conditions having due regard to the nature of the transaction and the risks involved.

**Financial Assets**
Financial Assets are classified in one of the following categories at initial recognition:

- Loans and receivables
- Fair value through surplus or deficit
- Held to maturity
- Available-for-sale

Certain categories of these require measurement at fair value. Where quoted market prices do not exist, fair values are estimated using discounted cash flow models, using methods and assumptions that are based on market conditions and risks existing at balance date. Financial instruments are recognised and accounted for on a settlement date basis.

**(i) Loans and Receivables**
Assets in this category are measured at amortised cost using the effective interest method. Financial assets classified as loans and receivables include:

- Cash and Cash Equivalents
- Accounts Receivable
- Loans Receivable
- Investments.

Loans Receivable cover all forms of lending to customers, and include residential lending, commercial lending and vendor finance. They are recognised in the Statement of Financial Position when cash is advanced to the customer.

Loans Receivable are reported net of provisions for impairment to reflect the estimated recoverable amounts.

**(ii) Fair Value through Surplus or Deficit**
Financial assets backing insurance liabilities are measured at fair value with movements recognised in profit or loss on the Statement of Comprehensive Revenue and Expense. Interest is recognised on an amortised cost basis in profit or loss on the Statement of Comprehensive Revenue and Expense. Fair value movements have been calculated taking this into account.

**(iii) Held to Maturity Investments**
Financial Assets in this category are measured at amortised cost using the effective interest method. There are currently no financial assets in this category.

**(iv) Available-For-Sale**
Available-for-sale financial assets are measured at fair value. The fair value of the assets is based on quoted market prices and fair value movements are recognised directly in equity. Interest is recognised on an amortised cost basis in profit or loss on the Statement of Comprehensive Revenue and Expense.

There are currently no financial assets in this category.

**Financial Liabilities**
Debt and equity instruments are classified as either liabilities or Members Funds in accordance with the substance of the contractual arrangement.

Liabilities are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, liabilities are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit or loss on the Statement of Comprehensive Revenue and Expense over the period of borrowing using the effective interest rate method. Interest expense is recognised in profit or loss on the Statement of Comprehensive Revenue and Expense using the effective interest method.

**Deposits Received**
Deposits received cover all forms of deposits and include transactional and savings accounts, and term deposits.

**Offsetting Financial Instruments**
The Economic Entity offsets financial assets and financial liabilities and reports the net balance in the Statement of Financial Position where there is a legally enforceable right to set-off and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

**Derivative Financial Instruments**
Derivative financial instruments are contracts whose value is derived from changes in one or more underlying financial instruments or indices. The Economic Entity does not engage in trading derivatives for speculative purposes.

> **Interest Rate Swaps:** The Economic Entity enters into interest rate swaps to assist Member credit unions with interest rate risk management. The net fair value of interest rate swaps receivable from counterparties is disclosed as Derivative Financial Assets. The net fair value of interest rate swaps payable to counterparties is disclosed as Derivative Financial Liabilities.
>
> Interest rate swaps are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The movement in the fair value of interest rate swaps is recognised in profit or loss on the Statement of Comprehensive Revenue and Expense immediately.

The Economic Entity does not undertake any form of hedge accounting.

## (c) Asset Quality

**Impairment of Financial Assets**
Financial assets measured at amortised cost are reviewed at each balance date to determine whether there is any objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated and provision is made for the difference between the carrying amount and the recoverable amount.

**(i) Loans Receivable**

Specific provisions are made for loans receivable which are considered doubtful and are presented net of the specific provisions. Specific allowances are made against the carrying amount of loans receivable that are identified as being impaired based on regular reviews of outstanding balances, to reduce these loans receivable to their recoverable amounts.

Collective allowances are maintained to reduce the carrying amount of portfolios of similar loans receivable to their estimated recoverable amounts at balance date. These allowances relate to incurred losses not yet specifically identified in the portfolio. The expected future cash flows for the portfolios of similar assets are estimated based on previous experience and considering the credit rating of the underlying customers and late payments of interest and penalties.

Increases in the specific and collective allowances are recognised in the profit or loss on the Statement of Comprehensive Revenue and Expense. When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off directly to profit or loss on the Statement of Comprehensive Revenue and Expense.

**(ii) Impaired Loans Receivable**
Impaired Loans Receivable consist of non-accrual items, past due assets, assets acquired through enforcement of security and restructured items:

- Non-accrual items, which are defined as items in respect of which revenue may no longer be accrued ahead of its receipt because reasonable doubt exists as to the collectability of principal and interest. They include exposures where contractual payments are 90 or more consecutive days in arrears and where security is insufficient to ensure payment.
- Past-due assets, which are assets where the counterparty has failed to make a payment when contractually due.
- 90 day past-due assets, which are any assets that have not been operated by the counterparty within its key terms for at least 90 days and which are not restructured assets, other impaired assets, or financial assets acquired through enforcement of security.
- Financial assets acquired through enforcement of security, which are assets acquired through the enforcement of security or where the Economic Entity has assumed ownership of an asset in settlement of all or part of a debt.
- Restructured items, which are defined as items in which the original contractual terms have been formally modified to provide for concessions of interest or principal for reasons related to the financial difficulties of the member, the revised terms of the facility are not comparable with the terms of new facilities with comparable risks and the yield on the asset following restructure is equal to or greater than

the Economic Entity's average cost of funds or a loss is not otherwise expected to be incurred.

**(iii) Impairment of Assets at amortised cost**

- An assessment is made at each balance date whether there is objective evidence that a financial asset or Economic Entity of financial assets is impaired. A financial asset or Economic Entity of financial assets 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 financial asset or Economic Entity of financial assets that can be reliably estimated. Objective evidence that a financial asset or Economic Entity of assets is impaired includes observable data that comes to the attention of the directors about the following loss events:

- significant financial difficulty of the issuer or obligor

- 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

- it becoming probable that the borrower will enter Registered Bankruptcy or other financial reorganisation

- the disappearance of an active market for that financial asset because of financial difficulties; or

- observable data indicating that there is a measurable decrease in the estimated future cash flows from a Economic Entity of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Economic Entity; including adverse changes in the payment status of borrowers in the Economic Entity.

Firstly an assessment is made 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 it is determined that no objective evidence exists for an individually assessed financial asset, whether significant or not, the assets are included in a Economic Entity of financial assets with similar credit risk characteristics and collectively assessed 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 of impairment.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of 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 through the use of an allowance account and the amount of the loss is recognised in the Statement of Comprehensive Revenue and Expense. If a loan or held-to-maturity investment 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, impairment may be measured on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling collateral, whether or not foreclosure is probable. For the purposes of a collective evaluation of impairment, financial assets are Economic Entityed on the basis of similar credit risk characteristics (i.e. on the basis of the Economic Entity's grading process that considers collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for Economic Entitys 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 in a grou[ of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and historical loss experience for assets with similar credit characteristics.

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

When a loan is uncollectible, it is written off to the Statement of Comprehensive Revenue and Expense. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

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

**(iv) Impairment of Assets measured at fair value**

The Economic Entity assesses at each balance date whether there is objective evidence that a financial asset or Economic

Entity of financial assets is impaired. Any impairment of financial assets measured at fair value through surplus or deficit will be included as part of the fair value movement for those assets, reflected directly in profit or loss on the Statement of Comprehensive Revenue and Expense.

## (d) De-recognition of financial assets

A financial asset is de-recognised when:

- The Economic Entity has transferred its rights to receive cash flows from the asset and either:
  - has transferred substantially all the risks and rewards of the asset.
  - has neither transferred nor retains substantially all the risks and rewards of the asset, but has transferred control of the asset.
- The rights to receive cash flows from the asset have expired.
- The Economic Entity retains the right to receive cash flow from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass through" arrangement.

When the Economic Entity has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Economic Entity's continuing involvement in the asset.

## (e) Consolidation

The Economic Entity financial statements consolidate the Association and the following entities:

- Co-op Insurance NZ (wholly owned Controlled Entity) – an insurance company;
- Co-op Services NZ (wholly owned Controlled Entity) – a company providing services to non-members of the Association;
- CU Group Trust – the investment holding trust of the Association.

**(i) Controlled Entities**
Controlled Entities are all entities (including special purpose entities) over which the Association has the power, exposure or rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power.

Where Controlled Entities have been acquired or sold during the year, their operating results have been included from the date control is passed to the Association, or to the date control ceases.

Acquisition-related costs are expensed as incurred.

Changes in a Controlling Entity's ownership interest in a Controlled Entity that do not result in the Controlling Entity losing control of the Controlled Entity are recorded through equity to reflect a transaction amongst shareholders.

The acquisition of any Controlled Entity is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and liabilities assumed are measured at their acquisition date fair values.

On consolidation, all significant inter-company transactions, balances and unrealised gains on transactions have been eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of Controlled Entities have been changed where necessary to ensure consistency with the policies adopted by the Economic Entity.

**(ii) Joint Ventures**
Joint Ventures are those entities over whose activities the Economic Entity has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Jointly controlled entities are accounted for by the Economic Entity using the equity method (equity accounted investees) and are recognised initially at cost. The consolidated financial statements include the Economic Entity's share of the income and Expense and equity movements of equity accounted investees, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. Dividends received from jointly controlled entities are recorded in profit or loss on the Statement of Comprehensive Revenue and Expense.

Profits and losses resulting from upstream and downstream transactions between the Economic Entity and its Joint Venture are recognised in the Economic Entity's financial statements only to the extent of unrelated investor's interests in the Joint Venture.

## (f) Cash and Cash Equivalents

Cash and Cash Equivalents comprise cash on hand and call deposits.

## (g) Accounts Receivables

Accounts Receivables are initially recognised at fair value, and are subsequently measured at amortised cost using the effective interest method.

Appropriate allowance is estimated for irrecoverable amounts which are recognised in profit or loss on the Statement of Comprehensive Revenue and Expense when there is objective evidence that the asset is impaired.

## (h) Deferred Commission Costs

Acquisition costs incurred in obtaining insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in subsequent reporting periods. Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue.

## (i) Inventories

Inventories are stated at the lower of cost, determined on a first in, first out basis, and net realisable value. Net realisable value represents the estimated selling price less all estimated costs to be incurred in marketing, selling and distribution.

## (j) Property, Plant and Equipment

Property, Plant and Equipment is carried at cost less accumulated depreciation and impairment losses.

All Property, Plant and Equipment is depreciated on a straight line basis at rates which will write off their cost less estimated residual value over their expected useful lives. Depreciation rates are as follows:

| | |
|---|---|
| Computer Equipment | 40% |
| Office Furniture & Equipment, Leasehold Improvement Costs and Motor Vehicles | 10 - 36% |

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the Statement of Comprehensive Revenue and Expense.

The asset's residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate at each balance date.

## (k) Intangible Assets

Intangible Assets comprise Computer Software.

Computer Software is capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over their expected lives on a straight line basis of between 20% and 40% amortisation.

## (l) Impairment of Property Plant and Equipment and Intangible Assets

Property, plant and equipment and intangible assets subsequently measured at cost that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

If an asset's carrying amount exceeds its recoverable amount, the asset is regarded as impaired and the carrying amount is written-down to the recoverable amount. The total impairment loss is recognised in the surplus or deficit. The reversal of an impairment loss is recognised in the surplus or deficit.

**(i) Value in use for non-cash-generating assets**
Non-cash-generating assets are those assets that are not held with the primary objective of generating a commercial return.

For non-cash-generating assets, value in use is determined using an approach based on either a depreciated replacement cost approach, restoration approach, or a service units approach. The most appropriate approach used to measure value in use depends on the nature of the impairment and availability of information.

**(ii) Value in use for cash generating assets**
Cash generating assets are those assets that are held with the primary objective of generating a commercial return.

The value in use for cash-generating assets and cash-generating units is the present value of expected future cash flows.

## (m) Taxation

The Association has not provided for income tax on the basis it is exempt for tax under Section CW44 (a) of the Income Tax Act 2007. However other Controlled Entities are subject to taxation.

Income tax on the net profit for the period comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised in other Comprehensive Revenue and Expense or directly in equity, in which case it is recognised in other Comprehensive Revenue and Expense or directly in equity.

**(i) Current Tax**
Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable). Tax assets and liabilities are offset only when the Economic Entity has a legally enforceable right to set off the recognised amounts, and intends to settle on a net basis.

**(ii) Deferred Tax**
Deferred tax is accounted for using the liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised.

However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit.

Deferred tax liabilities are not recognised for taxable temporary differences arising on investments in Controlled Entities and associates except where the Economic Entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Economic Entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

**(iii) Goods and Services Tax (GST)**
Revenue, expenses and assets are recognised net of the amount of GST except:

- When the GST incurred on a purchase of goods and services is not recoverable from Inland Revenue in which case the GST is recognised as part of the cost of the acquisition of the assets or as part of the expense item as applicable.
- Accounts Receivables and Accounts Payable, 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 accounts receivable or accounts payable in the Statement of Financial Position.

Cash flows, with the exception of deposit cash flows, are included in the Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is included as an operating activity.

## (n) Insurance Liabilities

The policy liabilities of Credit Union Insurance Limited, a Controlled Entity of the Economic Entity, have been determined in accordance with Professional Standards No. 20 & 30 of the New Zealand Society of Actuaries.

Premium that has not been recognised in profit or loss on the Statement of Comprehensive Revenue and Expense is unearned premium and is recognised in the Statement of Financial Position as an unearned premium liability.

The adequacy of the unearned premium liability is assessed by considering current estimates of the present value of the expected future cash flows and a margin for risk relating to future claims arising from motor vehicle insurance contracts. In the event of a deficit the entire deficit is recognised in profit or loss on the Statement of Comprehensive Revenue and Expense.

Life Insurance Liabilities are recorded as the undiscounted accumulated benefits to policyholders except where the outcome is materially different from the net present value of future payments to policyholders.

Motor Vehicle claims liability is measured as the central estimate of the present value of the expected future payment for claims incurred with an additional risk margin to allow for the inherent uncertainty in the central estimate.

Life Insurance claims liability and Motor Vehicle Insurance claims liability are not discounted due to the short term nature of these claims. Open disability claims are discounted at an assessed risk free rate as the liability may extend for the duration of the underlying loan.

## (o) Provisions

Provisions are recognised when the Economic Entity has a present obligation, the future sacrifice of benefits is probable, and the amount of the provision can be measured reliably.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance date. If the effect of the time value of money is material, provisions are discounted using a pre-tax rate that reflects the time value of money and the risks specific to the liability. The increase in the provisions resulting from the passage of time is recognised as a finance cost.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

## (p) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease rentals/expenses are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are derived.

Assets held under finance leases are initially recognised as assets of the Economic Entity at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Statement of Financial Position as a finance lease obligation.

Lease payments are apportioned between finance charges and the reduction of the lease obligation so as to achieve a constant rate of interest on the remaining liability. Finance charges are charged directly against income. Finance lease assets are amortised on a straight line basis over the estimated useful life of the asset or the lease term whichever is shorter.

Present obligations arising under onerous leases are recognised and measured as provisions. An onerous lease is considered to exist where the Economic Entity has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

## (q) Employee Entitlements

Provision is made for entitlements accruing to employees in respect of salaries and wages, annual leave, long service leave and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee entitlements expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee entitlements which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Economic Entity in respect of services provided by employees up to reporting date.

## (r) Other Liabilities

Other liabilities are recognised when the Economic Entity becomes obliged to make future payments resulting from the purchase of goods and services.

Other liabilities are measured at amortised cost. The amounts are unsecured.

## (s) Statement of Cash Flows

The Statement of Cash Flows is prepared exclusive of GST.

The following are definitions of the terms used in the Statement of Cash Flows:

- Cash and Cash Equivalents are considered to be cash on hand and call deposits.
- Investing activities are those relating to the acquisition, holding and disposal of property, plant and equipment and investments. Investments can include movements in related party balances and securities not falling within the definition of cash and cash equivalents.
- Financing activities are those activities which result in changes in the size, composition and the capital structure of the Economic Entity. This includes both equity and debt not falling within the definition of cash and cash equivalents.
- Operating activities include all transactions and other events that are not investing or financing activities.

## (t) Segment Reporting

The Economic Entity's primary reporting format is business segments. The Economic Entity operates solely within New Zealand and does not recognise separate geographical segments.

The Economic Enitity elects to present an analysis of the operating segments on the basis of internal reports about the components of the Economic Entity.

## (u) Accounting Standards Adopted during the Year

The Association has adopted XRB A1 (FP Entities + PS PBEs + NFPs – FP Tier 1 Update). XRB A1 establishes a PBE tier structure and outlines which suite of accounting standards entities in different tiers must follow. The Association is a Tier 1 not-for-profit public benefit entity. The key impacts on the current and prior year financial statements relate to terminology changes. Given that the Association reported in accordance with New Zealand equivalents to International Financial Reporting Standards for Public Benefit Entities (NZ IFRS PBE) and other New Zealand standards and pronouncements that have authoritative support within New Zealand to be applied by not-for-profit public benefit entities that apply NZ IFRS PBE previously, there are no material measurement or recognition changes.

## (v) New Accounting Standards and Interpretations issued not yet effective and have not been early adopted by the Economic Entity

There are no pending PBE standards requiring consideration.

## (w) Comparative Information

The presentation of the statement of Comprehensive Revenue and Expense has been revised to improve the classification between Net Interest Revenue, Other Revenue, and Operating Expenses. Comparative figures have been revised to ensure consistency,

# Notes to and forming part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

| | 2016 $000 | 2015 $000 |
|---|---|---|
| **2 INTEREST REVENUE** | | |
| Other Bond Interest | 222 | 279 |
| Bank, Money Market Securities, Local Authority and Floating Rate Note Interest | 2,422 | 4,045 |
| Other Interest | 322 | 288 |
| **TOTAL INTEREST REVENUE** | **2,966** | **4,612** |
| **3 INTEREST EXPENSE** | | |
| Interest on Deposits | 1,984 | 3,438 |
| Bank Fees and Charges | - | - |
| Other Interest | 2 | 7 |
| **TOTAL INTEREST EXPENSE** | **1,986** | **3,445** |
| **NET INTEREST REVENUE** | **980** | **1,167** |
| **4 OTHER REVENUE** | | |
| Membership Contributions | 628 | 664 |
| Litigation Settlement | 500 | - |
| Other Revenue | 535 | 242 |
| **TOTAL OTHER REVENUE** | **1,663** | **906** |
| **5 EMPLOYEE COSTS** | | |
| Salaries and Wages | 5,089 | 4,310 |
| Other Staff Costs | 24 | 26 |
| **TOTAL EMPLOYEE COSTS** | **5,113** | **4,336** |

| | 2016 $000 | 2015 $000 |
|---|---|---|

## 6 OPERATING EXPENSES

| | 2016 $000 | 2015 $000 |
|---|---|---|
| **Auditors' Remuneration:** | | |
| - Audit fees to PricewaterhouseCoopers | 98 | 87 |
| - Other fees to PricewaterhouseCoopers | | |
| Information System Review | 26 | 32 |
| Taxation | 16 | 19 |
| Other Statutory Returns | 6 | 6 |
| Corporate Finance | - | 10 |
| **Total Auditors' Remuneration** | **146** | **154** |
| **Depreciation:** | | |
| - Furniture, Fittings, Office Equipment & Vehicles | 73 | 61 |
| - Computer Equipment | 207 | 147 |
| Amortisation of Intangible Assets | 634 | 475 |
| Directors' Fees | 264 | 222 |
| Directors' and Governance Expenses | 175 | 93 |
| Leasing Charges | 267 | 268 |
| Loss/(Gain) on Disposal of Property, Plant & Equipment | (7) | 66 |
| Other Operating Expenses | 2,979 | 2,879 |
| **TOTAL OPERATING EXPENSES** | **4,738** | **4,365** |

## 7 INSURANCE PRODUCTS

Included in the income and expenditure for the Group are the following underwriting results:

| | 2016 $000 | 2015 $000 |
|---|---|---|
| **LIFE INSURANCE** | | |
| Gross Earned Premium | 2,168 | 2,044 |
| Reinsurance Premiums | - | - |
| **Net Earned Premium** | **2,168** | **2,044** |
| Gross Claims | 1,113 | 865 |
| Reinsurance Received | - | - |
| **Net Claims** | **1,113** | **865** |
| Commission | 268 | 253 |
| **Underwriting Result** | **787** | **926** |
| Credit Union Rebates | 264 | 558 |
| | **523** | **368** |
| **OTHER NON-LIFE INSURANCE** | | |
| Gross Earned Premium | 4,202 | 4,270 |
| Reinsurance Premiums | - | - |
| **Net Earned Premium** | **4,202** | **4,270** |
| Gross Claims | 1,973 | 1,941 |
| Reinsurance Received | - | - |
| **Net Claims** | **1,973** | **1,941** |
| Commission | 923 | 932 |
| **Underwriting Result** | **1,306** | **1,397** |
| Credit Union Rebates | 448 | 752 |
| | **858** | **645** |

| | 2016 $000 | 2015 $000 |
|---|---|---|
| **MOTOR VEHICLE INSURANCE** | | |
| Gross Earned Premium | 5,097 | 4,283 |
| Reinsurance Premiums | (272) | (236) |
| **Net Earned Premium** | **4,825** | **4,047** |
| Gross Claims | 3,199 | 2,485 |
| Reinsurance Received | - | - |
| **Net Claims** | **3,199** | **2,485** |
| Commission | 720 | 479 |
| **Underwriting Result** | **906** | **1,083** |
| Credit Union Rebates | 95 | (86) |
| | **811** | **1,169** |
| **TOTAL INSURANCE** | | |
| **Net Earned Premium prior to Rebates** | **11,195** | **10,361** |
| Net Claims | 6,285 | 5,291 |
| Commissions | 1,911 | 1,664 |
| **Underwriting Result** | **2,999** | **3,406** |
| Credit Union Rebates | 807 | 1,224 |
| **Insurance Claims, Commission and Rebates** | **9,003** | **8,179** |
| | | |
| **Total Underwriting Result after Commission and Rebates** | **2,192** | **2,182** |

## Claims Estimates and Risk Margin

The policy liabilities have been determined by the Appointed Actuary, Peter Davies B.Bus Sc., FIA, FNZSA. The Appointed Actuary is satisfied as to the accuracy of the data from which the policy liabilities have been determined. The actuary's report is based on data as at 31 May 2016. The Appointed Actuary's valuation was carried out in accordance with Professional Standards No. 20 and 30 of the New Zealand Society of Actuaries report and had no qualifications.

## Life and Other

Life and other Non-Life Insurance contracts consist of Economic Entity schemes providing death, disability, redundancy, trauma, and bankruptcy benefits on a unit rated basis, and an Economic Entity Scheme providing funeral benefits on the basis of individually rated premiums.

All covers are written on a basis of monthly premiums received at the end of the month. The policy liabilities comprise the following:

- A provision for claims incurred but not reported (IBNR), calculated separately for life insurance and non-life insurance (disability, redundancy, trauma and bankruptcy cover products) respectively.
- A provision for the remaining payments expected to be made on disability, redundancy, and bankruptcy claims that have been notified and remain open.

An additional risk margin is maintained in the claim provisions to ensure a greater than 50% likelihood of the sufficiency of the provisions. The Appointed Actuary has recommended a risk margin of 10% (2016 : 10%), which provides a likelihood of sufficiency of 75% (2016 : 75%) with respect to the Other Non-Life insurance.

The IBNR provisions for death, disability, redundancy, trauma and bankruptcy claims respectively have been calculated using a chain ladder method applied to past claim reporting patterns, and the average size of claims incurred in the past.

The provision for open disability claims has been based on past claim termination patterns, applied to the insured benefit of notified claims. Claims provisions have been discounted using an interest rate of 2.10% per annum (2016 : 3.04%).

All pending trauma and redundancy claims have been provided for at their face value.

## Motor Vehicle Insurance

TThe claims estimation process commences with the projection of the future payments relating to claims incurred at the reporting date. The expected future payments include those in relation to claims reported but not yet paid in full, claims incurred but not yet reported (IBNR) and claims closed that may be reopened.

The estimation of the outstanding claims liability is based on advice from independent professional assessors.

These may be supplemented, over the life of the claim, by revisions made by experienced claims staff as the claim develops. The estimates are reduced by actual claims payments made. A percentage factor is added to allow for claims that are closed at balance date but will be reopened. This is calculated by analysing past claims to determine the historical incidence of claims being reopened. An overhead and risk margin is added to arrive at the final liability estimate.

The IBNR provision is based on a conventional chain ladder method applied to the cost of claims reported to date in respect of each month of loss.

An additional risk margin is maintained in the claim provisions to ensure a greater than 50% likelihood of the sufficiency of the provisions. The Appointed Actuary has recommended a risk margin of 8.5% (2016 : 15%), which provides a likelihood of sufficiency of 75% (2016 : 75%). The Board has elected to use a risk margin of 8.5% (2016 : 15%) which gives a 75% (2016 : 75%) likelihood of sufficiency.

Insurance costs are subject to inflationary pressure over time. However the period between the valuation date and the settlement of most claims is relatively short so any increase in costs as a result of inflation is limited. Also, due to the short settlement periods the effect of discounting expected future payments is also limited and with these two elements being small and acting in opposite directions, both have been ignored.

Expected Recoveries Receivable is calculated by discounting the Recoveries ledger by a range of factors and then adding on an allowance to recognise that a portion of the Outstanding Claims Liability will also be recovered. The allowance is based on historical monies recovered against claims paid.

The Recoveries ledger is divided into three categories; debts where liability is acknowledged and covered by other insurance companies, debts where the debtor has acknowledged liability and entered into a payment arrangement, and remaining debts where the liability is either disputed or no payment arrangement is yet entered into. Recoveries Receivable from other insurers are not discounted. Receivables under payment arrangements are discounted by 20% and the balance of receivables are discounted by 50% to 100% depending on age.

| | 2016<br>$000 | 2015<br>$000 |
|---|---|---|
| **OUTSTANDING CLAIMS LIABILITY** | | |
| **LIFE INSURANCE** | | |
| Opening Claims Liability | 117 | 99 |
| Claims Expense | 1,113 | 865 |
| Claims Paid | (1,113) | (847) |
| **Claims Liability transferred to Co-op Insurance NZ** | - | - |
| **Closing Claims Liability** | **117** | **117** |
| **OTHER NON-LIFE INSURANCE** | | |
| Opening Claims Liability | 1,648 | 1,598 |
| Claims Expense | 1,972 | 1,941 |
| Claims Paid | (1,810) | (1,891) |
| **Claims Liability transferred to Co-op Insurance NZ** | - | - |
| **Closing Claims Liability** | **1,810** | **1,648** |
| **MOTOR VEHICLE INSURANCE** | | |
| Opening Claims Liability | 677 | 471 |
| Claims Expense | 5,578 | 2,713 |
| Claims Paid | (5,223) | (2,507) |
| **Closing Gross Claims Liability** | **1,032** | **677** |
| **TOTAL GROSS OUTSTANDING CLAIMS LIABILITY** | **2,959** | **2,442** |

| | 2016 $000 | 2015 $000 |
|---|---|---|
| **MOTOR VEHICLE EXPECTED RECOVERIES RECEIVABLE** | | |
| Opening Expected Recoveries | 120 | 145 |
| Increase In Expected Recoveries | 361 | 228 |
| Actual Third Party Recoveries Received | (389) | (253) |
| **Closing Expected Recoveries** | **92** | **120** |
| **Motor Vehicle Net Claims Liability** | **940** | **557** |
| | | |
| **TOTAL NET OUTSTANDING CLAIMS LIABILITY (CURRENT)** | **2,867** | **2,322** |

Outstanding claims are reported in the Statement of Financial Position as Outstanding Claims Liability and Expected Recoveries.

| | 2016 $000 | 2015 $000 |
|---|---|---|
| **Composition of Outstanding Claims Liability** | | |
| **Life Insurance** | | |
| Outstanding Claims | - | - |
| IBNR | 117 | 117 |
| **Closing Claims Liability** | **117** | **117** |
| **Other Non-life Insurance** | | |
| Outstanding Claims | 1,377 | 1,241 |
| Management Allowance - 8.5% | 129 | 117 |
| Risk Margin - 10% | 164 | 150 |
| IBNR | 140 | 140 |
| **Closing Claims Liability** | **1,810** | **1,648** |
| **Motor Vehicle Insurance** | | |
| Outstanding Claims | 731 | 437 |
| Risk Margin - 8.5% (2015 : 15%) | 62 | 66 |
| Indirect Claims Management - 15% (2015 : 17.8%) | 119 | 89 |
| IBNR | 120 | 85 |
| Closing Gross Claims Liability | 1,032 | 677 |
| Closing Expected Recoveries | (92) | (120) |
| **Closing Claims Liability** | **940** | **557** |
| | | |
| **TOTAL NET OUTSTANDING CLAIMS LIABILITY (CURRENT)** | **2,867** | **2,322** |

## Insurance Contract Risk Management

A key risk from operating in the insurance industry is exposure to insurance risk arising from underwriting insurance contracts. The insurance contracts transfer risk to the insurer by indemnifying the policyholders against adverse effects arising from the occurrence of specified uncertain future events. The risk is that the actual claims to be paid in relation to contracts will be different to that estimated at the time a product was designed and priced. The Economic Entity is exposed to this risk because the price for a contract must be set before the losses relating to the product are known. Hence the insurance business involves inherent uncertainty. This risk is mitigated in the insurance Life and Other Non-Life products of Co-op Insurance NZ as all policies are monthly renewable and there is no effective contractual price risk.

A fundamental part of the overall risk management strategy is the effective governance and management of the risks that impact the amount, timing and uncertainty of cash flows arising from insurance contracts.

## Insurance Solvency Requirements

**(a) Capital Management Policies and Objectives**
From the issuance of the Insurance Licence by the Reserve Bank of New Zealand ("RBNZ") on 1 April 2013, the Economic Entity is required within its subsidiary, Co-op Insurance NZ, to maintain a Fixed Minimum Solvency Capital of $5,000,000 as determined under the Solvency Standards for Life and Non-Life Insurance Business (the solvency standard) issued by the RBNZ. RBNZ defines Actual Solvency Capital as: Co-op Insurance NZ's Capital less Intangible Assets less dividends payable on Ordinary and Perpetual Preference Shares in the period leading up to the filing of the RBNZ Solvency Return.

Co-op Insurance NZ has defined in its Capital Risk Management Policy that it will maintain a Target Minimum Solvency Capital at the higher of:

- 105% of the Fixed Minimum Solvency Capital set by the RBNZ which is $5,250,000 (2015 : $5,250,000);
- 125% of the Calculated Minimum Solvency Capital which at 30 June 2016 was $2,250,485 (2015 : $3,152,720).

The Directors believe that this standard has been achieved.

The Economic Entity has embedded in its capital management framework the necessary tests to ensure continuous and full compliance with the solvency standard.

**(b) Capital Composition**
Co-op Insurance NZ manages its capital by considering both regulatory and economic capital. The primary source of capital used by Co-op Insurance NZ is total equity attributable to the Economic Entity. Total equity attributable to the Economic Entity equates to "capital" as defined in the solvency standard.

The Solvency Margin is calculated as actual solvency capital less minimum solvency capital and is as follows:

| | Group | |
|---|---|---|
| 30 June | 2016 | 2015 |
| | $ | $ |
| Actual Solvency Capital | 5,761,699 | 5,497,978 |
| Fixed Minimum Solvency Capital | 5,000,000 | 5,000,000 |
| **Solvency Margin** | **761,699** | **497,978** |
| **Solvency Ratio** | **115.2%** | **110.0%** |

## Risk Management Objectives and Policies for Mitigating Insurance Risk

Risk management activities can be broadly separated into underwriting, claims management, reserving and investment management.

The objective of these risk management functions is to enhance the longer term financial performance of the overall insurance operations.

The key policies in place to mitigate risks arising from underwriting insurance contracts include the following:

**Acceptance of Risk** - the Economic Entity restricts its lines of business primarily to group unit rated consumer credit insurance (Life and Other Non-Life), funeral plan and motor vehicle insurance. The consumer credit business is sold exclusively to the Association's Member credit unions. Records of results and trends achieved for each seller of insurance for all lines of business are analysed carefully and sellers whose portfolios are returning unacceptable levels of risk either have their price adjusted accordingly or lose their right to sell policies for the Economic Entity.

**Pricing** - the primary lines of business are backed by historical underwriting results. This enables the Economic Entity's underwriters to calculate acceptable pricing and terms of cover.

**Reinsurance** - the Economic Entity's Controlled Entity, Co-op Insurance NZ (the Company) does not maintain reinsurance cover on the Life and Other Non-life Insurance business as its historical underwriting surpluses are such that in the Directors view there are sufficient underwriting surpluses being generated to be able to meet the obligations that would otherwise have been met by a catastrophe reinsurer. The Controlled Entity has a reinsurance programme on the Motor Vehicle risks structured to adequately protect the Controlled Entity's solvency and capital position. It covers third party property damage and own damage catastrophe single event protection. The Controlled Entity's reinsurer was Munich Re, up until 30th June 2016, which has a financial strength rating of "AA".

With effect from 1 July 2016, the Controlled Entity's motor vehicle insurance provider has been changed to Swiss

Reinsurance Company Limited for a signed line of 75% and to Asper Insurance UK Limited for a signed line of 25%. Swiss Reinsurance Company Limited and Asper Insurance UK Limited have financial strength ratings of "AA" and "A" respectively. The excess loss cover, under the new treaty arrangements, has been set at $50,000.

**Claims Management** - claims are handled in-house by the Economic Entity's own claims department. Staff are allocated settling limits and authorities commensurate with their levels of experience. These authority limits are reviewed regularly. Overall authority and claims management is provided by experienced managers. Claims files are regularly audited on a random basis by independent staff members.

**Investment Management** - all premium income is held in bank accounts and short term deposits with the Association and Registered Banks.

**Geographical Spread** - the Economic Entity regularly analyses and reviews its geographical spread of risk to ensure its insurance operations are not overexposed in any one region.

## Terms and Conditions of Insurance Contracts

The Economic Entity's insurance contracts written are entered into on a standard form and on an instalment or annual payment basis. There are no special terms and conditions in any non standard contracts that would have a material impact on the financial report.

## Credit Risk

Financial assets or liabilities arising from insurance contracts are presented on the Statement of Financial Position. These amounts best represent the maximum credit risk exposure at reporting date. The Economic Entity's credit risk exposure on Life and Other Non-life Insurance contracts relates exclusively to credit unions. The credit risk relating to Motor Vehicle insurance contracts relates primarily to premium receivable which is due from intermediaries.

## Interest Rate Risk

The underwriting of the disability component of the Other Non-Life product creates an exposure to interest rate risk because the termination dates of the outstanding claims liability vary according to the term of the underlying loan or savings account. However this exposure has historically been low as approximately 90% of claims terminate within 12 months. The underwriting of Life and Motor Vehicle insurance contracts create no exposure to the risk that interest rate movements may impact the value of the outstanding claims liability. The outstanding claims liability is not discounted due to the very short term nature of the claims.

## Operational Risk

Operational risk is the risk of financial loss (including lost opportunities) resulting from external events and/or inadequate or failed internal processes, people and systems. Operational risk is identified and assessed on an ongoing basis and the capital management strategy includes consideration of operational risk. Management and staff are responsible for identifying, assessing and managing operational risks in accordance with their roles and responsibilities.

## Sensitivity Analysis

Sensitivity of risks relates primarily to the risk margin assessments which are set out above. These are reviewed annually and change in accordance with current best estimates using advice of the Appointed Actuary. The financial impact of these sensitivity changes are:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | $000 | $000 | $000 | $000 |
| **SENSITIVITY CALCULATIONS** | **Balance** | **Sensitivity** | **Balance** | **Sensitivity** |
| Outstanding Claims Liability | 2,582 | | 2,100 | |
| Reopening allowance 10% higher | | 3 | | 3 |
| Reopening allowance 10% lower | | (3) | | (3) |
| Claim estimates 10% higher | | 258 | | 210 |
| Claim estimates 10% lower | | (258) | | (210) |
| Administration costs 10% higher | | 20 | | 20 |
| Administration costs 10% lower | | (20) | | (20) |
| IBNR | 377 | | 342 | |
| Claim reporting 10% longer | | 132 | | 120 |
| Claim reporting 10% quicker | | (121) | | (109) |
| | **2,959** | | **2,442** | |

**Insurance Rating**

The Company has a Financial Strength rating of 'BBB-' issued by Fitch Ratings on 31 July 2015 ('BB+' issued on 17 December 2013, and affirmed on 18 February 2015).

## 8 IMPAIRMENT

| | 2016 $000 | 2015 $000 |
|---|---|---|
| **Movement in Provisions in respect of:** | | |
| - Loans Receivable | - | - |
| - Investments | - | - |
| | - | - |
| Bad Debts Recovered | 59 | 28 |
| **IMPAIRMENT CREDIT** | **59** | **28** |

Refer to notes 15 and 16 for further information.

## 9 TAXATION

| | 2016 $000 | 2015 $000 |
|---|---|---|
| **Profit before Taxation** | **1,712** | **1,811** |
| Income Tax at current rate of 28% | 479 | 507 |
| Exempt Income | (558) | (472) |
| Non Deductible Expenses | - | (19) |
| Utilisation of Tax Losses (previously not recognised) | 79 | (16) |
| **TAXATION EXPENSE** | **-** | **-** |

Taxation losses have been recognised to the extent of the deferred tax liability on temporary differences. The additional tax losses have not been recognised because there is not sufficient probability of taxable profits in future years to offset such losses. Tax losses are subject to Inland Revenue assessment in the next tax return and shareholder continuity requirements. Tax losses not recognised are $4,487,703 ($1,256,557 at the tax rate of 28%) (2015 : $4,226,000 ($1,183,000 at the tax rate of 28%)).

Deferred tax assets/(liabilities ) recognised are comprised as follows:

| 2016 | Opening Balance $000 | Charged to Income $000 | Closing Balance $000 |
|---|---|---|---|
| **Deferred Tax Assets:** | | | |
| Tax Losses Recognised | 89 | 202 | 291 |
| Provisions | 4 | 4 | 8 |
| | **93** | **206** | **299** |
| **Deferred Tax Liabilities:** | | | |
| Intangible Assets | (13) | (18) | (31) |
| Deferred Acquisition Costs | (80) | (188) | (268) |
| | **(93)** | **(206)** | **(299)** |
| | - | - | - |

| 2015 | Opening Balance $000 | Charged to Income $000 | Closing Balance $000 |
|---|---|---|---|
| **Deferred Tax Assets:** | | | |
| Tax Losses Recognised | 57 | 32 | 89 |
| Provisions | 9 | (5) | 4 |
| | **66** | **27** | **93** |
| **Deferred Tax Liabilities:** | | | |
| Intangible Assets | - | **(13)** | **(13)** |
| Deferred Acquisition Costs | (66) | (14) | (80) |
| | **(66)** | **(27)** | **(93)** |
| | - | - | - |

## 10 BASE CAPITAL NOTES

| | 2016 '000 Units | 2015 '000 Units | 2016 $000 | 2015 $000 |
|---|---|---|---|---|
| Issue I | 13 | 13 | 130 | 130 |
| Issue II | 13,565 | 13,565 | 13,565 | 13,565 |
| | **13,578** | **13,578** | **13,695** | **13,695** |

The Rules of the Association provide for the creation of the Association Business Services Division Trust (the "Business Services Division"). Base Capital Notes are those unsecured subordinated Capital Notes forming the capital of the Business Services Division. All notes qualify for Dividends as determined by the Directors.

| | 2016 '000 Units | 2015 '000 Units | 2016 $000 | 2015 $000 |
|---|---|---|---|---|
| **Issue I** | | | | |
| Balance at 1 July | 13 | 17 | 130 | 170 |
| Notes redeemed by transfer to Base Capital Notes II | - | (4) | - | (40) |
| **Balance at 30 June** | **13** | **13** | **130** | **130** |

Base Capital Notes Issue I have a face value of $10,000 and are the qualifying Base Capital Notes for membership of the Business Services Division. All Member Services Division members are entitled to apply for one only Base Capital Note Issue I.

| | 2016 '000 Units | 2015 '000 Units | 2016 $000 | 2015 $000 |
|---|---|---|---|---|
| **Issue II** | | | | |
| Balance at 1 July | 13,565 | 13,525 | 13,565 | 13,525 |
| Notes Issued: | | | | |
| By transfer from Base Capital Notes I | - | 40 | - | 40 |
| **Balance at 30 June** | **13,565** | **13,565** | **13,565** | **13,565** |

Base Capital Notes Issue II have a face value of $1.

Base Capital Notes Issues constitute unsecured subordinated obligations of the Business Services Division and rank pari passu and without priority or preference among themselves.

The obligations of the Business Services Division to the Base Capital Noteholders are contained in the Regulations of the Business Services Division.

## 11 RETAINED EARNINGS / (ACCUMULATED LOSSES)

| | 2016<br>$000 | 2015<br>$000 |
|---|---|---|
| Balance at 1 July | (854) | (1,717) |
| Operating Profit | 1,712 | 1,811 |
| | 858 | 94 |
| Base Capital Note Dividends | (786) | (948) |
| Balance at 30 June | 72 | (854) |
| **TOTAL RETAINED EARNINGS / (ACCUMULATED LOSSES)** | **72** | **(854)** |

The net profit for the years ended 30 June 2016 and 30 June 2015 have been transferred to Retained Earnings / (Accumulated Losses).

| | 2016<br>$000 | 2015<br>$000 |
|---|---|---|
| Member Services Division | 805 | 1,057 |
| Business Services Division | (733) | (1,911) |
| | **72** | **(854)** |

Member Services Division Retained Earnings at 30 June 2016 includes the Retained Earnings of the New Zealand Credit Union Foundation of $114,000 (30 June 2015 : $107,000). Refer note 34.

## 12 CASH AND CASH EQUIVALENTS

| | Group | |
|---|---|---|
| | 2016<br>$000 | 2015<br>$000 |
| Cash at Bank | 4,310 | 3,194 |
| Bank Call Deposits | 16,171 | 15,616 |
| | **20,481** | **18,810** |

## 13 DERIVATIVE FINANCIAL ASSETS

The Economic Entity uses the following financial derivative assest for economic or risk management purposes:

**Interest Rate Swaps**: Interest rate swaps are a commitment to exchange one set of cash flows for another, but no exchange of principal takes place. The Economic Entity provides a facility for credit unions to cover their risk of adverse movements in interest rates, but immediately, and with full coverage, matches that risk by taking up the equivalent risk in the financial market. At 30 June 2016 there were no interest rate swaps held (30 June 2015 : $Nil).

## 14 ACCOUNTS RECEIVABLE

| | 2016 $000 | 2015 $000 |
|---|---|---|
| Trade Receivables | 1,645 | 1,455 |
| Future Funded Premiums | 5,662 | 2,093 |
| | **7,307** | **3,548** |
| Insurance Premiums Due | 502 | 457 |
| Provision for Cancellation | (4) | (1) |
| | **498** | **456** |
| **Total Carrying Amount** | **7,805** | **4,004** |
| **Future Funded Premiums are collectable:** | | |
| Within 12 months | 3,788 | 2,093 |
| After 1 year | 1,874 | - |
| | **5,662** | **2,093** |
| **Provision for Cancellation** | | |
| **Collective Provision Against Insurance Premiums Due** | | |
| Balance at Beginning of the Year | 1 | - |
| Movement in Provision | 3 | 1 |
| **Balance at End of the Year** | **4** | **1** |
| **Past Due Receivables Not Impaired** | | |
| Trade Receivables | 172 | 79 |
| **Total Past Due Receivables Not Impaired** | **172** | **79** |
| **Aging of Past Due Receivables Not Impaired** | | |
| Past Due 1-30 days | 34 | 35 |
| Past Due 31-90 days | 42 | 16 |
| Past Due over 90 days | 96 | 28 |
| **Balance at End of the Year** | **172** | **79** |

Trade Receivables are mainly due from Member credit unions. There is no Provision for Bad Debts (2015 : $Nil) and there has been no write off (2015 : $Nil) in respect of bad and doubtful debts.

The average credit period is 30 days. Apart from the above, none of the past due receivables have been provided for because past experience indicates that such amounts are generally recoverable.

Future Funded Premiums are the outstanding premiums owed under policies of insurance paid monthly.

In respect of the Economic Entity, there is a provision for cancellation of $3,564 for outstanding insurance premiums relating to policies issued by Co-op Insurance NZ (2015 : $1,121).

Refer also to note 30 for Related Party Disclosures.

## 15 INVESTMENTS

| | 2016 $000 | 2015 $000 |
|---|---|---|
| Bank Deposits | 58,872 | 73,864 |
| Money Market Securities | - | 16,419 |
| Floating Rate Notes | - | - |
| **Investment Securities** | **58,872** | **90,283** |
| **Total Carrying Amount** | **58,872** | **90,283** |

## 16 LOANS RECEIVABLE

| | 2016 $000 | 2015 $000 |
|---|---|---|
| Gross Loans Receivable | - | 206 |
| Provision for Credit Impairment | - | (206) |
| **Total Carrying Amount** | **-** | **-** |
| **PROVISION FOR CREDIT IMPAIRMENT** | | |
| Individually Impaired Loans | | |
| Balance at Beginning of the Year | - | - |
| Amounts Released/Written Off | - | - |
| **Balance at End of the Year** | **-** | **-** |
| **COLLECTIVE PROVISION AGAINST LOANS** | | |
| Balance at Beginning of the Year | - | 330 |
| Amounts Written Off | - | (124) |
| **Balance at End of the Year** | **-** | **206** |
| **Total Provision for Credit Impairment** | **-** | **206** |
| **AGING OF INDIVIDUALLY IMPAIRED LOANS** | | |
| Past Due 0-30 days | - | - |
| Past Due 31-90 days | - | - |
| Past Due over 90 days | - | - |
| **Balance at End of the Year** | **-** | **-** |
| **AGING OF PAST DUE BUT NOT INDIVIDUALLY IMPAIRED LOANS** | | |
| Past Due 0-30 days | - | - |
| Past Due 31-90 days | - | - |
| Past Due over 90 days | - | - |
| **Balance at End of the Year** | **-** | **-** |

During 2013, the Loan held by the Association at 30 June 2012 amounting to $1,199,000 was, after collections during the year, restructured into a new agreement with the debtor. As a result of the restructuring, it was recognised that $139,000 was unrecoverable and this was written off. $600,000 of loans were taken back from the debtor in part settlement of the debt at estimated recoverable value and a new loan of $355,000 advanced for the balance owing. Of the $955,000 refinanced, $713,000 was collected by 30 June 2016 (2015 : $654,000). Loans of $59,000 above the provision for impairment were recovered during 2016 (2015: $28,000) and were reported in the Statements of Comprehensive Revenue and Expense.

There were no assets acquired through enforcement of security.

## 17 PREPAYMENTS

| | 2016<br>$000 | 2015<br>$000 |
|---|---|---|
| **Deferred Commission** | | |
| Deferred Commission Costs | 284 | 235 |
| Commission Costs Paid | 2,443 | 1,690 |
| Commission Costs Released | (1,768) | (1,641) |
| **Closing Deferred Commission Costs** | 959 | 284 |
| Other Prepayments | 489 | 362 |
| | **1,448** | **646** |

| | | |
|---|---|---|
| Deferred commission costs are to be expensed: | | |
| Within 12 months | 571 | 284 |
| After 1 year | 388 | - |
| | **959** | **284** |

Commission costs represent seller and agency commissions paid to third parties to acquire insurance policies. Commissions are paid upon receipt of premium and expensed over the life of the policy.

## 18 INVENTORY

| | 2016<br>$000 | 2015<br>$000 |
|---|---|---|
| ATM Machines and Parts | 64 | 61 |
| Promotional and Other Items | 59 | 22 |
| | **123** | **83** |

The cost of inventories recognised as an expense during the year was $634,000 (2015 : $477,000).

## 19 PROPERTY, PLANT AND EQUIPMENT

| | 2016<br>$000 | 2015<br>$000 |
|---|---|---|
| **Furniture and Fittings, Office Equipment and Vehicles** | | |
| Opening Cost at 1 July | 688 | 660 |
| Additions | 50 | 66 |
| Disposals | (46) | (38) |
| **Closing Cost at 30 June** | **692** | **688** |
| | | |
| Opening Accumulated Depreciation at 1 July | 412 | 379 |
| Depreciation Expense | 73 | 61 |
| Disposals | (45) | (28) |
| **Closing Accumulated Depreciation at 30 June** | **440** | **412** |
| | | |
| **Net Book Value at 30 June** | **252** | **276** |

| Computer Equipment | | |
|---|---|---|
| Opening Cost at 1 July | 977 | 912 |
| Additions | 522 | 293 |
| Disposals | (1) | (228) |
| **Closing Cost at 30 June** | **1,498** | **977** |

| | | |
|---|---|---|
| Opening Accumulated Depreciation at 1 July | 678 | 693 |
| Depreciation Expense | 207 | 147 |
| Disposals | (1) | (162) |
| **Closing Accumulated Depreciation at 30 June** | **884** | **678** |

| | | |
|---|---|---|
| **Net Book Value at 30 June** | **614** | **299** |
| **Carrying Amount at 30 June** | **866** | **575** |

There were no material impairment losses in respect of property, plant and equipment.

## 20 OTHER INTANGIBLE ASSETS

| | 2016<br>$000 | 2015<br>$000 |
|---|---|---|
| **Computer Software** | | |
| Opening Cost at 1 July | 4,898 | 4,608 |
| Additions | 3,523 | 977 |
| Disposals | - | (687) |
| **Closing Cost at 30 June** | **8,421** | **4,898** |
| Opening Accumulated Amortisation at 1 July | 3,607 | 3,819 |
| Amortisation Expense | 634 | 475 |
| Disposals | - | (687) |
| **Closing Accumulated Amortisation at 30 June** | **4,241** | **3,607** |
| **Net Book Value at 30 June** | **4,180** | **1,291** |

There were no material impairment losses in respect of computer software.

## 21 DEPOSITS RECEIVED

| | 2016<br>$000 | 2015<br>$000 |
|---|---|---|
| Deposits from Credit Unions | 50,032 | 92,238 |
| Deposits from Other Parties | 18,622 | 2,174 |
| | **68,654** | **94,412** |

Deposits are accepted on an unsecured basis. Average interest rates, repricing terms and duration are as shown in note 27.

## 22 ACCOUNTS PAYABLE

| | 2016 $000 | 2015 $000 |
|---|---|---|
| Trade Payables | 1,818 | 1,392 |
| Credit Union Rebates | 807 | 1,224 |
| Accrued Expenses | 860 | 977 |
| Reinsurance Accruals | 61 | 19 |
| GST Payable | 110 | 91 |
| | **3,656** | **3,703** |

## 23 UNEARNED PREMIUM LIABILITY

| | 2016 $000 | 2015 $000 |
|---|---|---|
| Opening Balance | 2,152 | 1,957 |
| Gross Written Premium | 14,399 | 10,453 |
| Premium Cancelled | (1,364) | (664) |
| Earnings Released | (10,616) | (9,594) |
| **Closing Unearned Premium Liability** | **4,571** | **2,152** |
| | | |
| Unearned premium liability will be earned: | | |
| Within 12 months | 3,058 | 2,152 |
| After 1 year | 1,513 | - |
| | **4,571** | **2,152** |

The Appointed Actuary has assessed the unexpired risk reserve in respect of in-force policies, comprising the expected claim cost for the period up to the next renewal date, and the cost of managing those claims and providing other administration services required to manage the policies over that time. The actuary's view is that the unexpired risk reserve in respect of in-force policies is approximately 2.0% (2015 : 7.0%) lower than the unearned premium provision. The conduct of the liability adequacy test identified a surplus at the level of 75% likelihood of sufficiency (2015 : 75%). Accordingly there is no need to recognise any deficiency in the unearned premium provision.

## 24 PROVISIONS

| | 2016 $000 | 2015 $000 |
|---|---|---|
| Employee Entitlements | 407 | 409 |
| | **407** | **409** |

## 25 LEASES

| | 2016 $000 | 2015 $000 |
|---|---|---|
| **Non Cancellable Operating Lease Payments** | | |
| Lease liabilities are payable: | | |
| Not later than 1 year | 320 | 395 |
| Later than 1 year and not later than 2 years | 340 | 321 |
| Later than 2 years and not later than 5 years | 1,884 | 2,142 |
| | **2,544** | **2,858** |

Operating leases relate to the leasing of office space.

## 26 SEGMENTAL ANALYSIS

**Business Segment Analysis**

For management purposes, the Economic Entity is organised into 4 (2015 : 4) business units:

**Co-op Money NZ**

The Association provides a full range of financial and bureau services to its Member credit unions and building societies through the Business Services Division and trade association services to its Memebr credit unions through the Member Services Division.

**Co-op Insurance NZ**

Co-op Insurance NZ is a controlled enitity company which provides insurance underwriting services to Credit Unions and other customers.

**Co-op Services NZ**

Co-op Services NZ is a controlled enitity company providing a full range of financial and bureau services to other customers.

**CU Group Trust**

CU Group Trust is an investment holding entity.

| | Co-op Money NZ | Co-op Insurance NZ | Co-op Services NZ | CU Group Trust | Total Economic Entity | Inter Entity Adjustments | Economic Entity 2016 |
|---|---|---|---|---|---|---|---|
| **For the year ended 30 June 2016 ($000)** | | | | | | | |
| Interest Revenue | 2,775 | 247 | 115 | 125 | 3,262 | (296) | 2,966 |
| Interest Expense | 2,009 | 125 | 146 | 127 | 2,407 | (421) | 1,986 |
| **NET INTEREST REVENUE** | **766** | **122** | **(31)** | **(2)** | **855** | **125** | **980** |
| Banking Services Revenue | 13,946 | - | 303 | - | 14,249 | (249) | 14,000 |
| Insurance Premium Revenue | - | 10,388 | - | - | 10,388 | - | 10,388 |
| Other Revenue | 2,635 | 879 | 24 | - | 3,538 | (1,875) | 1,663 |
| **TOTAL REVENUE NET OF INTEREST EXPENSE** | **17,347** | **11,389** | **296** | **(2)** | **29,030** | **(1,999)** | **27,031** |
| Employee Costs | 4,637 | 476 | - | - | 5,113 | - | 5,113 |
| Insurance Claims & Commissions | - | 8,196 | - | - | 8,196 | - | 8,196 |
| Transaction Costs | 7,331 | - | 249 | - | 7,580 | (249) | 7,331 |
| Operating Expenses | 3,982 | 2,462 | 75 | 6 | 6,525 | (1,787) | 4,738 |
| **TOTAL EXPENDITURE** | **15,950** | **11,134** | **324** | **6** | **27,414** | **(2,036)** | **25,378** |
| **NET PROFIT BEFORE IMPAIRMENT** | **1,397** | **255** | **(28)** | **(8)** | **1,616** | **37** | **1,653** |
| Impairment Credit | 59 | - | - | - | 59 | - | 59 |
| **NET PROFIT BEFORE TAXATION** | **1,456** | **255** | **(28)** | **(8)** | **1,675** | **37** | **1,712** |
| Taxation Expense | - | - | - | - | - | - | - |
| **Profit and Total Comprehensive Income for the Year** | **1,456** | **255** | **(28)** | **(8)** | **1,675** | **37** | **1,712** |

| As at 30 June 2016 ($000) | Co-op Money NZ | Co-op Insurance NZ | Co-op Services NZ | CU Group Trust | Total Economic Entity | Inter Entity Adjustments | Economic Entity 2016 |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| Cash and Cash Equivalents | 18,449 | 2,126 | (314) | (26) | 20,235 | 246 | 20,481 |
| Accounts Receivable | 1,860 | 6,289 | 58 | - | 8,207 | (402) | 7,805 |
| Expected Recoveries | - | 92 | - | - | 92 | - | 92 |
| Investments | 59,659 | 5,372 | 16,412 | 12,000 | 93,443 | (34,571) | 58,872 |
| Loans Receivable | - | - | - | - | - | - | - |
| Taxation Receivable | - | - | - | - | - | - | - |
| Prepayments | 460 | 969 | 19 | - | 1,448 | - | 1,448 |
| Inventory | 123 | - | - | - | 123 | - | 123 |
| Property, Plant and Equipment | 830 | 9 | 27 | - | 866 | - | 866 |
| Other Intangible Assets | 3,388 | 410 | 382 | - | 4,180 | - | 4,180 |
| Non-current Deposit | 147 | | - | - | 147 | - | 147 |
| **TOTAL ASSETS** | **84,916** | **15,267** | **16,584** | **11,974** | **128,741** | **(34,727)** | **94,014** |
| **LIABILITIES** | | | | | | | |
| Deposits Received | 68,957 | - | 16,412 | 12,110 | 97,479 | (28,825) | 68,654 |
| Accounts Payable | 2,344 | 1,539 | 164 | 11 | 4,058 | (402) | 3,656 |
| Unearned Premium Liability | - | 4,571 | - | - | 4,571 | - | 4,571 |
| Provisions | 380 | 27 | - | - | 407 | - | 407 |
| Outstanding Claims Liability | - | 2,959 | - | - | 2,959 | - | 2,959 |
| **TOTAL LIABILITIES** | **71,681** | **9,096** | **16,576** | **12,121** | **109,474** | **(29,227)** | **80,247** |
| **NET ASSETS** | **13,235** | **6,171** | **8** | **(147)** | **19,267** | **(5,500)** | **13,767** |

| For the year ended 30 June 2015 ($000) | Co-op Money NZ | Co-op Insurance NZ | Co-op Services NZ | CU Group Trust | Total Economic Entity | Inter Entity Adjustments | Economic Entity 2016 |
|---|---|---|---|---|---|---|---|
| Interest Revenue | 4,333 | 338 | - | 125 | 4,796 | (184) | 4,612 |
| Interest Expense | 3,497 | 125 | - | 132 | 3,754 | (309) | 3,445 |
| **NET INTEREST REVENUE** | **836** | **213** | **-** | **(7)** | **1,042** | **125** | **1,167** |
| Banking Services Revenue | 13,575 | - | 136 | - | 13,711 | (116) | 13,595 |
| Insurance Premium Revenue | - | 9,137 | - | - | 9,137 | - | 9,137 |
| Other Revenue | 2,263 | 323 | 24 | - | 2,610 | (1,704) | 906 |
| **TOTAL REVENUE NET OF INTEREST EXPENSE** | **16,674** | **9,673** | **160** | **(7)** | **26,500** | **(1,695)** | **24,805** |
| Employee Costs | 3,874 | 462 | - | - | 4,336 | - | 4,336 |
| Insurance Claims & Commissions | - | 6,955 | - | - | 6,955 | - | 6,955 |
| Transaction Costs | 7,448 | - | 116 | - | 7,564 | (116) | 7,448 |
| Operating Expenses | 3,696 | 2,188 | 54 | 6 | 5,944 | (1,579) | 4,365 |
| **TOTAL EXPENDITURE** | **15,018** | **9,605** | **170** | **6** | **24,799** | **(1,695)** | **23,104** |
| Dividend & Share of Profit/(Loss) of Joint Venture | - | - | - | 82 | 82 | - | 82 |
| **NET PROFIT BEFORE IMPAIRMENT** | **1,656** | **68** | **(10)** | **69** | **1,783** | **-** | **1,783** |
| Impairment Credit | 28 | - | - | - | 28 | - | 28 |
| **NET PROFIT BEFORE TAXATION** | **1,684** | **68** | **(10)** | **69** | **1,811** | **-** | **1,811** |
| Taxation Expense | - | - | - | - | - | - | |
| **Profit and Total Comprehensive Income for the Year** | **1,684** | **68** | **(10)** | **69** | **1,811** | **-** | **1,811** |

The presentation of the Statement of Comprehensive Revenue and Expense has been revised to iimprove the classification between Net Interest Revenue, other Revenue, and Operating Expenses.

Comparative figures have been revised to ensure consistency.

| | Co-op Money NZ | Co-op Insurance NZ | Co-op Services NZ | CU Group Trust | Total Economic Entity | Inter Entity Adjustments | Economic Entity 2016 |
|---|---|---|---|---|---|---|---|
| **As At 30 June 2015 ($000)** | | | | | | | |
| **ASSETS** | | | | | | | |
| Cash and Cash Equivalents | 17,280 | 2,672 | 10 | (22) | 19,940 | (1,130) | 18,810 |
| Accounts Receivable | 1,532 | 2,652 | 9 | - | 4,193 | (189) | 4,004 |
| Expected Recoveries | - | 120 | - | - | 120 | - | 120 |
| Investments | 89,933 | 5,986 | - | 12,000 | 107,919 | (17,636) | 90,283 |
| Loans Receivable | - | - | - | - | - | - | - |
| Taxation Receivable | - | - | - | - | - | - | - |
| Prepayments | 352 | 294 | - | - | 646 | - | 646 |
| Inventory | 83 | - | - | - | 83 | - | 83 |
| Property, Plant and Equipment | 528 | 9 | 38 | - | 575 | - | 575 |
| Other Intangible Assets | 872 | 419 | - | - | 1,291 | - | 1,291 |
| Non-current Deposit | 147 | - | - | - | 147 | - | 147 |
| **TOTAL ASSETS** | **110,727** | **12,152** | **57** | **11,978** | **134,914** | **(18,955)** | **115,959** |
| **LIABILITIES** | | | | | | | |
| Deposits Received | 95,570 | - | - | 12,110 | 107,680 | (13,268) | 94,412 |
| Accounts Payable | 2,234 | 1,630 | 21 | 7 | 3,892 | (189) | 3,703 |
| Unearned Premium Liability | - | 2,152 | - | - | 2,152 | - | 2,152 |
| Provisions | 358 | 13 | - | - | 371 | 38 | 409 |
| Outstanding Claims Liability | - | 2,442 | - | - | 2,442 | - | 2,442 |
| **TOTAL LIABILITIES** | **98,162** | **6,237** | **21** | **12,117** | **116,537** | **(13,419)** | **103,118** |
| **NET ASSETS** | **12,565** | **5,915** | **36** | **(139)** | **18,377** | **(5,536)** | **12,841** |

## 27 FINANCIAL INSTRUMENTS

### Financial Risk Management Objectives

Co-op Money NZ's Finance and Central Banking departments provide services to the Economic Entity entities, including co-ordinating access to funding, providing banking facilities, and managing external banking relationships. Services also include advice, assistance and reports to the Boards of the Controlling Entities and the Controlled Entities in relation to financial risks relating to the operations of the Economic Entity. These risks include market risk (including interest rate risk and price risk), credit risk and liquidity risk. These services are augmented by specialist advice to the appropriate Boards from within the entity or its external advisors, for example in relation to underwriting risk. Co-op Money NZ reviews the activity of its Central Banking department by an Asset and Liability Management Committee which meets bi-monthly. Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis. The Economic Entity does not enter into or trade financial instruments for speculative purposes.

### Capital Risk Management

The Economic Entity manages its capital resources to ensure that entities in the Economic Entity will be able to withstand the assessed business and financial risks appropriate to their operation. In the case of Controlled Entities with an external market focus, the level of capital investment is determined by reference to market norms and the requirements of external agencies such as rating agencies or regulators. In the case of Co-op Money NZ the required level of capital investment is determined by means of a departmental analysis applying a range of methodologies appropriate to the risk profile of the key operations. These include but are not limited to the minimum capital adequacy measures for New Zealand non-bank deposit takers. In the case of Co-op Insurance NZ, the required level of capital investment is determined by adding a margin to the minimum solvency capital amount as measured by the Reserve Bank of New Zealand's life and non-life solvency standards. The Economic Entity meets its objectives for managing capital by formally reviewing its available capital in relation to its risks at least once per annum or more frequently if required.

### Foreign Exchange Risk Management

During the year the Economic Entity may commit to foreign exchange contracts to reduce risk involved in the purchasing of goods or services in foreign currencies. At 30 June 2016, the Economic Entity had foreign exchange contracts to cover purchase orders and invoices due of $Nil (2015: $575,000). The fair value at 30 June 2016 was $Nil (2015: $Nil).

### Interest Rate Risk Management

Interest rate risk is the risk of loss to Co-op Money NZ arising from adverse changes in interest rates. This exposure in respect of on-Balance Sheet Assets and Liabilities depends on the degree of mismatch between the value of interest sensitive assets and liabilities that are repricing; where repricing refers to the event when the interest rate attached to an asset or liability is reset. Co-op Money NZ controls its exposure to interest rate risk by actively managing this mismatch within Board approved policy.

### Interest Rate Sensitivity Analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non derivative instruments at balance date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at balance date was outstanding for the whole year. A 100 basis point increase or decrease represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Economic Entity's profit after tax and equity for the year ended 30 June 2016 would increase/decrease by $63,737 (2015 : increase/decrease by $102,109).

## Interest Rate Repricing

The following tables detail the Economic Entity's and Association's interest rate repricing profile:

| | Average Interest Rate | Less than 3 months | 3 months to 1 year | 1-2 years | 2-5 years | 5+ years | Non Interest Sensitive | Economic Entity Total |
|---|---|---|---|---|---|---|---|---|
| **At 30 June 2016** | | **$000** | **$000** | **$000** | **$000** | **$000** | **$000** | **$000** |
| **Assets** | | | | | | | | |
| Cash and Cash Equivalents | 2.42% | 20,481 | - | - | - | - | - | **20,481** |
| Accounts Receivable | - | - | - | - | - | - | 7,805 | **7,805** |
| Investment Securities | 3.14% | 37,966 | 20,906 | - | - | - | - | **58,872** |
| Loans Receivable | | - | - | - | - | - | - | **-** |
| Non-current Deposit | - | - | - | - | - | - | 147 | **147** |
| | | 58,447 | 20,906 | - | - | - | 7,952 | **87,305** |
| **Liabilities** | | | | | | | | |
| Deposits Received | 2.62% | 53,724 | 14,930 | - | - | - | - | **68,654** |
| Accounts Payable | - | - | - | - | - | - | 3,656 | **3,656** |
| | | 53,724 | 14,930 | - | - | - | 3,656 | **72,310** |
| **On Balance Sheet Interest Sensitivity Gap - 30 June 2016** | | **4,723** | **5,976** | **-** | **-** | **-** | **4,296** | **14,995** |

| | Average Interest Rate | Less than 3 months | 3 months to 1 year | 1-2 years | 2-5 years | 5+ years | Non Interest Sensitive | Economic Entity Total |
|---|---|---|---|---|---|---|---|---|
| **At 30 June 2015** | | **$000** | **$000** | **$000** | **$000** | **$000** | **$000** | **$000** |
| **Assets** | | | | | | | | |
| Cash and Cash Equivalents | 3.41% | 18,810 | - | - | - | - | - | **18,810** |
| Accounts Receivable | - | - | - | - | - | - | 4,004 | **4,004** |
| Investment Securities | 4.01% | 76,486 | 13,797 | - | - | - | - | **90,283** |
| Loans Receivable | | - | - | - | - | - | - | **-** |
| Non-current Deposit | - | - | - | - | - | - | 147 | **147** |
| | | 95,296 | 13,797 | - | - | - | 4,151 | **113,244** |
| **Liabilities** | | | | | | | | |
| Deposits Received | 3.50% | 85,885 | 8,527 | - | - | - | - | **94,412** |
| Accounts Payable | - | - | - | - | - | - | 3,703 | **3,703** |
| | | 85,885 | 8,527 | - | - | - | 3,703 | **98,115** |
| **On Balance Sheet Interest Sensitivity Gap - 30 June 2015** | | **9,411** | **5,270** | **-** | **-** | **-** | **448** | **15,129** |

Co-op Money NZ offers an interest rate swap facility to Credit Unions. It is Co-op Money NZ's policy to economically hedge this risk as it arises by entering into back to back matching transactions with Bank counterparties. There were no transactions outstanding (2015 : Nil).

## Credit Risk Management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Economic Entity.

Risk is minimised by the maintenance of a well diversified investment portfolio with controls over maturity, counterparty and concentration of investments. All investments in the CU Economic Entity Trust are authorised by the Co-op Money NZ Board. Investments undertaken directly by Central Banking, with the exception of those with non rated counterparties and for a smaller sublimit of $5 million for A3 rated New Zealand Banks, must be with counterparties holding a minimum credit rating of A2 (short term) or BBB (long term) from Standard & Poors' or an equivalent rating agency unless otherwise specifically approved by the Board of the Association. A maximum of 15% of the Central Banking controlled investment portfolio may be invested at any time with non rated counterparties.

Trade accounts receivables are concentrated amongst Credit Unions.

The carrying amounts of financial assets recorded in the financial statements, which are net of impairment losses, represent the Economic Entity's maximum exposure to credit risk.

## Liquidity Risk Management

Liquidity Risk is the risk that the Economic Entity will have difficulty in meeting commitments associated with its financial liabilities and future commitments. The Economic Entity manages its exposure to liquidity risk by maintaining sufficient liquid funds to meet its commitments based on historical and forecast cash flow needs. Controlled Entities, with the exception of Co-op Insurance NZ, are required to maintain their bank accounts and place all surplus liquidity with Co-op Money NZ's Central Banking department. Co-op Insurance NZ places its surplus liquidity with a range of counterparties including the Association in accordance with its own policy. The Central Banking department is responsible for all external banking and funding relationships. Through this level of centralised control, the Economic Entity monitors its overall liquidity position on a daily basis and forecasts cash flows from operating activities taking account of the cash flow characteristics and expected volatility in the balances of the various classes of recognised assets and liabilities, budgeted and forecast cash flows and seasonal cash cycles. The activity and risk exposure limits of the Central Banking department is detailed in a policy manual which is reviewed annually by the Co-op Money NZ Board. Amongst other matters, the policy manual addresses areas with a specific bearing on liquidity such as Investment Constraints and Lending Constraints. The policy manual requires that at least 30% (2015 : 30%) of investments must be capable of being liquidated within five days.

The following tables detail the Economic Entity's remaining contractual maturity for their financial assets and liabilities. The tables have been drawn up based on the undiscounted cash flows of financial assets and liabilities based on the earliest date on which the Economic Entity can be required to pay. The table includes both interest and principal cash flows.

| | Note | Less than 3 months | 3 months to 1 year | 1-2 years | 2-5 years | 5+ years | Economic Entity Total |
|---|---|---|---|---|---|---|---|
| 2016 | | $000 | $000 | $000 | $000 | $000 | $000 |
| **Assets** | | | | | | | |
| Cash and Cash Equivalents | | 20,481 | - | - | - | - | **20,481** |
| Accounts Receivable | | 3,490 | 2,441 | 1,234 | 640 | - | **7,805** |
| Investment Securities | | 37,966 | 20,906 | - | - | - | **58,872** |
| Loans Receivable | | - | - | - | - | - | **-** |
| Non-current Deposit | | 74 | - | | - | 73 | **147** |
| Future Interest Receivable | | 429 | 485 | - | - | - | **914** |
| Total Financial Assets | | 62,440 | 23,832 | 1,234 | 640 | 73 | **88,219** |
| **Liabilities** | | | | | | | |
| Deposits Received | | 53,724 | 14,930 | - | - | - | **68,654** |
| Accounts Payable | | 3,656 | - | - | - | - | **3,656** |
| Future Interest Payable | | 375 | 294 | - | - | - | **669** |
| Unearned Premium Liability | | 1,165 | 1,893 | 996 | 517 | - | **4,571** |
| Outstanding Claims Liability | | 2,959 | - | - | - | - | **2,959** |
| Total Financial Liabilities | | 61,879 | 17,117 | 996 | 517 | - | **80,509** |
| **Net Financial Assets** | | 561 | 6,715 | 238 | 123 | 73 | **7,710** |
| Unrecognised Commitments | 31 | (5,656) | (1,264) | (1,239) | - | - | **(8,159)** |
| **Net Liquidity Gap at 30 June 2016** | | **(5.095)** | **5,451** | **(1,001)** | **123** | **73** | **(449)** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 2015 | | | | | | | |
| **Assets** | | | | | | | |
| Cash and Cash Equivalents | | 18,810 | - | - | - | - | **18,810** |
| Accounts Receivable | | 4,004 | - | - | - | - | **4,004** |
| Investment Securities | | 76,486 | 13,797 | - | - | - | **90,283** |
| Loans Receivable | | - | - | - | - | - | **-** |
| Non-current Deposit | | - | 74 | | - | 73 | **147** |
| Future Interest Receivable | | 433 | 263 | - | - | - | **696** |
| Total Financial Assets | | 99,733 | 14,134 | - | - | 73 | **113,940** |
| **Liabilities** | | | | | | | |
| Deposits Received | | 85,885 | 8,527 | - | - | - | **94,412** |
| Accounts Payable | | 3,703 | - | - | - | - | **3,703** |
| Future Interest Payable | | 303 | 139 | - | - | - | **442** |
| Unearned Premium Liability | | 587 | 1,565 | - | - | - | **2,152** |
| Outstanding Claims Liability | | 2,442 | - | - | - | - | **2,442** |
| Total Financial Liabilities | | 92,920 | 10,231 | - | - | - | **103,151** |
| **Net Financial Assets** | | 6,813 | 3,903 | - | - | 73 | **10,789** |
| Unrecognised Commitments | 31 | (6,235) | - | - | - | - | **(6,235)** |
| **Net Liquidity Gap at 30 June 2015** | | **578** | **3,903** | **-** | **-** | **73** | **4,554** |

The Economic Entity has access to financing facilities of $7,600,000 (2015 : $7,600,000). The facilities are secured by charges over interest bearing Investments. Utilisation of credit facilities for unsettled transactions at 30 June 2016 was $144,000 (2015 : $144,000). The Economic Entity expects to meet its obligations from operating cash flows and proceeds of maturing financial assets.

## Fair Value Measurements recognised in the Statement of Financial Position

In accordance with PBE IPSAS 30, the Economic Entity provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

**Level 1** fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

**Level 2** fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

**Level 3** fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Directors consider that the carrying amount of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

Cash and Cash Equivalents are balances held with financial institutions at current interest rates on overnight or short term investments and approximate fair value.

Investments with Banks consist of term deposits invested at market rates applicable at the time of investment. The investments bear interest between 2.46% and 4.0% (2015: 2.75% to 4.65%).

Deposits Received are the short term liabilities of funds placed with the Economic Entity by Member credit unions, building societies and customers on which the Economic Entity pays interest. The balance reported approximate their fair values.

| **Financial Instruments by Category** | **Economic Entity** | |
|---|---|---|
| | **2016** | **2015** |
| | **$000** | **$000** |
| Financial Assets at Fair Value through the profit or loss | | |
| Investments | - | - |
| Derivative Financial Assets | - | - |
| Total Assets at Fair Value through the profit or loss | - | - |
| *Loans and Receivables* | | |
| Cash and Cash equivalents | 20,481 | 18,810 |
| Accounts Receivable | 7,805 | 4,004 |
| Loans Receivable | - | - |
| Investments | 58,872 | 90,283 |
| Total Loans and Receivables | 87,158 | 113,097 |
| **Total Financial Assets** | **87,158** | **113,097** |
| Other Financial Liabilities at Amortised Cost | | |
| Deposits Received | 68,654 | 94,412 |
| Accounts Payable | 3,139 | 3,203 |
| Total Other Financial Liabilities at Amortised Cost | 71,793 | 97,615 |
| Financial Liabilities at Fair Value through the profit or loss | | |
| Derivative Financial Liabilities | - | - |
| Total Liabilities at Fair Value through the profit or loss | - | - |
| **Total Financial Liabilities** | **71,793** | **97,615** |

## 28 INVESTMENTS IN CONTROLLED ENTITIES

Controlled Entities controlled at 30 June:

| Name | Association Percentage Holding at Balance Date | | Principal Activities | Balance Date |
|---|---|---|---|---|
| | 2016 | 2015 | | |
| CU Securities Limited as Trustee of the CU Group Trust | 100% | 100% | Corporate Trustee | 30 June |
| FACTS Limited (now trading as Co-op Services NZ) | 100% | 100% | Provision of services to non Members | 30 June |
| Credit Union Insurance Limited (now trading as Co-op Insurance NZ) | 100% | 100% | Insurance Underwriter | 30 June |
| NZCU Finance Limited | 100% | 100% | De-registered | |
| Credit Union Services Limited | 100% | 100% | Non Trading | 30 June |
| CUI Limited | 100% | 100% | De-registered | |
| Kiwi Credit Limited | 100% | 100% | De-registered | |
| Credit Union New Zealand Limited | 100% | 100% | Non Trading | 30 June |

The Controlling Entity and all its Controlled Entities are incorporated in New Zealand and their place of business is Level 3 25 Teed Street, Newmarket, Auckland.

There are no significant restrictions on any of the Controlled Entities.

## 29 UNCONSOLIDATED JOINT VENTURE

| Name | Percentage Holding at Balance Date | | Principal Activities | Balance Date |
|---|---|---|---|---|
| | 2016 | 2015 | | |
| **Joint Venture** | | | | |
| NZ Bureau Limited | 0% | 0% | Computer Bureau | 31 March |

NZ Bureau was dissolved by the shareholders with effect from 30 November 2014 and was struck off from the Register of Companies on 28 July 2015. It was incorporated in New Zealand and operated from Level 3 25 Teed Street, Newmarket, Auckland.

The Economic Entity had 50% non-controlling interest in a joint venture, NZ Bureau Limited. The joint venture operated as a computer bureau supplying the hardware and infrastructure that the Economic Entity was reliant on for all its operations. The operational risk was minimised by through the use of the server warehouse providers and full disaster recovery facilities.

The joint venture was adequately capitalised and was self funding from the services provided to the joint venture partners. The Economic Entity had no obligations or commitments to assume any financial risks independent of the joint venture partner.

The shareholders of NZ Bureau Limited agreed to the dissolution of the joint venture and it ceased trading on 30 November 2014.

In 2015, the Economic Entity received $329,528 in cash on dissolution of the joint venture, which included a dividend on dissolution of $62,242.

## 30 RELATED PARTY DISCLOSURES

### Parent Entity

The Controlling Entity in the Economic Entity is the New Zealand Association of Credit Unions (Co-op Money NZ).

### Equity Interests in Related Parties

Details of the equity interests held in Controlled Entities and the joint venture are disclosed in notes 28 and 29. Co-op Money NZ does not hold any other equity interests.

### Transactions with Related Parties

**During the year:**

Co-op Money NZ charged no fees to the joint venture as it was dissolved in November 2014 (2015 : $38,000).

Co-op Money NZ was charged no fees by the joint venture (2015 : $413,000).

No Fixed Assets valued were purchased by Co-op Money NZ from the joint venture (2015 : $155,000).

CU Securities Limited received $329,528 from the dissolution of NZ Bureau Limited, which included a dividend on dissolution of $62,242 and share of profits accrued using the equity method of $19,260.

The directors and staff of the Economic Entity may insure with Co-op Insurance NZ.

### Key Management Personnel Compensation

The compensation of the Directors and executives, being the key management personnel of the entity, is set out below:

| | 2016<br>$000 | 2015<br>$000 |
|---|---|---|
| Short Term Employee Benefits | 1,588 | 1,292 |

There were no other payments made to Key Management Personnel.

## 31 COMMITMENTS

| | 2016 $000 | 2015 $000 |
|---|---|---|
| Undrawn advances under credit facilities | 5,106 | 5,106 |
| Capital expenditure | 3,053 | 1,129 |
| | **8,159** | **6,235** |

## 32 CONTINGENT LIABILITIES

There are no material contingent liabilities for year ended 30 June 2016 (2015 : Nil).

## 33 NOTES TO THE STATEMENT OF CASH FLOWS

**Reconciliation of Net Profit After Tax to Net Operating Cash Flows**

| | 2016 $000 | 2015 $000 |
|---|---|---|
| **Profit after Tax** | **1,712** | **1,811** |
| Adjustments to reconcile operating profit to net cash flow from operating activities | | |
| Add/(less) non cash items: | | |
| Depreciation | 280 | 208 |
| Amortisation | 634 | 475 |
| (Gain)/Loss on Disposal of Property, Plant & Equipment | (7) | 66 |
| | 907 | 749 |
| Add/(less) movement in Working Capital: | | |
| (Increase)/Decrease in Inventory | (40) | 43 |
| (Increase)/Decrease in Accounts Receivable and Expected Recoveries | (3,773) | (261) |
| Decrease in Loans Receivable | - | 69 |
| Increase in Prepayments | (802) | (126) |
| Increase in Accounts Payable | (47) | 93 |
| Increase in Unearned Premium Liability | 2,419 | 195 |
| (Decrease)/Increase in Provisions | (2) | 22 |
| Increase in Outstanding Claims Liability | 517 | 274 |
| | (1,728) | 309 |
| **Add/(less) items classified as Investing Activities** | | |
| Non Cash movement in Investments | 157 | 200 |
| **Add items included within Financing Activities:** | | |
| Non Cash movement in Deposits Received | (176) | (97) |
| **Net Cash Flow from Operating Activities** | **872** | **2,972** |

## Treatment of Deposits Received

Cash receipts and payments from Deposits Received have been netted in the Statement of Cash Flows as the cash flows reflect the activities of the Economic Entity's customer, rather than those of the Economic Entity.

## 34 NEW ZEALAND CREDIT UNION FOUNDATION

Included in the financial statements are the following assets of the New Zealand Credit Union Foundation. The Foundation is a self-administered fund within the Member Services Division of the Association, established pursuant to the Rules of the Association with the objective of promoting and assisting in the development of Credit Unions both in New Zealand and overseas. It is administered by a Board of up to five Foundation Managers appointed by the Board of Co-op Money NZ.

| | 2016<br>$000 | 2015<br>$000 |
|---|---|---|
| **Current Assets** | | |
| Cash | 114 | 107 |
| **NET ASSETS** | **114** | **107** |

*Included in the financial statements are the following income and expenses relating to the New Zealand Credit Union Foundation:*

| | | |
|---|---|---|
| Donations, Interest and Grants received | 8 | 7 |
| Grants paid | (1) | (5) |
| **OPERATING SURPLUS/(LOSS)** | **7** | **2** |

## 35 MEMBER SERVICES DIVISION OPERATING LOSS

| | 2016<br>$000 | 2015<br>$000 |
|---|---|---|
| New Zealand Credit Union Foundation | 7 | 2 |
| MSD Operations | (259) | (183) |
| **TOTAL** | **(252)** | **(181)** |

## 36 EVENTS AFTER THE BALANCE SHEET DATE

The Directors on 25 August 2016 declared a final dividend on Base Capital Notes of $305,391 payable on 30 September 2016.

# Co-op Money NZ Board of Directors

**Claire Matthews – Chair**
(from August 2015)
Deputy Chair (from September 2014)
Elected to the Board in September 2013
Director, Co-op Insurance NZ
Director, CU Securities Limited

**Peter Taylor – Deputy Chair**
(from August 2015)
Elected to the Board in September 2014
Director, Co-op Insurance NZ
Director, CU Securities Limited

*Other responsibilities:*
Trustee, Co-op Money NZ

**Simon Scott – Director**
Chair (September 2011 – August 2015)
Elected to the Board in September 2009
Director, CU Securities Limited

**Bruce Bleakley – Director**
Elected to the Board in September 2014
Director, Co-op Insurance NZ
Director, CU Securities Limited

*Other responsibilities:*
Trustee, Co-op Money NZ
Member, Audit and Risk Committee

**Rob Nicholls – Independent Director**
Appointed to the Board in November 2009
Chair, Audit and Risk Committee
Director, CU Securities Limited

**Bhikhu Bhana – Director**
Elected to the Board in September 2015
Director, CU Securities Limited

*Other responsibilities:*
Member, Audit and Risk Committee

**Mary Martick – Director**
Elected to the Board in September 2015
Director, CU Securities Limited

*Other responsibilities:*
Trustee, Co-op Money NZ

**Directors Fees – For Year Ending 2016**

| | Role | As at 30 June 2016 | Director Fees |
|---|---|---|---|
| C Matthews | Director<br>Chair from August 2015 | Current | $58,980 |
| P Taylor | Director<br>Deputy Chair | Current | $37,692 |
| R Nicholls | Director<br>Audit and Risk Committee Chair | Current | $38,640 |
| B Bleakley | Director<br>Audit and Risk Committee | Current | $30,912 |
| M Martick | Director | Current | $25,459 |
| S Scott | Director<br>Chair to August 2015 | Current | $34,774 |
| B Bhana | Director<br>Audit and Risk Committee | Current | $25,459 |
| S Nichols | Director<br>Co-op Insurance NZ | Current | $4,333 |
| G Clouston | Director | Resigned | $25,579 |
| **Total** | | | **$281,828** |

**Co-op Money NZ, Co-op Insurance NZ Board Meetings and Audit and Risk Committee Meetings**

| | C Matthews | P Taylor | B Bhana | B Bleakley | M Martick | S Nichols | R Nicholls | S Scott | G Clouston | H Lynch |
|---|---|---|---|---|---|---|---|---|---|---|
| Co-op Money NZ Board Meetings | 11/11 | 10/11 | 7/8 | 9/11 | 8/8 | - | 11/11 | 10/11 | 3/3 | - |
| Co-op Insurance NZ Board Meetings | 10/11 | 10/11 | - | 9/11 | - | 2/2 | 9/9 | 7/9 | 9/9 | 10/11 |
| Audit and Risk Committee Meetings | 1/1 | - | 4/5 | 4/5 | - | - | 6/6 | - | 1/1 | - |

CO-OP
MONEY NZ

The three stylised people signify that through our Members, their members, and the community working together co-operatively, we all grow.

www.coopmoneynz.org.nz

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