



Banking
Ombudsman
Scheme

Annual Report

18
19

Better Banking for all

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What we do

Our purpose

To help resolve and prevent problems to improve banking for customers and banks

Resolve complaints

Listen

actively, objectively and empathetically to guide and help both sides

Facilitate

early, mutually agreed solutions

Decide

promptly and clearly, to put things right

Prevent complaints

Identify

the root causes of complaints

Share

insights to encourage best practice by banks and informed decisions by customers

Collaborate

with stakeholders and other agencies to build financial capability and promote high standards of conduct

better banking

Our values

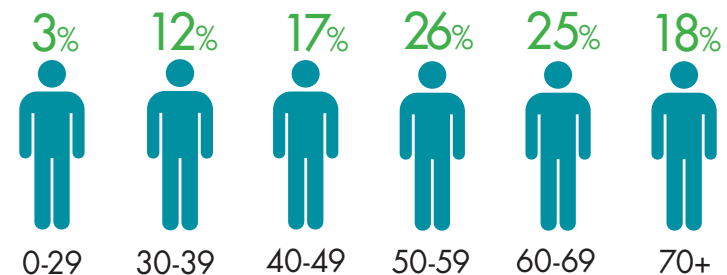
We offer a service that is accessible, independent, fair and efficient

We raised our financial limit from \$200K to \$350K to make our service accessible to a wider range of people.



Miriam Dean CNZM QC | Chair

Who uses us



Our work at a glance

Cases

4797

21%

Enquiries

1506

Complaints

3108

Disputes

183

More cases

Complaints

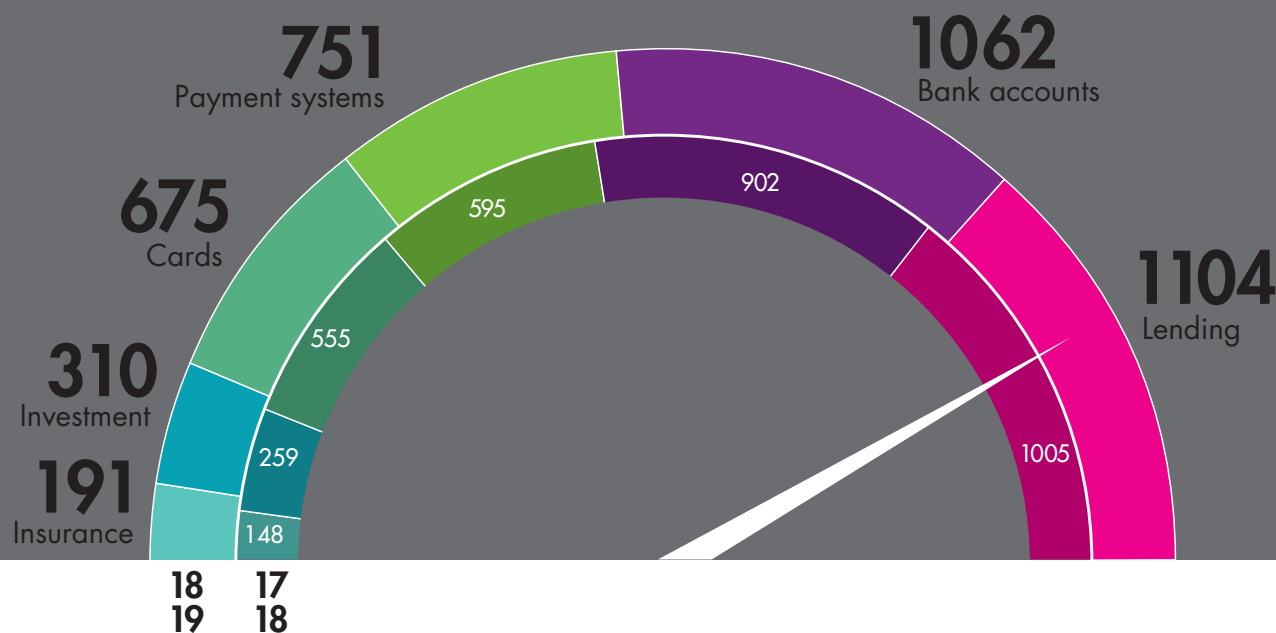
21%

Disputes

27%

Lending is still our most common problem, but all areas of banking have generated more complaints.

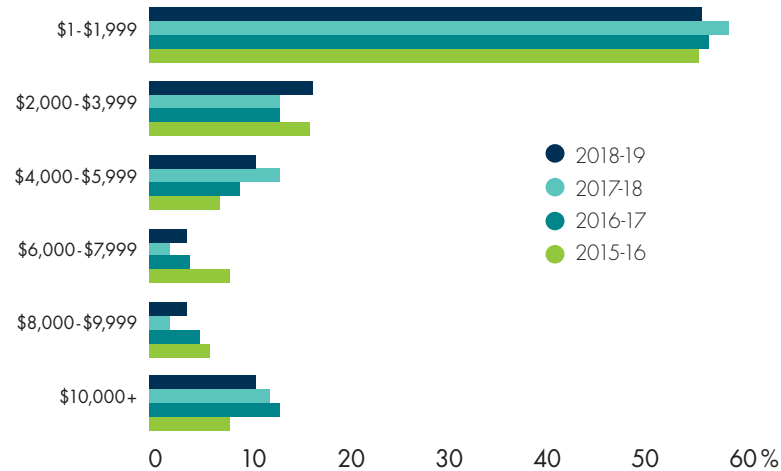
Main problem areas



Outcomes



Financial compensation



Trends



Fraud – theft of card data	78%
Family disagreements	71%
Early repayment issues	61%
Binary options	36%
Credit card chargebacks	19%
Bitcoin	50%
Payments changes	50%

Scams
118% ▲

The big increase prompted us to initiate a fraud awareness campaign on TV, radio and social media.

“I was very pleased with your interest in the difficulties faced by people with intellectual disabilities who can’t communicate verbally or sign their names, and making things right for them.”

We want to ensure all New Zealanders can sort their banking problems.

Slow acting on customer’s request

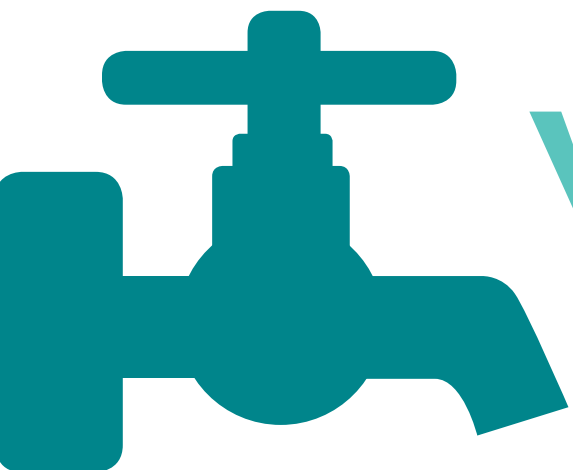
After suffering a stroke, Sophie gave enduring power of attorney to her grandfather Michael. He took the legal paperwork giving him control of her finances to the bank, which made him an authorised signatory to her account.

When Sophie’s health improved, she wanted more control over her money. She and her partner Luke visited the bank to replace Michael with Luke as an authorised signatory. The bank said she had to sign a new operating authority first, but her stroke meant she couldn’t sign her name consistently, so the bank refused.

The pair visited the bank several times over the next 18 months trying to replace Michael, who meanwhile had set up a new automatic payment from her account to a third party. The pair eventually provided a copy of the enduring power of attorney document, and the bank accepted Sophie’s verbal confirmation to revoke Michael and appoint Luke. It then accepted her signature. But she was unhappy with how the bank had handled matters and sought compensation.

We considered the bank should have acted on Sophie’s first request to change the signatories. It could have used other means, besides a signature, to record her intentions. The bank agreed to reimburse the money Michael had transferred to the third party and also offered \$7,500 for stress and inconvenience. Sophie accepted the offer.

The big picture



wider Issues

When we see an issue that could affect other bank customers, we act on it to improve the system for everyone.

We asked banks to look at these wider issues

- **Unclear terms and conditions:** We asked banks to amend terms and conditions so they were clearer to customers
- **Employee browsing:** We asked banks to monitor whether staff were unnecessarily looking up account information, and take action if they found such browsing
- **Forced account closures:** We gave banks guidance on how to terminate relationships with customers
- **Complaint resolution:** We gave banks feedback, training and templates to lift standards of practice

Conduct and culture

Australian Royal Commission into Misconduct

The Australian government established a royal commission to inquire into misconduct in the banking, superannuation, and financial services industry.

Prompted

Reviews of the banking and insurance sectors in New Zealand by the Financial Markets Authority, the Reserve Bank of New Zealand and the Finance and Expenditure Select Committee. The New Zealand government wanted to ensure the same egregious conduct was not occurring here.

Banking Ombudsman

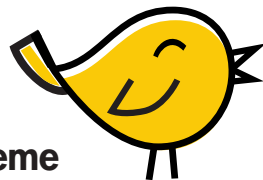
Complaints are a key indicator of sector health

Found that

New Zealand was not experiencing the same issues as Australia, but the reviews set a new base of expectations for the sector, putting good customer outcomes at the forefront.

New Zealand's banks came under closer scrutiny this year in the wake of the Australian royal commission into banking. The Reserve Bank and Financial Markets Authority reviewed the conduct and culture of banks and insurers. Parliament's Finance and Expenditure Committee also put the spotlight on banks' performance. To assist those reviews, we provided information to media, regulators and the select committee about complaints we have handled.

We were asked whether we had seen the type of problems that emerged in Australia. We said we had not seen such systemic abuse in our cases, although we pointed out that our cases were only the tip of the complaints iceberg. To obtain a wider view of complaints, we began developing a complaints dashboard using cases handled by us and by banks. Our goal is to identify problems early on and prevent any escalation, and also to develop more actionable insights.



The Banking Ombudsman Scheme
is an early indicator when things are going wrong across the industry
– the scheme is the canary in the coal mine.

Vulnerable customers

There has been an emerging trend of issues for vulnerable customers in our cases. Factors like age, physical or mental health, caring responsibilities, and life-changing events such as redundancy, relationship breakdown or bereavement could mean someone is put in a vulnerable position.

On the one hand, we want people to be able to retain independence with support, but on the other hand, we need to ensure the customer is appropriately protected from potential abuses.

Nicola Sladden
Banking Ombudsman



Fairness influences everything we do, from individual cases to improving the system for all. We have partnered with others this year to ensure banking remains safe and inclusive for all New Zealanders.

Financial Inclusion Industry Forum

Last year we helped organise a Financial Inclusion Summit attended by 150 representatives from government, community, academic and financial services sectors. The forum aimed to identify challenges and discuss ideas for improving financial inclusion.

Following the forum, we led a workstream on inclusive banking. This resulted in streamlined processes for financial mentors helping bank customers, a review of hardship processes within banks and plans for a cross-sector liaison group. In 2019, we began working with various agencies on a cross-sector strategy that will improve access to appropriate, affordable credit.

inclusive

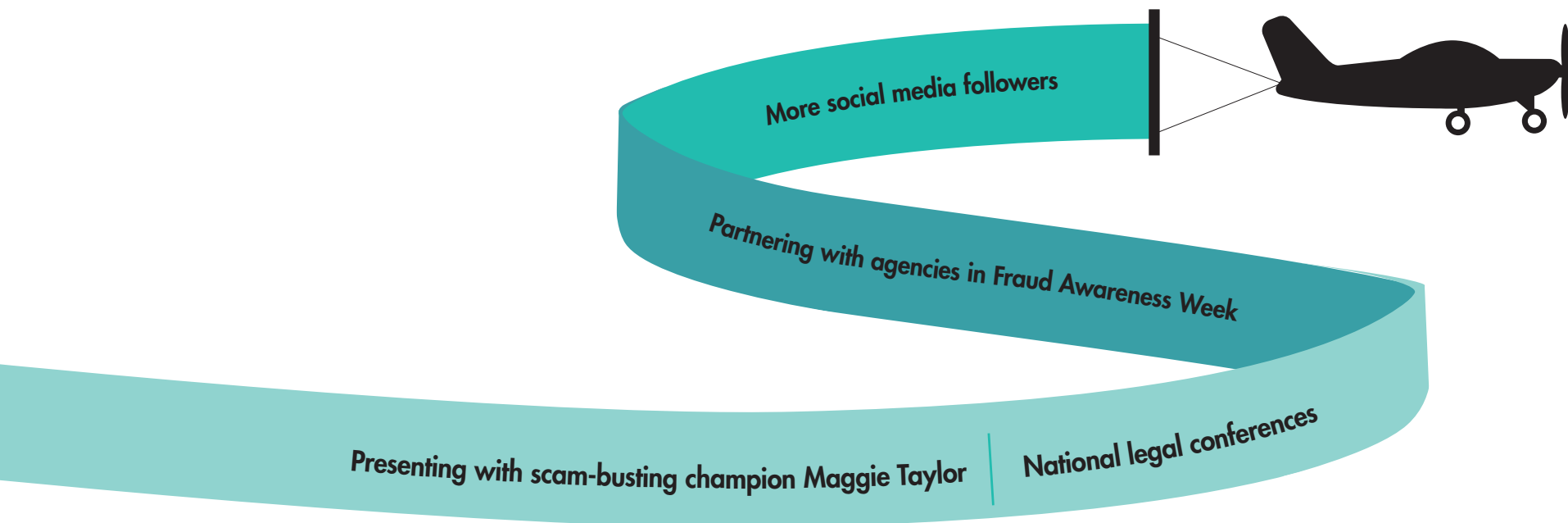
Promoting high standards

capital ratios financial inclusion
regulation of conduct and culture
insurance contracts select committee
privacy of security information
material regulatory breaches
CCCFA farm debt mediation
financial services providers register
new disclosure requirements



"I am so grateful – I seriously believe if it had not been for the Banking Ombudsman's intervention and fast reactions and fact-finding my problem would not have gone away."

Raising awareness in our community



22%
Social media

43%
Website users

173
Media mentions

43%
Complaints
received online

Bank failed to show breach of card's terms and conditions

loane learned someone had used his debit card to spend \$26,000 over five days. When he went looking for his card and discovered it was lost, he notified his bank, which cancelled the card.

loane sought reimbursement of the \$26,000 from the bank. But the bank said the offender had used his PIN correctly, and therefore it could not help him. It referred him to the police, who were able to establish that the offender was a neighbour, who had subsequently disappeared.

loane went back to the bank, but it continued to decline liability and carried out no real investigation into loane's statement that he had not disclosed his PIN. He then brought his case to us.

Our investigation

There was no question loane had not been the person who carried out or authorised the transactions. We were not satisfied the bank had discharged the onus on it to show loane had breached the terms and conditions of his card by failing to take reasonable care of it and his PIN.

loane had occasionally driven the neighbour to the supermarket, and she might have overlooked him entering his PIN. Furthermore, we were satisfied it was reasonable for loane not to have noticed his card was missing for five days, given the usual pattern of use of his card.

We recommended the bank reimburse the loss. We were also critical of the bank's failure to consider what the terms and conditions stated about liability during its internal investigation of the complaint.

Outcome

Both loane and the bank accepted our view, and the bank reimbursed \$26,000 plus interest. The bank said it planned to make process and training changes as a result of the complaint.

Stop and Think. Is this for real?

FRAUD AWARENESS WEEK

The Banking
Ombudsman puts
2018 losses at
\$70 million due to
fraud-related
scams

Our fraud prevention campaign ran in conjunction with Fraud Awareness Week. We placed advertisements on television, radio and social media. The campaign was marketed through banks, stakeholders and our own channels.

**More customers now
very confident in
recognising a scam**

email scam ▲ 5.8%

phone scam ▲ 3.9%

text scam ▲ 3.4%

2⁺
million
TV viewers

800,000
reached on social media

Quick Guide snapshot

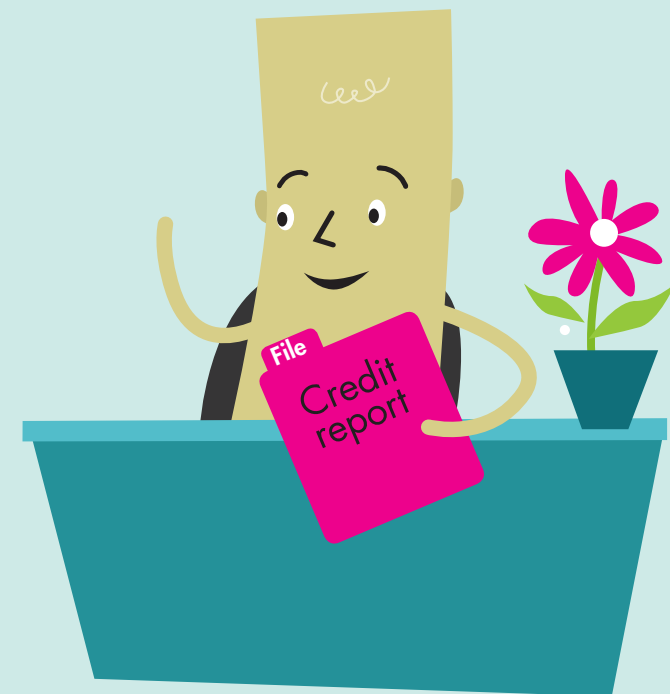
Your credit rating

New Zealand has three credit agencies that maintain credit reports on your borrowing history. The information in these reports is held for five years and is used by banks and finance companies to assess applications to borrow money.

Credit reports contain positive and negative information – whether you repaid loans and debts in full and on time, or whether you were often late or in default. They generally include a credit rating, which is an estimate of your ability to meet future financial commitments based on your track record to date. The higher your credit rating, the more likely it is your credit application will be accepted. Conversely, a poor report can make it harder to borrow money, buy a house, get insurance and sometimes even get a job.

Read the full guide on our website

Information
stays on file
for 5 years



Cases by bank

Bank	Enquiries received	Complaints received	Disputes received	Total	% of our cases	% of total assets [^]
Large[^]						
ANZ Bank NZ	112	784	29	925	19.3	30.3
ASB Bank	75	452	28	555	11.6	19.0
BNZ	62	428	16	506	10.5	18.9
Westpac NZ	80	585	65	730	15.2	18.2
Medium[^]						
Heartland	73	49	5	127	2.6	0.7
HSBC	7	16	1	24	0.5	1.1
Kiwibank	94	474	15	583	12.2	4.1
Rabobank	5	6	0	11	<0.5	3.0
SBS	132	76	5	213	4.4	0.9
The Co-operative Bank	12	62	5	79	1.6	0.5
TSB	8	47	14	69	1.4	1.4
Small[^]						
Bank of Baroda	2	3	0	5	<0.5	<0.5
Bank of China	1	2	0	3	<0.5	<0.5
Bank of India	1	1	0	2	<0.5	<0.5
China Construction Bank	0	0	0	0	-	<0.5
Citibank	2	0	0	2	<0.5	<0.5
ICBC	0	3	0	3	<0.5	<0.5
Nelson Building Society	8	3	0	11	<0.5	<0.5
NZCU Baywide	16	16	0	32	0.7	<0.5
Bank not specified	816*	101	0	917		
Overall total	1506	3108	183	4797		

“They are very approachable, supportive and work hard to continually lift the bar across the industry.”

[^] Participants are classified according to total assets at 31 December 2018 as verified by participants in May 2019.

* Includes calls about non-participants.

Completed disputes by bank

Scheme participant	Outside jurisdiction		Result for both parties		Result for customers		Result for banks*		Total by bank		% of total assets^
	17-18	18-19	17-18	18-19	17-18	18-19	17-18	18-19	17-18	18-19	18-19
Large^											
ANZ Bank NZ	4	3	12	7	-	1	21	18	37	29	30.3
ASB Bank	2	3	3	8	1	-	13	17	19	28	19.0
BNZ	3	2	6	5	-	-	6	9	15	16	18.9
Westpac NZ	2	2	13	16	3	1	18	41	36	60	18.2
Medium^											
Heartland Bank	1	-	-	-	-	-	2	1	3	1	0.7
HSBC NZ	-	-	-	1	-	-	-	-	-	1	1.1
Kiwibank	6	2	4	5	2	3	4	8	16	18	4.1
Rabobank NZ	-	-	-	-	1	-	-	-	1	-	3.0
SBS Bank	-	1	2	2	1	1	1	3	4	7	0.9
The Co-operative Bank	-	1	-	-	-	-	-	4	-	5	0.5
TSB Bank	-	-	2	3	-	1	3	5	5	9	1.4
Small^											
Bank of Baroda NZ	-	-	-	-	1	-	-	-	1	-	<0.5
Bank of China NZ	-	-	-	-	-	-	-	-	-	-	<0.5
Bank of India NZ	-	-	-	-	-	-	-	-	-	-	<0.5
China Construction Bank NZ	-	-	-	-	-	-	-	-	-	-	<0.5
Citi NZ	-	-	-	-	-	-	-	-	-	-	<0.5
ICBC NZ	-	-	-	-	-	-	-	-	-	-	<0.5
Nelson Building Society	-	-	-	-	-	-	1	-	1	-	<0.5
NZCU Baywide	-	-	-	-	-	-	-	-	-	-	<0.5
Total	18	14	42	47	9	7	69	106	138	174	

“The staff at the Ombudsman’s office took my complaint seriously. They never let go of the goal, until the bank listened properly to what had gone wrong. I dealt with a number of staff at the Ombudsman and they were all more than competent and professional the entire time.”

^ Participants are classified according to total assets as 31 December 2018 as verified by participants in May 2019

* Includes abandoned and withdrawn disputes

- Means no completed disputes.

Financial statements

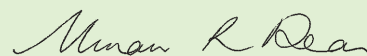
DIRECTOR'S REPORT

Banking Ombudsman Scheme Limited For the year ended 30 June 2019

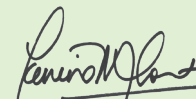
The Board of Directors present their annual report of Banking Ombudsman Scheme Limited, incorporating the financial statements and the independent auditors' report, for the year ended 30 June 2019.

The shareholder of the company has exercised her right under Section 211(3) of the Companies Act 1993 and agreed that the annual report of the company need not comply with paragraphs (a) and (e) to (j) of section 211(1) of the Act.

For and on behalf of the Board:



Miriam Dean CNZM QC
Chair



Kenina Court
Director

20 September 2019



To the Shareholder of Banking Ombudsman Scheme Limited Report on the audit of the financial statements

Opinion

We have audited the financial statements of Banking Ombudsman Scheme Limited ("the Company") on pages 20 to 32, which comprise the statement of financial position of the Company as at 30 June 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended of the Company, and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the financial statements on pages 20 to 32 present fairly, in all material respects, the financial position of the Company as at 30 June 2019 and its financial performance and cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards Reduced Disclosure Regime.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Company in accordance with Professional and Ethical Standard 1 (revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Other than in our capacity as auditor we have no relationship with, or interest in, the Company. Partners and employees of our firm may deal with the Company on normal terms within the ordinary course of trading activities of the business of the Company.

Information other than the financial statements and auditor's report

The directors of the Company are responsible for the Annual Report, which includes information other than the financial statements and auditor's report.

INDEPENDENT AUDITOR'S REPORT

Chartered Accountants

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

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

If, based upon the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the financial statements

The directors are responsible, on behalf of the Company, for the preparation and fair presentation of the financial statements in accordance with New Zealand equivalents to International Financial Reporting Standards Reduced Disclosure Regime, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board website: <https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/auditreport-8/>. This description forms part of our auditor's report.

Wellington | 20 September 2019

Banking Ombudsman Scheme Limited

Statement of profit or loss and other comprehensive income

For the year ended 30 June 2019

The accompanying notes to the financial statements on pages 24-32 form part of and should be read in conjunction with this statement.

	NOTE	19	18
Income			
Levies	5	2,400,000	2,400,000
Interest income		22,255	11,627
Other income		878	746
Prevention advertising campaign income		240,000	-
Total income		2,663,133	2,412,373
Total operating income		2,663,133	2,412,373
Expenses			
Audit fees		12,850	12,548
Board controlled costs		23,480	37,246
Complaints data hub operating expenses		70,500	-
Contractors and external advice		105,763	112,891
Depreciation	6	38,921	37,393
Amortisation	7	7,709	20,876
Directors' remuneration	12	129,258	126,006
Entertainment		5,392	3,199
Kiwisaver/superannuation		49,481	48,778
Loss on disposal of property, plant and equipment		574	-
Office costs		81,901	113,123
Prevention advertising campaign expenses		256,108	-
Publications and promotions		20,068	22,114
Rent		147,694	146,338
Staff salaries		1,454,173	1,262,936
Staff costs - other		36,050	45,348
Staff costs - recruitment		2,652	840
Technology and website costs		104,512	92,086
Travel and conferences		42,396	38,617
Website expenses		-	88,161
Total expenses		2,589,482	2,208,500
Net profit/(loss) before taxation		73,651	203,873
Taxation			
Income tax expense	10	6,057	2,759
Net profit/(loss) after taxation		67,594	201,114
Other comprehensive income			
Other comprehensive income		-	-
Total comprehensive income for the year		67,594	201,114

Banking Ombudsman Scheme Limited

Statement of changes in equity

For the year ended 30 June 2019

The accompanying notes to the financial statements on pages 24-32 form part of and should be read in conjunction with this statement.

	NOTE	19	18
Share capital			
Shareholder's capital		1	1
Total share capital		1	1
Retained earnings			
Opening balance		788,984	587,870
Total comprehensive income for the year		67,594	201,114
Total retained earnings		856,578	788,984
Equity			
Opening balance		788,985	587,871
Total comprehensive income for the year		67,594	201,114
Total equity		856,579	788,985

Banking Ombudsman Scheme Limited

Statement of financial position

As at 30 June 2019

The accompanying notes to the financial statements on pages 24-32 form part of and should be read in conjunction with this statement.

Signed By:



Chair Miriam Dean CNZM QC
20 September 2019



Director Kenina Court
20 September 2019

	NOTE	19	18
Assets			
Current assets			
Cash and cash equivalents	9	100,356	359,454
Trade and other receivables		793,500	690,000
Income tax receivable	10	-	397
Prepaid expenses		36,427	34,295
Term deposits and accrued interest	14	672,626	355,202
Work in progress		19,050	-
Total current assets		1,621,959	1,439,348
Non current assets			
Property, plant and equipment	6	208,331	231,625
Intangibles	7	-	11,176
Total non current assets		208,331	242,801
Total assets		1,830,290	1,682,149
Liabilities			
Current liabilities			
Sundry payables and accruals	15	198,436	217,977
Gst payable		76,646	65,542
Credit card		4,302	9,645
Income tax payable	10	3,277	-
Income in advance		690,000	600,000
Vodafone New Zealand		1,050	-
Total current liabilities		973,711	893,164
Total liabilities		973,711	893,164
Net assets		856,579	788,985
Equity			
Share capital		1	1
Retained earnings		856,578	788,984
Total equity		856,579	788,985

Banking Ombudsman Scheme Limited

Statement of cash flows

For the year ended 30 June 2019

The accompanying notes to the financial statements on pages 24-32 form part of and should be read in conjunction with this statement.

	19	18
Cashflow		
Cash from operating activities		
Cash was received from:		
Receipts from levies	2,400,000	2,400,746
Other income	240,878	-
Interest	9,926	11,271
Taxation	3,674	43,757
Total cash was received from:	2,654,478	2,455,774
Cash was applied to:		
Payments to suppliers and employees	(2,576,718)	(2,150,228)
Total cash was applied to:	(2,576,718)	(2,150,228)
Total cash flow from operating activities	77,760	305,546
Cash flow from investing activities		
Cash was received from:		
Proceeds from sale of investments	-	550,000
Total cash was received from:	-	550,000
Cash was applied to:		
Purchase of property, plant and equipment	(12,711)	(5,643)
Purchase of intangibles	(19,050)	-
Funds invested in term deposits	(305,096)	(704,398)
Total cash was applied to:	(336,857)	(710,041)
Total cash flow from investing activities	(336,857)	(160,041)
Net increase / (decrease) in cash held	(259,097)	145,505
Opening cash balance		
Opening cash balance	359,453	213,948
Ending cash to carry forward	9 100,356	359,453

Banking Ombudsman Scheme Limited

Notes to the financial statements

For the year ended 30 June 2019

1. Corporate information

The financial statements of the Company for the year ended 30 June 2019 were authorised for issue on 20 September 2019.

The Company was incorporated on 19 June 2007 and is incorporated and domiciled in New Zealand.

The Company provides a free, independent and impartial dispute resolution mechanism for those receiving “banking services” from the participating banks and non-bank deposit-takers in New Zealand.

2. Summary of significant accounting policies

(a) Statement of compliance and basis of preparation

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand and the requirements of the Companies Act 1993 and the Financial Reporting Act 2013.

The financial statements comply with New Zealand equivalents to International Financial Reporting Standards - Reduced Disclosure Regime ('NZ IFRS RDR').

The Company is eligible to apply Tier 2 For-profit Accounting Standards (New Zealand equivalents to International Financial Reporting Standards - Reduced Disclosure Regime ('NZ IFRS RDR')) on the basis that it does not have public accountability and is not a large for-profit public sector entity. The Company has elected to report in accordance with NZ IFRS RDR.

The financial statements are presented in New Zealand dollars (\$), rounded to the nearest dollar.

(b) Basis of measurement

The accounting principles recognised as appropriate for the measurement and reporting of earnings and financial position on a historical cost basis are followed by the Company.

3. Changes in accounting policies

“NZ IFRS 9 Financial Instruments and NZ IFRS 15 Revenue from Contracts with Customers have come into effect during the 2019 financial year.

NZ IFRS 15 - Revenue

NZ IFRS 15 replaces NZ IAS 18 and introduces a 5-step approach to revenue recognition with more prescriptive guidance for specific scenarios to provide users of the financial statements information around timing and uncertainty of revenue and cash flows.

The Company adopted NZ IFRS 15 from 1 July 2018 using the modified retrospective approach. The results of the NZ IFRS 15 assessment framework and contract reviews indicated that the impact of applying NZ IFRS 15 on financial statements was not material for the Company and there was no adjustment to retained earnings or material impact on the timing of revenue recognition on application of the new rules at 1 July 2018.

On adoption of NZ IFRS 15, the Company has revised its accounting policies for revenue recognition (where applicable). A number of additional disclosures required by NZ IFRS 15 are also included.

NZ IFRS 9 - Financial instruments

NZ IFRS 9 replaces NZ IAS 39 with the key changes relating to the classification and measurement of financial instruments, hedge accounting and impairment. The adoption of NZ IFRS 9 does not have a material impact on the balances in the financial statements. The recognition and measurement of financial instruments are unaffected given the nature of the balances.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities

(other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value are recognised immediately in profit or loss.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, and subsequently measured at amortised cost, fair value through other comprehensive income (OCI), or fair value through profit or loss. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest on the principal amount outstanding. The Scheme's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. The Scheme's business model is to hold financial assets to collect their contractual cash flows.

Financial assets at amortised cost

The Scheme measures financial assets at amortised cost if both of the following conditions are met:

- (1) The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- (2) The contractual terms of the financial asset give rise on

specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial instruments that are measured at amortised cost include cash balances, trade and other receivables and term deposits. Trade and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method. Accordingly these financial instruments are still measured at amortised cost under NZ IFRS 9.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment testing. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Trade receivables represents the Scheme's right to an amount of consideration which is unconditional (i.e. only the passage of time is required before payment of the consideration is due). No trade receivables contain a significant financing component.

Cash and cash equivalents includes cash in hand and deposits held at call with banks.

Recognition and derecognition

Financial assets are recognised when the Scheme becomes party to the contractual provisions of the instrument. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Scheme has transferred substantially all the risks and rewards of ownership.

Impairment of financial assets

The Scheme recognises an allowance for expected credit losses for all debt not held at fair value through profit and loss. Expected credit losses are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Scheme expects to receive. Receivables of a short-term nature are not discounted.

Previously the provision for impairment of financial assets was based on an incurred loss model. Under NZ IFRS 9 a provision for impairment is established using a forward-looking expected credit loss model which requires expected credit losses to

be returned on a 12 month or life time basis. Changes to the impairment model do not have a material impact on the Scheme's financial assets.

For trade receivables, the Scheme applies the simplified approach permitted by NZ IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Financial liabilities

Trade and other payables

These amounts represent unsecured liabilities for goods and services provided to the Scheme prior to the end of the financial year which are unpaid. Trade and other payables are recognised initially at fair value less directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method. As trade and other payables are usually paid within 30 days, they are not discounted.

Issued standards and interpretations not early adopted NZ IFRS 16 - Leases

NZ IFRS 16 has been issued but not yet adopted for the year ended 30 June 2019. The Scheme will adopt this for the year ended 30 June 2020. NZ IFRS 16 requires the Scheme to recognise leases, where the Scheme is a lessee, on the statement of financial position. This will result in the recognition of 'right of use' assets and related lease liability balances. The expense previously recorded in relation to operating leases will move from being included in operating expenses, to depreciation and finance expense. The resulting amount to be recognised as a gross up to the balance sheet as at 1 July 2019 is estimated to be \$888,444, being for the lease at Level 5, 1 Post Office Square (Huddart Parker Building) and lease of Canon photocopier.

4. Accounting policies

The following specific accounting policies which materially affect the measurement of financial performance and financial position have been applied.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in

banks and investments in money market instruments with a maturity term of less than 90 days.

Accounts receivables

Accounts receivable and other receivables are initially measured at fair value less directly attributable transaction costs and subsequently at amortised cost using the effective interest method. Receivables of a short-term nature are not discounted.

An allowance for impairment is established where there is objective evidence the Scheme will not be able to collect all amounts due according to the original terms of the receivable.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised in profit or loss as incurred.

Depreciation is recognised as an expense in profit or loss and is measured on a straight line basis over the useful life of the asset. Depreciation is charged at rates calculated to allocate the cost or valuation of the asset less any estimated residual value over its remaining useful life.

Furniture, fixtures and fittings	7% - 100%
Office equipment	10.2% - 100%
Hardware	30% - 67%
Other property, plant & equipment	7% - 100%

The residual value, useful life, and depreciation methods of property, plant and equipment are reassessed annually.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in profit or loss.

Intangibles

(1) Computer software

Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and the expenditure attributable to the software product during its development can be reliably measured. Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an approximate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Computer software development costs recognised as assets are amortised on a straight-line basis over their estimated useful lives, which does not exceed three years.

(2) Website

Following initial recognition website development costs are carried at cost less accumulated amortisation. Amortisation rates for the website are 40% straight line.

Sundry payables

Sundry payables and accruals are initially measured at fair value less directly attributable transaction costs and subsequently at amortised cost using the effective interest method. Payables of a short-term nature are not discounted.

GST

The financial statements have been prepared on a GST exclusive basis except for receivables and payables which are shown gross when billed.

Leases

The Company leases its office premises. Operating lease payments are recognised as an expense in profit or loss on a straight line basis over the lease term.

Lease incentives received are recognised as an integral part of the total lease expense over the lease term.

Wages, salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled wholly within 12 months of the reporting date are recognised in respect of employees' service up to 30 June. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for sick leave are recognised when the leave is taken and are measured at the rates paid.

Income in advance

Income in advance relates to levies for the next financial year that have been invoiced to members during the current financial year.

Interest income

Income is recognised as interest accrues using the effective interest rate method.

Income tax and other taxes

The Company prepares its income tax returns by reference to the application of the principle of mutuality to the revenue and expenses, and the relevant tax jurisdiction. The principle of mutuality is a common law principle arising from the premise that individuals cannot profit from themselves. Accordingly, membership receipts from members are deemed to be mutual income and not subject to income tax, and expenses in connection with mutual activities are therefore not deductible for taxation purposes. All other receipts and payments are classified in accordance with taxation legislation.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted at the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Other taxes

Revenues, expenses and assets are recognised net of the amount GST except: when the GST incurred on the purchases of goods is not recoverable from the taxation authority, in which case GST is recognised as part of the acquisition of the asset or part of the expense item as applicable; and receivables and payables, which are stated with the amount of GST inclusive.

The net amount of GST recoverable from, or payable to, the taxation authority is included on statement of financial position.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

5. Revenue

Recognition and measurement

Levy revenue comprises amounts invoiced to the participating banks and non-bank deposit-takers in New Zealand ("the members"). The members are invoiced in advance, and at the end of the financial year the amounts invoiced in advance of the service being provided are recognised as income in advance in the Statement of Financial Position.

Revenue is measured by reference to the fair value of consideration received or receivable, excluding sales taxes, rebates and trade discounts.

Levy revenue from members of the Scheme is recognised on an accrual basis. Levies are paid on a quarterly basis.

Disaggregation of levy revenue

Levy revenue is disaggregated into various categories in the following table which is intended to depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic date.

Size of member bank	2019	2018
Large	1,963,144	1,927,270
Medium	387,230	428,803
Small	49,626	43,927
Total	2,400,000	2,400,000

6. Property, plant and equipment

	19	18
Fittings		
Fittings at cost	266,120	264,254
Fittings accumulated depreciation	(115,475)	(97,107)
Total fittings	150,645	167,147
Furniture		
Furniture at cost	79,532	81,907
Furniture accumulated depreciation	(40,433)	(42,016)
Total furniture	39,099	39,891
Hardware		
Hardware at cost	47,414	51,103
Hardware accumulated depreciation	(36,379)	(42,899)
Total hardware	11,035	8,204
Other plant and equipment		
Other plant and equipment at cost	6,676	6,676
Other plant and equipment accumulated depreciation	(3,796)	(4,571)
Total other plant and equipment	2,880	2,105
Office equipment		
Office equipment at cost	85,367	101,399
Office equipment accumulated depreciation	(80,695)	(87,121)
Total office equipment	4,672	14,278
Total property, plant and equipment	208,331	231,625

Property, plant and equipment reconciliation of carrying amounts	19	18
Fittings		
Opening balance	167,147	183,058
Transfer/reclassification	3,449	-
Additions	1,865	-
Depreciation	(21,816)	(15,911)
Disposals		
Gross cost	-	-
Depreciation on disposal	-	-
Total disposals	-	-
Total fittings	150,645	167,147
Furniture		
Opening balance	39,891	44,835
Transfer/reclassification	7,518	-
Additions	-	-
Depreciation	(7,736)	(4,944)
Disposals		
Gross cost	(2,375)	-
Depreciation on disposal	1,801	-
Total disposals	(574)	-
Total furniture	39,099	39,891
Hardware		
Opening balance	8,204	11,520
Transfer/reclassification	(1,856)	-
Additions	9,444	4,557
Depreciation	(4,757)	(7,873)
Disposals		
Gross cost	-	-
Depreciation on disposal	-	-
Total disposals	-	-
Total hardware	11,035	8,204

	19	18
Other plant and equipment		
Opening balance	2,105	2,369
Transfer/reclassification	1,453	-
Additions	-	-
Depreciation	(678)	264
Disposals		
Gross cost	-	-
Depreciation on disposal	-	-
Total disposals	-	-
Total other plant and equipment	2,880	2,105
Office equipment		
Opening balance	14,278	21,591
Transfer/reclassification	(6,628)	1,086
Additions	956	-
Depreciation	(3,934)	(8,399)
Disposals		
Gross cost	-	-
Depreciation on disposal	-	-
Total disposals	-	-
Total office equipment	4,672	14,278
Total property, plant and equipment reconciliation of carrying amounts	208,331	231,625

7. Intangibles

	19	18
Website		
Website at cost	92,359	92,359
Website accumulated amortisation	(92,359)	(86,568)
Total website	-	5,791
Software		
Software at cost	101,026	105,030
Software accumulated amortisation	(101,026)	(99,645)
Total software	-	5,385
Total intangibles	-	11,176

Intangible asset reconciliation	19	18
Website		
Opening balance	5,791	15,895
Transfer/reclassification	(2,315)	-
Additions	-	-
Amortisation	(3,476)	(10,104)
Disposals		
Gross cost	-	-
Depreciation on disposal	-	-
Total disposals	-	-
Total website	-	5,791
Software		
Opening balance	5,385	16,157
Transfer/reclassification	(1,152)	-
Additions	-	-
Amortisation	(4,233)	(10,772)
Disposals		
Gross cost	-	-
Depreciation on disposal	-	-
Total disposals	-	-
Total software	-	5,385
Total intangibles reconciliation	-	11,176

8. Operating leases

	19	18
Not later than one year	104,776	153,940
Later than one year and no later than five years	6,806	109,435
Total operating leases	111,582	263,375

The Scheme's lease obligations relate to the lease of their premises at Level 5, 1 Post Office Square, Wellington (Huddart Parker Building) and the lease of a Canon photocopier.

Level 5, 1 Post Office Square, Wellington (Huddart Parker Building)

The lease at Level 5, 1 Post Office Square, Wellington commenced on 15 March 2014 with renewal rights every 3 years (next renewal date being 15 March 2020). Upon signing the lease the Scheme received a 6 month rent free holiday lease incentive which has been spread over the lease term (6 years/72 months).

Canon photocopier

The lease of the Canon photocopier commenced on 29 August 2018 for a term of 5 years/60 months. Upon signing the lease the Scheme received an incentive by way of Canon waiving the monthly scanning charge (\$7.95 month). Due to the size of the incentive, this has not been factored in to the calculation of the Scheme's future lease obligation.

9. Cash and short-term deposits

	19	18
Cash at bank and short-term deposits		
Cheque account (00)	100,333	65,747
Savings account (02)	22	262,483
ANZ 30 account	1	30,941
Petty cash	-	283
Total cash at bank and short-term deposits	100,356	359,454

Cheque account (00)

Interest rate (debit balance): 26.75%

Interest rate (credit balance): 0.10%

Savings account (02)

Interest rate (debit balance): 26.75%

Interest rate (credit balance): 0.10%

ANZ account (30)

Interest rate (debit balance): 28.95%

Interest rate (credit balance): 0.10%

10. Income tax

	19	18
Net profit/(loss) per financial statements		
Profit/(loss) before tax	73,651	203,873
Prima facie tax expense at 28%	20,623	57,085
Income tax effects:		
Add tax effect of non-deductible expenses	724,634	618,380
Less tax effect of non-assessable income	(739,200)	(672,706)
Total income tax effects:	(14,566)	(54,326)
Current tax expense	6,057	2,759
Taxation movements		
Opening balance	(397)	-
Provisional tax paid	-	(1)
Refunds received	397	-
Resident withholding tax paid	(2,780)	(3,155)
Total taxation movements	(2,780)	(3,156)
Income tax payable/(refundable)	3,277	(397)

The Company treats income generated from members as tax exempt based on the principle of mutuality.

The principle of mutuality is a common law principle arising from the premise that individuals cannot profit from themselves. Accordingly, membership receipts from members are deemed to be mutual income and not subject to income tax, and expenses in connection with mutual activities are therefore not deductible for taxation purposes. All other receipts and payments are classified in accordance with taxation legislation in the relevant tax jurisdiction. The Company is liable for other taxes including goods and services tax and fringe benefits tax.

11. Contingent assets and liabilities

There are no contingent assets or liabilities at balance date (2018: \$nil).

12. Transactions with related parties

Transactions with the Company's bank, ANZ (a Scheme participant), are conducted on normal commercial terms.

During the year, other than making payment for levies, ANZ, ASB, BNZ and Westpac each contributed \$50,000 towards the Prevention Advertising Campaign, and KiwiBank contributed \$40,000.

Key management personnel

The key management personnel are the members of the governing body which is comprised of the Board of Directors and Banking Ombudsman, which constitutes the governing body of the Company.

The directors had remuneration due or paid during the year of \$129,258 (2018: \$126,006).

13. Financial instruments

The carrying amounts of categories of financial assets and liabilities are as follows:

	19	18
Financial instruments		
Financial assets measured at amortised cost		
Accounts receivable	793,500	690,000
Bank and cash	100,356	359,454
Term deposits and accrued interest	672,626	355,202
Total financial assets measured at amortised cost	1,566,482	1,404,656
Financial liabilities measured at amortised cost		
Accounts payable	39,462	61,482
Accruals	110,936	91,476
Credit card	4,302	9,645
Sundry payables	214	-
Total financial liabilities measured at amortised cost	154,914	162,603

14. Term deposits

	19	18
ANZ term deposit 02	366,343	355,202
ANZ term deposit 03	306,283	-
Total term deposits	672,626	355,202

ANZ term deposit 02

Amount invested (principal): \$357,292

Investment date: 5 October 2018

Maturity date: 2 July 2019

Term: 270 days

Interest rate: 3.45%

ANZ term deposit 03

Amount invested (principal): \$302,201

Investment date: 5 February 2019

Maturity date: 5 August 2019

Term: 181 days

Interest rate: 3.40%

15. Sundry payables and accruals

	19	18
Accounts payable	39,462	61,482
Annual leave	47,823	55,372
Accruals	110,936	101,123
Sundry payables	214	-
Total sundry payables and accruals	198,435	217,977

16. Subsequent events

There have been no material events subsequent to reporting date (2018: Nil).

DIRECTORY

Directors

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Suzanne Chetwin

Kenina Court

Angela Mentis

Donna Cooper

Banking Ombudsman

Nicola Sladden

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Banker

ANZ Bank New Zealand

Wellington

Auditor

Ernst & Young

Scheme participants

ANZ Bank New Zealand

ASB Bank

Bank of Baroda New Zealand

Bank of India New Zealand

Bank of China New Zealand

BNZ

China Construction Bank New Zealand

Citi New Zealand

Heartland Bank

HSBC New Zealand

ICBC New Zealand

Kiwibank

Nelson Building Society

NZCU Baywide

Rabobank New Zealand

SBS Bank

The Co-operative Bank

TSB Bank

Westpac