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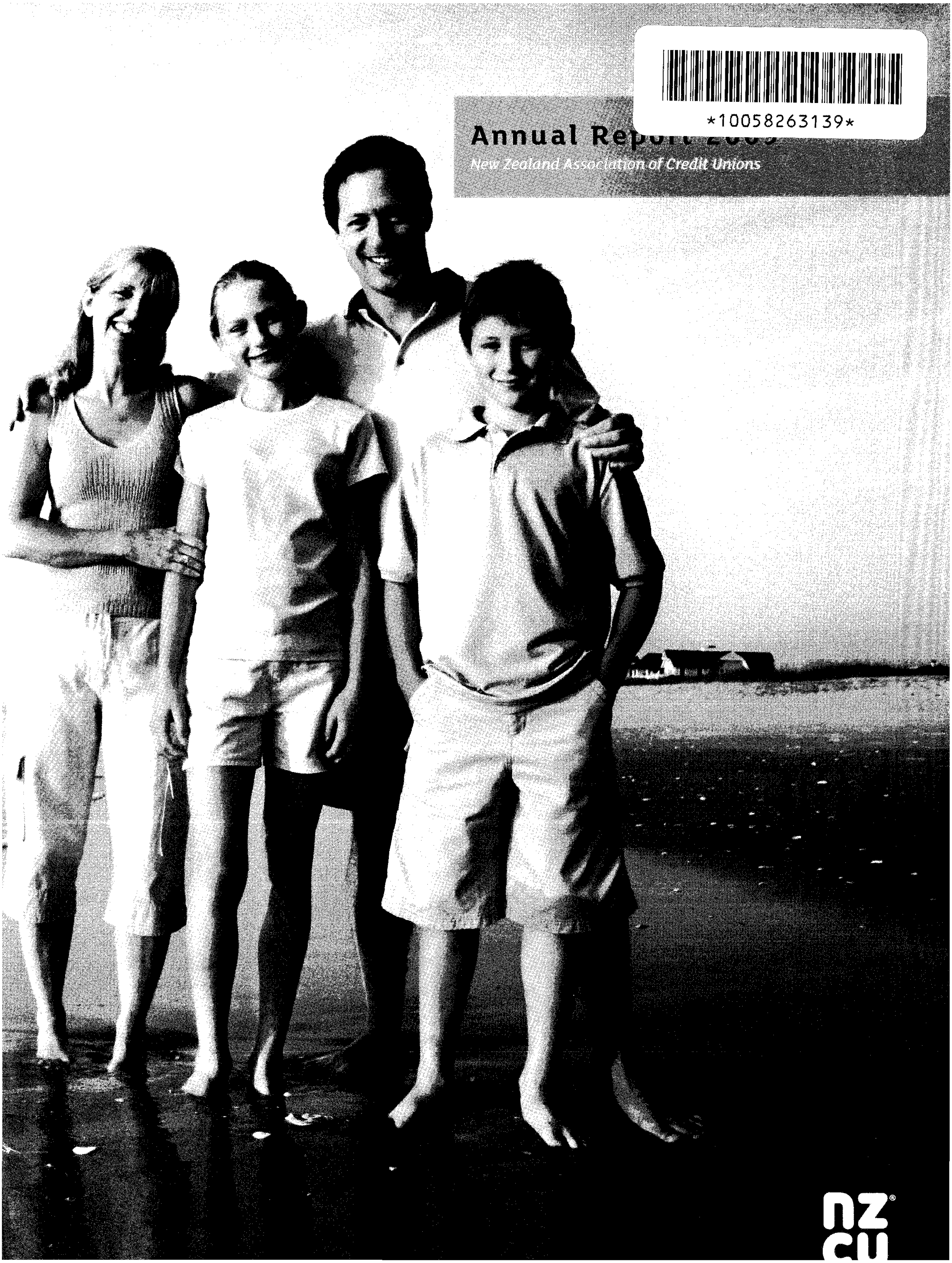
New Zealand Association of Credit Unions



Directory

New Zealand Association of Credit Unions

Registered office
Level 4, Credit Union House
272 Parnell Road, Parnell,
Auckland

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PO Box 37 590, Parnell,
Auckland 1151

Telephone

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Facsimile

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Email

enquiries@nzacu.org.nz

Website

www.creditunions.org.nz

Solicitors

Stace Hammond

External Auditors

Deloitte

Internal Auditors

O'Halloran HMT

Bankers

Westpac

Insurers

Crombie Lockwood Insurance Brokers

Trust Deed Supervisors

Trustees Executors Limited
Perpetual Trust Limited
Maori Trustee

Board of Directors

Ray Tibbits
Bill Sinclair
Bruce Ross
Selwyn Screen
Doug McLaren

Senior Management

Doug McLaren	- Chief Executive
David Smart	- Chief Financial Officer
Margaret Stephens	- Chief Operating Officer
Michael Cathro	- Managing Director of Pioneer Insurance and Manager of CUI

The New Zealand Association of Credit Unions support these brands:

Member of World Council of Credit Unions

CREDIT UNION

NZ CU

Partners in our progress 2008/2009:

Stace Hammond
Gen-i New Zealand
Vero
Mercer
O'Halloran HMT
Perpetual Trust
Crombie Lockwood
Actionmail
Westpac
Trustees Executors Limited
Maori Trustee

NZACU Overview

Our profile

The New Zealand Association of Credit Unions is the industry association for Credit Unions. Our members are an important option in the New Zealand financial services market and have more than 50 years banking history in communities across the country.

Our purpose

NZACU exists to support our members' growth and success. We act as a collective voice for Credit Unions as they advance their cause and pursue changes with government and regulatory bodies. We provide valuable products and services that assist Credit Unions with training, compliance, legal advice, market analysis, fraud prevention, planning, lobbying and marketing initiatives.

Our goals

Our goal is to provide the best representation possible for Credit Unions. We promote the case for Credit Unions and seek to provide a strong and single voice for the sector.

Through our range of products and services, we aim to deliver up to the minute support on issues such as regulatory, banking and compliance issues. We lead the debate around regulatory reforms to ensure Credit Unions can perform strongly in New Zealand.

Our history and ownership

The New Zealand Association of Credit Unions came into existence in 1961 as the New Zealand Credit Union League. In 1989, we became the New Zealand Association of Credit Unions. We are owned by and represent 25 Credit Unions of the 33 registered Credit Unions with total assets of $620 million.

Our market

NZACU represents Credit Unions that meet the financial services needs of more than 171,000 New Zealanders. With a focus on members, not shareholder profits, customer satisfaction levels for Credit Unions are among the highest in the market. We provide a much needed option for those disillusioned by the mainstream banking choices and for those who the banks choose not to deal with. We work in pockets of communities throughout New Zealand, in main and regional centres as well as small towns. Traditionally a blue-collar option, Credit Unions today serve all sectors of the community.

Our future

Credit Unions are building their strength and visibility to ensure they are considered as the first option in the communities they service. Ongoing reviews of our governance, pricing, service and products will continue to ensure we offer Credit Unions what they need to satisfy their current and future members. We will continue to encourage working together to harness the collective strength of Credit Unions. We are working to satisfy the increasing demands of governance and compliance that continues to be placed upon us.

Our services

- Independent real time computerised Banking System (FACTS) providing banking products and channels
- Training and development for Credit Union directors and employees
- Audit, risk management and compliance
- Representation at government level on legislative changes and compliance
- Business development
- Member forums
- HR and administration support
- Media representation.

Our Board of Directors

Location of Member Credit Unions and their Branches

Northland Region

Steelsands Credit Union
Marsden Point

Westforce Credit Union
Whangarei

Auckland Region

Aotearoa Credit Union
Botany Junction
Clendon
Glen Innes
Mangere
Otahuhu
Otara
Papakura
Papatoetoe

Carbine Credit Union
Mt. Wellington

Credit Union Auckland
Auckland Airport
Penrose
Manukau City
Mt Roskill

Fisher & Paykel Credit Union
East Tamaki

New Zealand Employees Credit Union
Penrose

Harbour Board Staff Credit Union
Mechanics Bay

Steelsands Credit Union
Glenbrook

United Credit Union
East Tamaki

Westforce Credit Union
Avondale
Great Barrier Island
Onehunga
Papakura
Pukekohe

Wilson & Horton Employees Credit Union
Auckland City

Waikato Region

Aotearoa
Hamilton

First Credit Union
Hamilton City
Te Aroha

Credit Union North
Hamilton City
Matamata
Ngaruawahia
Te Kauwhata
Tokoroa
Thames
Waikato Hospital, Hamilton

Bay of Plenty Region

AWHI Credit Union
Opotiki
Rotorua

Caxton Employees Credit Union
Kawerau

First Credit Union
Tauranga
Tauranga Hospital

Credit Union Central
Kawerau
Kopeopeo
Murupara
Rotorua
Taneatua
Te Ngae

Credit Union North
Kawerau
Taupo
Turangi
Whakatane
Mt. Maunganui
Papamoa Beach
Greerton
Te Puke

Credit Union Lakeland
Rotorua

Taranaki Region

Credit Union Taranaki
New Plymouth
Waitara

Gisborne Region

AWHI Credit Union
Gisborne

Credit Union Baywide
Gisborne

Hawke's Bay Region

Credit Union Bay Health
Hastings

Credit Union Baywide
Dannevirke
Hastings
Napier
Waipukurau
Wairoa

Manawatu / Wanganui Region

Aotearoa Credit Union
Wanganui

Credit Union Baywide
Palmerston North
Palmerston North Hospital
Wanganui

Wellington Region

Credit Union Baywide
Lower Hutt
Masterton
Porirua
Wainuiomata

NZ Firefighters' Credit Union
Petone

United Credit Union
Johnsonville

Nelson Region

Credit Union South
Nelson
Motueka
Richmond
Takaka
Nelson Port

West Coast Region

Credit Union South
Greymouth
Hokitika
Westport

Canterbury Region

Christchurch Emergency Services Credit Union
Christchurch

Credit Union South
Christchurch
Timaru

OtagoRegion

Credit Union South
Dunedin
Lawrence
Oamaru
Palmerston

Southland Region

Alliance Group Credit Union
Invercargill

Invercargill Licensing Trust Credit Union
Invercargill

Credit Union South
Invercargill
Invercargill South
Gore

Chairman's Report

Ray Tibbits

Overview

The last year has been a difficult one for our Association as we and our Member Credit Unions adapted to a worsening world wide financial environment coupled with an impending new regulatory reporting and monitoring regime.

As a stand alone financial organisation, NZACU continued to show a profit from its core activities while losses from our subsidiaries impacted on the bottom line. Steps have been taken to restructure these subsidiary businesses. I am pleased to report that the results for the last three months of the financial year have shown that the steps taken have had a positive effect on the financial results for those companies.

The Board was pleased to declare a dividend of 3.32% for the period ended 30 June, 2009. This was based on the average 90 day bank bill rate, measured at weekly intervals.

The Reserve Bank of New Zealand continued with the implementation of a regulatory regime which will affect all the non bank deposit takers which our Credit Unions are part of. There is no doubt that the new regulatory regime will continue to have an impact on our Member Credit Unions. A large proportion of the time of our Member Services Division staff has been spent on these regulations.

Compulsory credit ratings for our Member Credit Unions with liabilities over $20 million will become effective as at 1 March 2010. NZACU has formulated a Group Guarantee Scheme in which participants will have the financial protection of the whole participating group. While a credit rating is compulsory for some of our Credit Unions, other Credit Unions may find it advantageous to join if it can be shown that the regulatory paper war can be minimised through participation.

In October 2008, the Government introduced their Retail Deposit Guarantee Scheme and it is pleasing to note that a significant number of our Members are participants in that scheme. However, like all such schemes, the devil is in the detail and once again our Member Services Division has been actively involved in assisting our Members with this. In accord with many other market commentators we will be most interested in 'what is to follow' when the proposed finalisation date of October 2010 is reached.

The Board continues to re-evaluate the role of NZACU in the light of rapidly changing market and regulatory factors. The Board continues to reinforce that NZACU exists to support our Members' growth and success. We act as a collective voice for Credit Unions as they advance their cause and pursue changes with Government and regulatory bodies. We provide valuable products and services that assist Credit Unions with training, compliance, legal advice, market analysis, fraud prevention, planning, lobbying and marketing initiatives.

Planning for the future of NZACU recognises that the primary role is to be a cost effective provider of member services and business services to individual Credit Unions to assist each Credit Union achieve its strategy. At the same time NZACU is committed to providing a collegial environment where our many diverse Credit Unions can operate their own activities while benefiting from being under the overall Credit Union umbrella.

Everyday New Zealanders continue to be battered by the worldwide economic situation and it is imperative that Credit Unions are available to service those individuals and communities who require sustainable solutions to their financial needs. It is an unfortunate coincidence that this time of financial distress can also be an opportunity for Credit Unions to grow their membership numbers.

Our own NZACU organisation has been affected by the economic downturn and downsizing and restructuring took place in September 2008 and February 2009. The Board acknowledges the impact that the restructuring has had on the staff and thanks everyone for their increased productivity.

In recognizing the impact of difficult times, management of NZACU has foregone any salary or benefit increases for the 2009/2010 financial period. The Board has also foregone any potential increase in Board remuneration for the same period.

Directors

Since the last Annual Report was produced, as part of its plan to introduce two appointed Directors, the three positions previously held by Andrew Leys, Graham Clouston and Colin Punter were replaced by Selwyn Screen and Bruce Ross. We take this opportunity to thank Andrew, Graham and Colin for many years of dedicated service to the NZACU Board.

In March two long serving Directors, John Keenan and Neil McDonald, resigned from the Board and I assumed the Chairmanship. I thank John and Neil for their input and guidance over 15 and 25 years respectively on the Board of NZACU. Simon Hart also resigned from his term as an appointed Director in March and I thank him for his wise counsel during his time on the Board.

Although there were three vacancies on the Board, the ongoing Directors did not fill the casual vacancies, preferring to continue working as a smaller Board pending the normal annual election process. I thank my fellow Directors for their time and effort through a difficult period. We have been assisted through this period by Rob Nicholls who has acted as an able advisor to the Board.

CEO

Subsequent to the end of the financial year the Board received the resignation of Doug McLaren as the Chief Executive Officer of NZACU.

Doug joined NZACU as its CEO in September 1998 and has made an exceptional contribution to the Credit Union Movement during his 11 years at the helm of this organization. Doug has provided strong and committed leadership of NZACU and brought great energy, skill and experience to the mission of shaping a better future for all Credit Unions. He arrived at a period of major volatility for Credit Unions and applied a steadying hand to the Movement and its Association with the formulation and implementation of sound strategies for new product development and growth in a wider range of products and services for Members.

The high reputation of NZACU with Government, regulators and the business community is testament to the huge effort that has been made over his 11 years in the development of our people, our culture, our products, our services and our relationships.

I and his fellow directors thank Doug for his unfaltering support of the Board, NZACU and Credit Unions.

Closing

It has been a difficult year but positive signs are emerging as the NZACU financial situation returns to normal, the worldwide economy shows signs of settling down and our Movement comes to terms with the new regulatory environment.

I would like to reiterate that the Association is a vehicle to support its membership and NZACU will endeavour, to the best of its ability, to be responsive to both the financial and regulatory environment and the aspirations of its membership.

Ray W Tibbits

Ray Tibbits
Chairman

*Non-executive directors remuneration**

	Role	Period	Director fees	Audit & Risk Management Committee meeting fees	Total fees
J Keenan	Chair	1/7/08–31/3/09	$30,000		$30,000
A Leys	Director	1/7/08–30/9/08	$5,000		$5,000
G Clouston	Audit Chair	1/7/08–30/9/08	$1,250		$1,250
	Vice Chair		$5,000		$5,000
N McDonald	Director	1/7/08–31/3/09	$15,000		$15,000
C Punter	Director	1/7/08–30/9/08	$5,285	$465	$5,750
S Hart	Director	1/7/08–31/3/09	$15,000		$15,000
B Ross	Director	1/10/08–30/6/09	$15,000		$15,000
S Screen	Director	1/10/08–30/6/09	$15,000		$15,000
R Tibbits	Audit Chair	1/7/08–20/2/09		$2,500	$2,500
	Director	12/12/08–30/6/09	$15,833		$15,833
	Chair	20/2/09–30/6/09		$5,000	$5,000
B. Sinclair	Vice Chair	1/10/08–30/6/09	$23,750		$23,750
	Audit Chair	20/2/09–30/6/09		$4,750	$4,750
R Nicholls	Advisor	1/1/09–30/6/09	$10,000		$10,000
Total			**$156,118**	**$12,715**	**$168,833**

*Please refer to page 6, point 9 of the Board and Governance Report for more information.

Board and Governance

The New Zealand Association of Credit Unions has adopted the Securities Commission Corporate Governance in New Zealand guidelines to review and report on our governance practices. Details of the directors are set out on page 1 of this report.

At the 2008 AGM Selwyn Screen, NZ Employees Credit Union and Bruce Ross, Steelsands Credit Union were elected to the NZACU Board. They replaced long standing directors, Andrew Leys, Graham Clouston and Colin Punter. John Keenan was appointed Chairman, Bill Sinclair Deputy Chairman and Doug McLaren continued as ex-officio.

In March of this year our Chairman John Keenan and Directors Neil McDonald and Simon Hart resigned from the Board. Ray Tibbits, Audit & Risk Management Committee Chair, was appointed an Independent Director and then Chairman and Rob Nicholls, CEO Credit Union Australia, was appointed as an Advisor to the Board. Due to these changes trustees were reduced to two members - Selwyn Screen and Bruce Ross, and Bill Sinclair was appointed Chairman of the Audit & Risk Management Committee.

1. Ensuring solid foundations for management and oversight

The Association has procedures designed to:

> enable the Board to provide strategic guidance and effective oversight of management

> clarify the respective roles and responsibilities of Board members and senior executives in order to facilitate Board and management accountability to both the Association and its Member Credit Unions

> ensure the balance of authority so that no single individual has unfettered powers.

The Board has an obligation to protect and enhance the value of the Association's assets and act in its interests. It exercises this obligation through the approval of appropriate organisational strategy and processes, with particular regard to investment portfolio composition and return expectations.

As part of its review of the strategic direction of the Association, an off site strategy session is held with management each year. The Board devotes a reasonable amount of time at every Board meeting to review strategic issues on an ongoing basis.

The Association achieves Board and management accountability through written terms of reference (policies) and a formal delegation of authority to the Chief Executive. The CEO is charged with the day-to-day leadership and management of the Association.

The governance procedures require the Board to have two independent directors to complement the elected directors. In the year ahead, there will be five elected directors and two external appointments will be made to the Board.

2. Structuring the Board to add value

Directors believe that for the Board to be effective it needs to facilitate the efficient discharge of the duties imposed by law and to add value to the Association. 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 Association's constitution (its Rules) provides for a Board of eight being comprised of five Member elected directors, two directors appointed by the Board and one executive director, the CEO. The directors serve a term of two years with the appointed directors being limited to a maximum of two, two year terms.

Committees of the Board

Committees established by the Board review and analyse policies and strategies, usually developed by management, which are within their terms of reference. Committees do not take action or make decisions on behalf of the Board but make recommendations to the full Board.

The current committees of the Board are Audit and Risk Management Policy Review, CEO Remuneration and Director Remuneration. From time to time, the Board may create ad hoc committees to examine specific issues on its behalf.

Board process

Although the majority of directors are elected by Member Credit Unions to bring special expertise or perspectives to Board deliberations, decisions of the Board are made as a whole, after taking each perspective into account and in the best interests of the Association.

The directors receive comprehensive information on the Association's operations before each meeting and have unrestricted access to any other information or records. Senior management is available and attend relevant sections of Board meetings to address queries and to assist in developing the Board's understanding of the issues facing the Association and the performance of the business.

Director participation remains very high with all Directors being present at the majority of meetings. In addition to regular Board meetings, Strategic Planning meetings are held each year as well as several Member forums, annual Consultative forum, Member Credit Union site visits and the Annual General Meeting and associated Forum.

3. Promoting ethical and responsible decision making

The Association has written procedures to clarify the standards of ethical behaviour required of directors and management and ensure observance through a Code of Ethics and a policy on dealing appropriately with conflicts and/or interests.

The Association has an employee handbook which embodies our 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.

4. Safeguarding the integrity of financial reporting

While the ultimate responsibility to ensure the integrity of the Association's financial reporting rests with the Board, the Association has in place a structure of review and authorisation designed to ensure truthful and factual presentation of its financial position. This includes:

> an appropriately resourced Audit & Risk Management Committee operating under a written charter

> review and consideration by the Audit & Risk Management Committee of the accounts and appropriate policies

> a process to oversee and ensure the independence and competence of the Association's external auditors

> responsibility for appointment of the external auditors resides with the Audit & Risk Management Committee subject to prior approval by the Board.

> establishment of an independent, external party who conducts the internal audit function with reporting responsibility to the Audit & Risk Management Committee

> the Audit & Risk Management 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 the Association's Secretary. The Secretary's position has been delegated by the Board, to the CEO.

Significant announcements including the interim half year and final full year results and dividend, the accounts for those periods and any advice on a change of earnings forecast requires the CEO and CFO to seek prior approval from the Audit & Risk Management Committee and the Board.

6. Respecting the right of Member shareholders

The Association seeks to ensure that its Member shareholders understand its activities by:

> communicating regularly and effectively with them

> giving Members ready access to balanced and clear information about the Association and any key organisational proposals

> making it easy for Member Credit Unions to participate in general meetings and forums.

To assist with this, an Association website intranet is maintained with relevant information including copies of presentations, reports and media or Member communiqué releases. The annual report is available in electronic format on the Association intranet "CU Insight".

7. Recognising and managing risk

The Association has a formalized system for identifying, overseeing, managing and controlling risk.

The processes involved require the maintenance of a governance level Risk Management Policy and a Risks Register that identifies key operational risks facing the business and the status of various initiatives employed to reduce them. The operational risks per key business unit section, including the adequacy of internal controls and IT security standards, are included as part of the Audit & Risk Management Committee's internal audit programme.

As the Association and its Member Credit Unions is preparing for the imminent requirement for registered deposit takers to have a credit rating, a core risk review exercise has been undertaken this year and will result in the compilation of model risk management policies that address overall business and financial profile risk and corporate governance risk.

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.

Board policy provides financial resource for directors' ongoing training and education with a formal appraisal process that includes the chairman.

On appointment, directors receive an education and development allowance for their two-year term. This is specifically for professional development and education and training that will be of direct benefit to their role as an Association director.

As part of its annual review of its governance processes, the Board via a sub committee evaluates annually the performance of the CEO. The evaluation is based on criteria that include 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

The Association's remuneration strategy aims to attract, retain and motivate high calibre employees at all levels of the organisation, and so drive performance and sustained growth of Member shareholder value. Underpinning this strategy is a philosophy that all employees should be appropriately and competitively rewarded. Total remuneration for senior executives comprise a base salary including the value of any benefits.

Non-executive directors' remuneration

The fees paid to non-executive directors for services in their capacity as directors of the Association during the year ended 30 June 2009 are as in table on page 4.

The Association's policy is to align directors' remuneration to the market measured against organisations of similar total asset value and similar annual revenues with a 20% discount to market applied. Directors' fees are normally reviewed annually by the Director Remuneration Committee, and any changes recommended to Members biennially, unless a significant market movement has occurred. The last review was in 2007 and at the 2007 AGM the directors' fees payable in any one year was increased to $170,000. Directors agreed not to seek an increase in fees at the 2009 AGM.

In acknowledgement of the varying workloads of the Board's Audit & Risk Management Committee, $5,000 from the director fee pool was set aside for the Chair of the Audit & Risk Management Committee and additional meeting fee expenses of $500 for a full day meeting or $250 per teleconference or half day meeting were paid to other members of the Audit & Risk Management Committee.

Travel allowance

The directors receive reimbursement for their travel, accommodation and out of pocket expenses whilst attending Board meetings.

Apart from travel and costs to attend the Association's Annual General Meeting and Forum, the Association does not pay for accompanying partners. When directors travel overseas to international meetings and conferences, their travel, registration and accommodation expenses are paid. Reasonable costs (including travel, accommodation and registration) are also paid for a partner of an official representative of the Association attending such international meetings.

Directors' development allowance

As the role and requirements of a director of the Association is significantly different from that of a director of a Credit Union or commercial entity, this allowance is not to enhance a director's position or experience in relation to any Credit Union, affiliated organisations or commercial entities.

Directors' insurance protection

The Association maintains appropriate Accidental Death and Disability Cover as well as Directors' Liability Insurance for its directors. The Accidental Death and Disability Cover for directors and the Chief Executive provides for full proceeds being paid to the insured director or their estate, in the event of a claim being made.

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.

Executive director's remuneration

Doug McLaren is the Chief Executive Officer and is also a director, ex-officio of the Association. As an executive director, Mr. McLaren has not received any further remuneration in his capacity as a director of the Association or its affiliated entities.

10. Recognising the legitimate interest of stakeholders

The Association recognises that it has a number of legal and other obligations to non-member shareholders 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

No director or executive of the Association holds any ordinary shares or any personal beneficial interest in the Association.

Other interests

No other written or verbal contracts or arrangements involving directors' interests, whether direct or indirect, were entered into during the year ended 30 June 2009 or existed at that date.

Compliance with corporate governance best practice

The Association 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.).

Chief Executive Officer's Report

Doug McLaren

Overview

Trading conditions for all financial institutions have been difficult this year due to the global economic crisis but our Member Credit Unions have managed to weather the storm better than most with only a slight decrease in total membership numbers to 171,411, and assets of $620 million. Reserves have continued to increase in line with the need to be conscious of the economic conditions.

Our industry continues to consolidate with the number of Member Credit Unions decreasing from 30 to 25 as at the financial year end. It is pleasing to note that while the number of Credit Unions has decreased, the number of branches and ATMs has increased providing members with greater access to Credit Union products and services. Our products, services and ATM network have enjoyed ongoing growth in the past years.

Regulatory environment

Changes to the regulatory environment for non Bank Deposit Takers (NBDTs) are coming thick and fast. The Association is very supportive of legislative changes that improve financial literacy and provide greater protection for the general public. However, the business models of NBDTs are many and varied as are the risks associated with their businesses. A Credit Union Cooperative, owned and governed by its Members, is at the very low risk end of the financial scale and so to be required to fit within the same legislative framework as other NBDTs is onerous for many of our Members. We have actively lobbied our Members of Parliament to ensure the best interests of our Members are considered in any regulatory changes.

The introduction of the Government Retail Deposit Guarantee Scheme in October 2008 was welcomed by Member Credit Unions with 19 of our Members applying and being accepted into the scheme. Although Credit Unions are member owned, the scheme provides an extra level of comfort to the general public.

The Association has been working with Members in preparation for the introduction of legislation requiring NBDTs to obtain a credit rating. The legislation will become law in March 2010. We have engaged Standard and Poor's to be our rating agency. Standard and Poor's are the rating agency for our Australian sister organisation, CUSCAL, and are very familiar with the Credit Union Movement. In preparation for working within a credit rating regime, the Association has advocated to Members the benefits of a group guarantee scheme in which one rating is applied to all members of the scheme, including the Association. This required a change to the Association Rules and was approved by the Members at a Special General Meeting in April 2009.

Operational matters

A strategic review of all operational areas of the business was undertaken during 2008 to ensure that we achieved the best financial result possible in the current economic climate.

A full departmental review was also undertaken, the results of which unfortunately resulted in a significant reduction in staffing numbers. It is always disappointing to lose good employees, some of whom had been long serving members of our team.

We continue to wind down our finance company PlatinumDirect Limited in an orderly manner with the portfolio being reduced to $5,206,165 by the end of this financial year.

A decision was made by the directors of Pioneer Insurance Limited (PIC) to concentrate predominantly on Credit Union insurance business. This resulted in a reduction in policies from 16,900 to 9,400 but improved profitability of the portfolio. PIC has received strong support from Members and a continuation of this support sees a very profitable future for PIC. In the year under review we have totally written off PIC Goodwill of $3,994 million.

The Association's core operations recorded a trading profit of $2,087,080 for the year prior to impairment. This has been a consistent result for the past 10 years. In part, this year's result was due to above budgeted returns for Credit Union Insurance and central banking.

I wish to thank all our staff for their efforts and professionalism during a difficult year in accepting the changes necessary which included, in many cases, a direct impact on their roles and for their continued support both for me and the executive team.

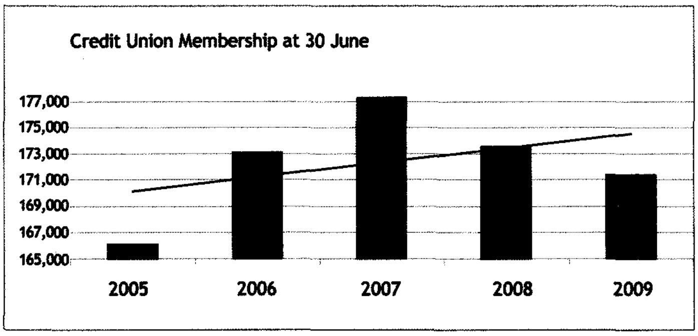
To our Member Credit Unions this has been the most challenging year for our Movement on record. We have all learnt from the experience and I am heartened by the goodwill emerging from the April 2009 Forum and SGM. The next year will be equally challenging with difficult trading conditions set to be with us for some time, but by using the strengths of the cooperative and working together, Credit Unions will be in a strong position to continue to grow and enhance the financial wellbeing of members of our community.

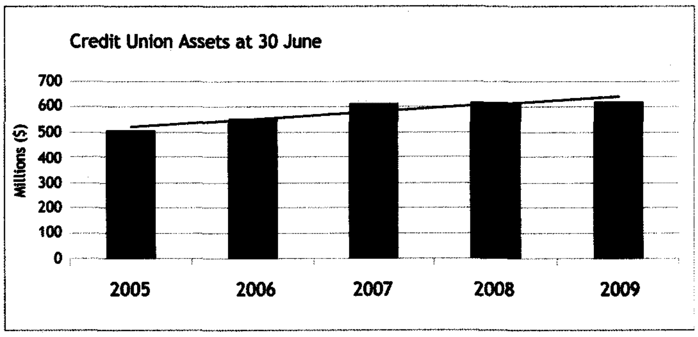
As this will be my last Annual Report, my thanks go to all those Members, suppliers and supporters who have contributed to such a successful Movement over my 11 years as CEO.

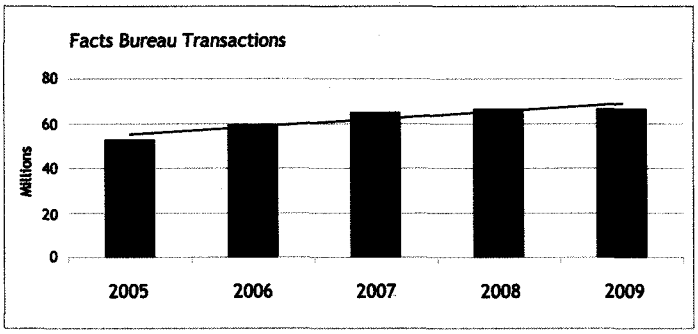
Doug McLaren

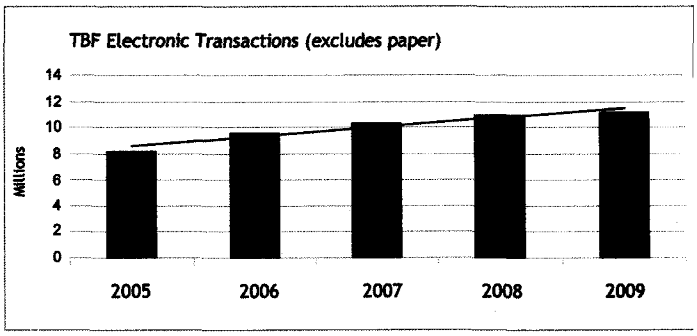
A D McLaren
Chief Executive

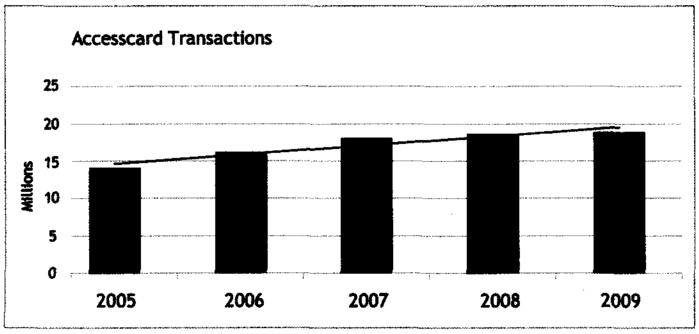
Key statistics

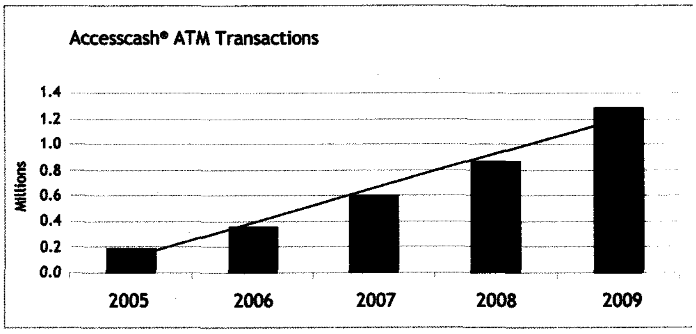


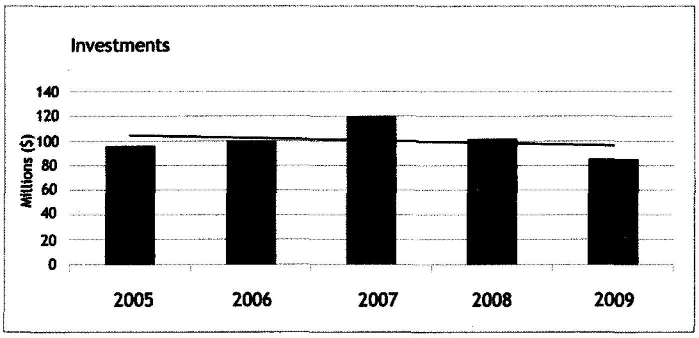


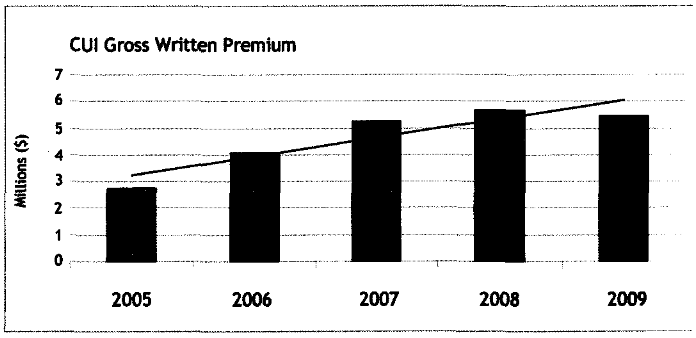


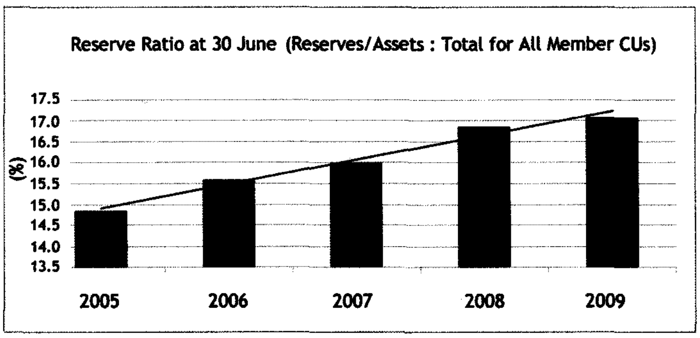


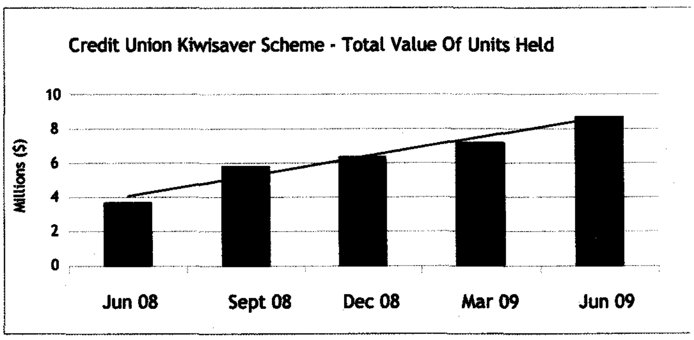












Financial Statements

The Directors are pleased to present the Financial Statements of the New Zealand Association of Credit Unions for the year ended 30 June 2009.

For and on behalf of the Board of Directors as at 28 August 2009.

Ray Tibbits
Chairman

Doug McLaren
Chief Executive / Director

Deloitte.

AUDIT REPORT
TO THE MEMBERS OF
NEW ZEALAND ASSOCIATION OF CREDIT UNIONS

We have audited the financial statements on pages 11 to 53. The financial statements provide information about the past financial performance and financial position of the New Zealand Association of Credit Unions ('the Association') and group as at 30 June 2009. This information is stated in accordance with the accounting policies set out on pages 15 to 23.

This report is made solely to the Association's members, as a body, in accordance with Section 68 of the Friendly Societies & Credit Union Act. Our audit has been undertaken so that we might state to the Association's members 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 Association's members as a body, for our audit work, for this report, or for the opinions we have formed.

Board of Directors' Responsibilities

The Board of Directors is responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice, of financial statements which give a true and fair view of the financial position of the New Zealand Association of Credit Unions and group as at 30 June 2009 and of the results of operations and cash flows for the year ended on that date.

Auditors' Responsibilities

It is our responsibility to express to you an independent opinion on the financial statements presented by the Board of Directors.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Board of Directors in the preparation of the financial statements, and
- whether the accounting policies are appropriate to the Association and group circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Other than in our capacity as auditor and the provision of taxation advice, we have no relationship with or interests in the New Zealand Association of Credit Unions or any of its subsidiaries.

Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the New Zealand Association of Credit Union as far as appears from our examination of those records; and
- the financial statements on pages 11 to 53:
  - comply with generally accepted accounting practice in New Zealand;
  - comply with International Financial Reporting Standards; and
  - give a true and fair view of the financial position of the New Zealand Association of Credit Unions and group as at 30 June 2009 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 28 August 2009 and our unqualified opinion is expressed as at that date.

Deloitte

Chartered Accountants
Auckland, New Zealand

Income Statement

For the year ended 30 June 2009

		Group		Association	
	Note	2009	2008	2009	2008
		$000	$000	$000	$000
Interest Revenue	2	6,539	8,898	6,700	9,043
Interest Expense	3	4,584	6,470	4,851	6,938
Net Interest Revenue		1,955	2,428	1,849	2,105
Banking Services Revenue		13,831	13,994	13,724	14,008
Insurance Premium Revenue	7	14,040	16,660	5,463	5,685
Other Revenue	4	3,142	3,914	2,361	2,934
Total Revenue Net of Interest Expense		**32,968**	**36,996**	**23,397**	**24,732**
Employee Benefits	5	5,383	5,809	3,663	3,660
Insurance Claims and Rebates	7	11,947	13,758	4,462	4,708
Transaction Costs		8,339	8,824	8,339	8,811
Operating Expenses	6	7,072	8,546	4,846	5,749
Total Expenditure		**32,741**	**36,937**	**21,310**	**22,928**
Net Surplus before Impairment		**227**	**59**	**2,087**	**1,804**
Impairment	8	5,364	1,885	8,066	3,176
Net Surplus / (Deficit) before Taxation		(5,137)	(1,826)	(5,979)	(1,372)
Taxation Expense	9	110	-	-	-
Net Surplus / (Deficit) after Taxation		**(5,247)**	**(1,826)**	**(5,979)**	**(1,372)**

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

Statement of Changes in Equity (Members Funds)

For the year ended 30 June 2009

Group

	Base Capital Notes $000	Stabilisation Fund Reserve $000	Retained Earnings $000	Total $000
Balance at 1 July 2007	9,463	809	2,825	13,097
Notes Issued for Capitalisation of Dividends and Rebates	270	-	-	270
Notes Issued by Conversion of Retained Earnings	3,285	-	-	3,285
Base Capital Notes Dividends Paid	-	-	(1,420)	(1,420)
Transfer to Stabilisation Fund Reserve	-	161	(161)	-
Net Surplus after Taxation	-	-	(1,826)	(1,826)
Balance at 30 June 2008	**13,018**	**970**	**(582)**	**13,406**
Balance at 1 July 2008	13,018	970	(582)	13,406
Notes Issued for Capitalisation of Dividends	140	-	-	140
Base Capital Notes Dividends Paid	-	-	(477)	(477)
Transfer to Stabilisation Fund Reserve	-	60	(60)	-
Net Deficit after Taxation	-	-	(5,247)	(5,247)
Balance at 30 June 2009	**13,158**	**1,030**	**(6,366)**	**7,822**

Association

	Base Capital Notes $000	Stabilisation Fund Reserve $000	Retained Earnings $000	Total $000
Balance at 1 July 2007	9,463	809	3,324	13,596
Notes Issued for Capitalisation of Dividends and Rebates	270	-	-	270
Notes Issued by Conversion of Retained Earnings	3,285	-	-	3,285
Base Capital Notes Dividends Paid	-	-	(1,420)	(1,420)
Transfer to Stabilisation Fund Reserve	-	161	(161)	-
Net Surplus After Tax	-	-	(1,372)	(1,372)
Balance at 30 June 2008	**13,018**	**970**	**371**	**14,359**
Balance at 1 July 2008	13,018	970	371	14,359
Notes Issued for Capitalisation of Dividends	140	-	-	140
Base Capital Notes Dividends Paid	-	-	(477)	(477)
Transfer to Stabilisation Fund Reserve	-	60	(60)	-
Net Deficit after Taxation	-	-	(5,979)	(5,979)
Balance at 30 June 2009	**13,158**	**1,030**	**(6,145)**	**8,043**

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

Balance sheet

As at 30 June 2009

	Note	Group		Association	
		2009	**2008**	**2009**	**2008**
		$000	**$000**	**$000**	**$000**
Equity (Members' Funds)					
Base Capital Notes	10	13,158	13,018	13,158	13,018
Reserves	11	1,030	970	1,030	970
Retained Earnings / (Deficit)	12	(6,366)	(582)	(6,145)	371
Total Equity (Members' Funds)		**7,822**	**13,406**	**8,043**	**14,359**
Assets					
Cash and Cash Equivalents	13	9,069	7,272	9,069	7,264
Accounts Receivable	14	4,040	5,808	2,600	2,316
Investments	15	69,097	80,032	76,024	94,187
Loans Receivable	16	2,666	4,430	-	-
Prepayments	17	444	531	260	186
Inventory	18	152	253	152	253
Derivative Financial Assets	19	2,107	128	2,107	128
Property, Plant and Equipment	20	1,123	1,219	861	771
Goodwill	21	-	3,994	-	-
Other Intangible Assets	22	1,729	2,884	486	662
Total Assets		**90,427**	**106,551**	**91,559**	**105,767**
Liabilities					
Deposits Received	23	72,139	79,952	76,678	85,990
Accounts Payable	24	2,639	3,534	1,957	2,831
Unearned Premium Liability	25	2,530	5,498	-	-
Provisions	26	495	677	402	413
Life Insurance Liability	7	185	127	185	127
Other Association Insurance Liability	7	2,237	1,983	2,237	1,983
Motor Vehicle Insurance Liability	7	323	1,301	-	-
Finance Lease Liabilities	27	-	29	-	20
Derivative Financial Liabilities	28	2,057	44	2,057	44
Total Liabilities		**82,605**	**93,145**	**83,516**	**91,408**
Net Assets		**7,822**	**13,406**	**8,043**	**14,359**

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

Signed for and on behalf of the Board as at 28 August 2009.

Ray W Tibbits

Ray Tibbits
Chairman

Doug McLaren

Doug McLaren
Chief Executive / Director

Statement of Cash Flows

For the year ended 30 June 2009

	Note	Group		Association	
		2009	2008	2009	2008
		$000	$000	$000	$000
Cash Flows from Operating Activities					
Cash was Provided from:					
Membership Contributions Received		805	1,082	805	1,082
Insurance Premiums Received		13,163	14,042	5,488	5,671
Other Receipts from Customers		16,495	16,763	14,988	15,617
Loan Repayments from Customers		1,710	1,082	-	-
Investment Interest Received		6,430	8,327	7,247	9,021
Interest from Customers		-	563	-	-
Motor Vehicle Claims Recoveries		1,592	2,016	-	-
Credit Union Foundation Grants & Donations		6	5	6	5
		40,200	**43,880**	**28,534**	**31,396**
Cash was Applied to:					
Payments to Suppliers & Employees		23,240	24,227	16,832	16,695
Insurance Claims and Rebates Paid		13,424	12,895	4,150	4,569
Loan Advances to Customers		-	5,944	-	-
Interest Paid		4,523	6,688	5,286	7,078
		41,187	49,754	26,268	28,342
Net Cash Flow from Operating Activities	**36**	**(988)**	**(5,874)**	**2,266**	**3,054**
Cash Flows from Investing Activities					
Cash was Provided from:					
Sale of Fixed Assets		42	48	25	48
Proceeds from Sales and Maturities of Investment Securities		803,135	692,669	802,635	692,669
		803,177	**692,717**	**802,660**	**692,717**
Cash was Applied to:					
Purchase of Property, Plant and Equipment		539	607	539	266
Purchase of Intangible Assets		642	1,044	322	741
Purchase of Investment Securities		789,944	662,204	793,046	677,472
		791,124	**663,855**	**793,907**	**678,479**
Net Cash Flows from Investing Activities		**12,053**	**28,862**	**8,753**	**14,238**
Cash Flows from Financing Activities					
Cash was Provided from:					
Base Capital Notes Issued		-	3,285	-	3,285
Net Increase / (Decrease) in Credit Union Deposits		(8,931)	(24,858)	(8,877)	(19,075)
		(8,931)	**(21,573)**	**(8,877)**	**(15,790)**
Cash was Applied to:					
Base Capital Notes Dividend Paid		337	1,150	337	1,150
		337	**1,150**	**337**	**1,150**
Net Cash Flows from Financing Activities		**(9,268)**	**(22,723)**	**(9,214)**	**(16,940)**
Net Increase in Cash and Cash Equivalents		1,797	265	1,805	352
Cash and Cash Equivalents at the Beginning of the Period		7,272	6,912	7,264	6,912
Acquisition through Business Combination		-	95	-	-
Cash and Cash Equivalents at the End of the Period		**9,069**	**7,272**	**9,069**	**7,264**

Refer to Note 13 for a reconciliation of Cash and Cash Equivalents.

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

Notes to and forming part of the financial statements

For the year ended 30 June 2009

1 Summary of Accounting Policies

Reporting Entity

The Association is an association of Credit Unions registered under the Friendly Societies and Credit Unions Act 1982, comprising two Trusts ("Divisions") for 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 is not a reporting entity or an issuer under the Financial Reporting Act 1993. The Financial Statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practise ("NZ GAAP") and comply with the Friendly Societies and Credit Unions Act 1992.

The Group financial statements have been prepared in accordance with NZ GAAP which complies with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards for profit-orientated entities for the benefit of their members. These financial statements also comply with International Financial Reporting Standards.

General Accounting Policies

The 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.

The reporting currency is New Zealand dollars and has been rounded to the nearest thousand ($000).

The Group meets the definition of a financial institution under NZ IFRS 7 "Financial Instruments; Disclosures" and is subject to its requirements.

Significant Judgements, Estimates and Assumptions

In the application of NZ IFRS 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 Investments, 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 for insurance contracts 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.

Notes to and forming part of the financial statements continued

For the year ended 30 June 2009

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

- discontinuance experience, which affects the Group'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 NZ IFRS 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 Group and that revenue can be reliably measured. The principal sources of revenue are interest revenue, insurance premiums, transaction and other fees.

Interest Revenue & 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 group 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 Group 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 has been 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 the Balance Sheet when the service is provided to the member. 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 the Balance Sheet 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 Balance Sheet.

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.

Notes to and forming part of the financial statements continued

For the year ended 30 June 2009

Expense Recognition

All expenses are recognised in the Income Statement on an accruals basis.

b. Valuation of Assets and Liabilities

(i) 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 are classified in one of the following categories at initial recognition:

- Loans and Receivables
- Fair Value Through Profit or Loss
- Held to Maturity
- Available for Sale

Certain of these categories 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.

Loans & 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 (other than Investments in New Zealand Government Stock)

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

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

Liabilities in this category include:

- Deposits Receivable
- Accounts Payable

Fair Value Through Profit Or Loss

Financial assets backing insurance liabilities are measured at fair value with movements recognised in the Income Statement. Interest is recognised on an amortised cost basis in the Income Statement. Fair value movements have been calculated taking this into account. Financial assets classified as fair value through profit or loss include Investments.

Investments in New Zealand Government stock are measured at fair value with movements recognised in the Income Statement. The fair value of Government Stock and other bonds is based on quoted market prices.

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.

Available For Sale

Financial Assets available for sale 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 the Income Statement.

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.

Notes to and forming part of the financial statements continued

For the year ended 30 June 2009

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 Income Statement over the period of borrowing using the effective interest rate method. Interest expense is recognised in the Income Statement using the effective interest method.

Deposits Received

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

(ii) Offsetting Financial Instruments

The Group offsets financial assets and financial liabilities and reports the net balance in the Balance Sheet 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.

(iii) Derivative Financial Instruments

Derivative financial instruments are contracts whose value is derived from changes in one or more underlying financial instruments or indices. The Association enters into interest rate swaps to assist Member Credit Unions with interest rate risk management. The Group does not engage in trading derivatives for speculative purposes. The Group records its interest rate swaps as fair value hedges. 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 measured at their fair value. The movement in the fair value of interest rate swaps is recognised through the Income Statement immediately.

The Group does not undertake any form of hedge accounting.

(iv) Asset Quality

(i) 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.

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 loan receivables 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 members and late payments of interest and penalties.

Increases in the specific and collective allowances are recognised in the Income Statement. 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 the Income Statement.

(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 Group 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 Group's average cost of funds or a loss is not otherwise expected to be incurred.

Notes to and forming part of the financial statements continued

For the year ended 30 June 2009

(iii) Impairment of Assets measured at fair value

The Group assess at each balance date whether there is objective evidence that a financial asset, or group of financial assets is impaired. Any impairment of financial assets measured at fair value through profit or loss will be included as part of the fair value movement for those assets, reflected directly in the Income Statement.

(iv) De-recognition of financial assets

A financial asset is de-recognised when:

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

When the Group 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 Groups continuing involvement in the asset.

(v) Investment in Subsidiaries

Investment in subsidiaries are recognised at the lower of cost or recoverable value. Any impairment is recognised through the Income Statement.

c. Cash and Cash Equivalents

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

d. Accounts Receivable

Other 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 the Income Statement when there is objective evidence that the asset is impaired.

e. 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.

f. 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.

g. 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	18 – 40%
Motor Vehicles	22 – 25%
Office Furniture & Equipment	10 – 33%
Leasehold Improvement Costs	15 – 34%

Notes to and forming part of the financial statements continued

For the year ended 30 June 2009

The asset's residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate at each balance date. Property, Plant & Equipment is reviewed for impairment at least annually and whenever events indicate that the carrying value may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

h. Finite Life Intangible Assets

Finite Life 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 25% - 40% amortisation.

i. Taxation

The Association has not provided for income tax on the basis it is exempt for tax under Section CB4(i)(a) of the Income Tax Act 1994. However other Group entities are subject to taxation.

Income tax on the net profit for the period comprises current and deferred tax. Income tax is recognised in the Income Statement except to the extent that it relates to items recognised directly within equity, in which case it is recognised 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 Group 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 comprehensive balance sheet 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 subsidiaries and associates except where the Group 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 Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

j. Goods and Services Tax

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 the taxation authority 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 Receivable 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 Balance Sheet.

Cashflows, with the exception of deposit cashflows, are included in the Cashflow Statement 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.

Notes to and forming part of the financial statements continued

For the year ended 30 June 2009

k. Insurance Liabilities

The policy liabilities have been determined in accordance with Professional Standard No. 3 of the New Zealand Society of Actuaries.

Premium that has not been recognised in the Income Statement is unearned premium and is recognised in the Balance Sheet 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 the Income Statement.

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.

Non Life including 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.

l. Provisions

Provisions are recognised when the Group 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 sheet 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.

m. 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 Group 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 Balance Sheet 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 Group 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.

n. Employee Entitlements

Provision is made for entitlements accruing to employees in respect of wages and salaries, 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 consolidated entity in respect of services provided by employees up to reporting date.

o. Other Liabilities

Other liabilities are recognised when the Group 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.

Notes to and forming part of the financial statements continued

For the year ended 30 June 2009

p. Statement of Cash Flows

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

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 Group 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.

q. Segment Reporting

A business segment is a group of assets and operations engaged in providing products as services that are subject to risks and returns that are different from those of other business segments.

A geographical segment is engaged in providing products as services in a particular economic environment, where the risks and returns are different from those of other business segments.

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

Inter-segment sales are recorded at amounts equal to competitive market prices charged to external customers for similar goods. Expenses primarily management fees and staff costs are allocated to segments proportionate to time.

r. Comparative Financial Statements

All accounting policies, except for those affected by NZ IFRS, have been applied on bases consistent with prior years.

s. NZ IFRS Accounting Standards not yet Effective

Standards and Interpretations in Issue not yet Adopted

At the date of authorisation of the financial report, a number of Standards and Interpretations were in issue but not yet effective.

Initial application of the following Standards will not affect any of the amounts recognised in the financial report, but will change the presentation and disclosures presently made in relation to the Association's and Group's financial report:

Standard / Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
NZ IFRS-8 'Operating Segments'	1 January 2009	30 June 2010
NZ IAS-1 'Presentation of Financial Statements' – Revised Standard	1 January 2009	30 June 2010
Amendments to NZ IFRS-4 'Insurance Contracts' – The Scope of Insurance Activities and Differential Reporting Concessions	1 January 2009	30 June 2010
IFRIC-15 'Agreements for the Construction of Real Estate'	1 January 2009	30 June 2010
IFRIC-16 'Hedges of a Net Investment in a Foreign Operation'	1 October 2008	30 June 2010
NZ IFRIC 17 'Distributions of Non-Cash Assets to Owners'	1 July 2009	30 June 2010
NZ IFRIC 18 'Transfers of Assets from Customers'	1 July 2009	30 June 2010

Initial application of the following Standards will not affect any of the amounts recognised in the financial report, but will change the presentation and disclosures presently made in relation to the Association's and Group's financial report:

Notes to and forming part of the financial statements continued

For the year ended 30 June 2009

Standard / Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
NZ IAS 23 'Borrowing Costs' – revised 2007	1 January 2009	30 June 2010
Amendments to NZ IFRS-2 'Share-Based Payment' – Vesting Conditions and Cancellations	1 January 2009	30 June 2010
NZ IFRS 3 'Business Combinations' – revised 2008	1 July 2009	30 June 2010
NZ IAS 27 'Consolidated and Separate Financial Statements' – revised 2008	1 July 2009	30 June 2010
Revised Amendments to NZ IAS 32 'Financial Instruments: Presentation' and NZ IAS 1 'Presentation of Financial Statements' – Puttable Financial Instruments and Obligations Arising on Liquidation	1 January 2009	30 June 2010
Improvements to New Zealand Equivalents to International Financial Reporting Standards 2008	Various*	30 June 2010
Amendments to NZ IFRS 1 'First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards' and NZ IAS 27 'Consolidated and Separate Financial Statements' – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	1 January 2009	30 June 2010
Omnibus Amendments (2008)	1 January 2009	30 June 2010
Amendments to NZ IAS 39 'Financial Instruments: Recognition and Measurement' – Eligible Hedged Items	1 July 2009	30 June 2010
Improving Disclosures about Financial Instruments (Amendments to NZ IFRS 7 Financial Instruments: Disclosures)	1 January 2009	30 June 2010
Omnibus Amendments (2009)	1 July 2009	30 June 2010
Improvements to New Zealand Equivalents to International Financial Reporting Standards 2009	**	30 June 2011
Amendments to IFRS 2 'Share-Based Payment' – Group Cash-Settled Share-Based Payment Transactions	1 January 2010	30 June 2011

* The effective date and transitional provisions vary by Standard. Most of the improvements are effective for annual periods beginning on or after 1 January 2009, with earlier adoption permitted, and they are to be applied retrospectively.

**The effective date and transitional provisions vary by Standard. Most of the improvements are effective for annual periods beginning on or after 1 January 2010, with earlier adoption permitted.

2 Interest Revenue

	Group		Association	
	2009	2008	2009	2008
	$000	$000	$000	$000
Government and Other Bond Interest	205	166	962	759
Bank, Money Market Securities, Local Authority and Floating Rate Note Interest	5,328	7,560	5,328	7,560
Gains on Interest Rate Swaps	10	44	10	44
Loan Interest	589	640	-	-
Other Interest	407	488	400	680
Total Interest Revenue	**6,539**	**8,898**	**6,700**	**9,043**

Notes to and forming part of the financial statements continued

For the year ended 30 June 2009

3 Interest Expense

	Group		Association	
	2009	**2008**	**2009**	**2008**
	$000	**$000**	**$000**	**$000**
Interest on Deposits	4,534	6,423	4,813	6,901
Bank Fees and Charges	38	37	38	37
Other Interest	12	10	-	-
Total Interest Expense	4,584	6,470	4,851	6,938
Net Interest Revenue	**1,955**	**2,428**	**1,849**	**2,105**

4 Other Revenue

	Group		Association	
	2009	**2008**	**2009**	**2008**
	$000	**$000**	**$000**	**$000**
Membership Contributions	803	1,053	803	1,053
Loan Fee Revenue	130	235	-	-
Other Revenue	2,209	2,626	1,558	1,881
Total Other Revenue	**3,142**	**3,914**	**2,361**	**2,934**

5 Employee Benefits

	Group		Association	
	2009	**2008**	**2009**	**2008**
	$000	**$000**	**$000**	**$000**
Wages and Salaries	5,213	5,540	3,520	3,575
Other Staff Costs	170	269	143	85
Total Employee Benefits	**5,383**	**5,809**	**3,663**	**3,660**

6 Operating Expenses

	Group		Association	
	2009	**2008**	**2009**	**2008**
	$000	**$000**	**$000**	**$000**
Auditors' Remuneration:				
Audit Services	166	145	57	66
Taxation Services	71	15	-	-
Information System Review	(10)	14	(10)	14
IFRS Review	9	19	9	1
Other Services	2	2	2	2
Other Service Providers - Internal Audit	22	24	13	12
Depreciation:				
Furniture, Fittings, Office Equipment & Vehicles	256	240	197	196
Computer Assets	349	416	237	251
Amortisation of Intangible Assets	1,196	1,182	497	591
Directors' Fees	223	232	156	144
Director's Expenses and Training	218	120	218	112
Leasing Charges	359	631	339	313
(Gain) / Loss on Disposal of Property, Plant & Equipment	6	30	(10)	(1)
Other Operating Expenses	4,205	5,476	3,141	4,048
Total Operating Expenses	**7,072**	**8,546**	**4,846**	**5,749**

Notes to and forming part of the financial statements continued

For the year ended 30 June 2009

7 Insurance Products

Included in the income and expenditure for the Association and the Group are the following underwriting results for Credit Union Insurance and for Pioneer Insurance Company Limited.

	Group		Association	
	2009	**2008**	**2009**	**2008**
	$000	**$000**	**$000**	**$000**
Underwriting Results				
Life Insurance				
Gross Earned Premium	1,436	1,511	1,436	1,511
Net Earned Premium	**1,436**	**1,511**	**1,436**	**1,511**
Gross Claims	1,001	1,008	942	1,008
Net Claims	**1,001**	**1,008**	**942**	**1,008**
Underwriting Result	435	503	494	503
Less Credit Union Rebates	(253)	(227)	(253)	(227)
	182	**276**	**241**	**276**
Other Association Insurance				
Gross Earned Premium	4,027	4,174	4,027	4,174
Net Earned Premium	**4,027**	**4,174**	**4,027**	**4,174**
Gross Claims	2,974	2,161	2,974	2,161
Net Claims	**2,974**	**2,161**	**2,974**	**2,161**
Underwriting Result	1,053	2,013	1,053	2,013
Less Credit Union Rebates	(293)	(1,312)	(293)	(1,312)
	760	**701**	**760**	**701**
Motor Vehicle Insurance				
Gross Earned Premium	8,771	11,360	-	-
Reinsurance Premiums	(194)	(385)	-	-
Net Earned Premium	**8,577**	**10,975**	-	-
Gross Claims	7,426	9,050	-	-
Net Claims	**7,426**	**9,050**	-	-
Underwriting Result	1,151	1,925	-	-
Total Insurance				
Net Earned Premium	14,040	16,660	5,463	5,685
Net Claims	11,401	12,219	3,916	3,169
Credit Union Rebates	546	1,539	546	1,539
Insurance Claims and Rebates	**11,947**	**13,758**	**4,462**	**4,708**

Notes to and forming part of the financial statements continued

For the year ended 30 June 2009

Claims Estimates and Risk Margin

The policy liabilities have been determined by Peter Davies B.Bus Sc., FIA, FNZSA.

The actuary is satisfied as to the accuracy of the data from which the policy liabilities have been determined.

Association Life and Other

The Association's insurance contracts consist of group schemes providing death, disability, redundancy and bankruptcy benefits on a unit rated basis, and a group 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 LOANMINDER (temporary disability, redundancy, and trauma cover products) respectively

> a receivable in respect of premiums due

> a provision for the remaining payments expected to be made on temporary disability, redundancy, and trauma claims that have been notified and remain open.

The IBNR provisions for death, disability, trauma and redundancy 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 3.59% per annum (2008: 6%)

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

Life insurance claims notified but not paid are provided for separately in the Balance Sheet at their face value.

The overall risk margin for outstanding LOANMINDER claims has been assessed and applied at 10%, which gives a likelihood of sufficiency of 75% (2008 10% and 75%).

Motor Vehicle Insurance

The 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, IBNR, and claims closed that may be reopened.

The estimation of the outstanding claims liability is based on actual historical average costs for each accident type. The estimation of the claims reported but not yet paid in full is made by multiplying the number of outstanding claims in each accident category by historical averages for those categories and deducting costs paid to date. A further 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.

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 actuary has recommended a risk margin of 4% (2008: 5%), which provides a likelihood of sufficiency of 75%.

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.

Notes to and forming part of the financial statements continued

For the year ended 30 June 2009

	Group		Association	
	2009	2008	2009	2008
	$000	$000	$000	$000
Outstanding Claims Liability				
Life Insurance				
Opening Claims Liability	127	135	127	135
Claims Expense	942	1,008	942	1,008
Claims Paid	(884)	(1,016)	(884)	(1,016)
Closing Claims Liability	**185**	**127**	**185**	**127**
Other Association Insurance				
Opening Claims Liability	1,983	1,836	1,983	1,836
Claims Expense	2,974	1,377	2,974	1,377
Claims Paid	(2,720)	(1,230)	(2,720)	(1,230)
Closing Claims Liability	**2,237**	**1,983**	**2,237**	**1,983**
Motor Vehicle Insurance				
Opening Claims Liability	2,252	2,367	-	-
Claims Expense	8,032	10,014	-	-
Claims Paid	(9,214)	(10,129)	-	-
Closing Gross Claims Liability	**1,070**	**2,252**	**-**	**-**
Motor Vehicle Expected Recoveries Receivable				
Opening Expected Recoveries	951	970	-	-
Increase In Expected Recoveries	1,387	1,649	-	-
Actual Third Party Recoveries Received	(1,591)	(1,668)	-	-
Closing Expected Recoveries	**747**	**951**	**-**	**-**
Motor Vehicle Insurance	**323**	**1,301**	**-**	**-**

Expected Recoveries Receivable is calculated by discounting the Recoveries Debtors 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 Recoveries Debtors 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.

At balance date a percentage of the Outstanding Claims Liability is added to the Expected Recoveries Receivable. The percentage is based on historical monies recovered against claims paid.

As at 30 June 2009 there was one outstanding claim lodged with the reinsurer for a sum of $26,025 (2008: Nil), therefore Expected Recovereries Receivable as at balance date consists of third party debtors and the reinsurance claim.

Outstanding claims are reported in the Balance Sheet as Life Insurance Liability, Other Association Insurance Liability and Motor Vehicle Insurance Liability.

The average expected term to settlement of Other Association Insurance outstanding claims as at 30 June 2009 was approximately 7.7 months (2008: 6 months). The average expected term to settlement of Motor Vehicle Insurance outstanding claims was approximately 35 days (2008: 35 days).

Notes to and forming part of the financial statements continued

For the year ended 30 June 2009

	Group		Association	
	2009	**2008**	**2009**	**2008**
	$000	**$000**	**$000**	**$000**
Composition of Outstanding Claims Liability				
Life Insurance:				
Outstanding Claims	60	2	60	2
IBNR	125	125	125	125
Closing Claims Liability	**185**	**127**	**185**	**127**
Other Association Insurance:				
Outstanding Claims	1,841	1,644	1,841	1,644
IBNR	157	166	157	166
Risk Margin	239	173	239	173
Closing Claims Liability	**2,237**	**1,983**	**2,237**	**1,983**
Motor Vehicle Insurance:				
Outstanding Claims	744	1,509	-	-
Risk Margin	30	75	-	-
Indirect Claims Management	131	301	-	-
IBNR	165	367	-	-
Closing Gross Claims Liability	1,070	2,252	-	-
Closing Expected Recoveries	(747)	(951)	-	-
Motor Vehicle Insurance	**323**	**1,301**	**-**	**-**

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 affects 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 Group 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 Association's insurance products 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.

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 Group restricts its lines of business primarily to group unit rated consumer credit insurance (Life and LOANMINDER), 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 Group

> **pricing** – the primary lines of business are backed by between five and nine years of historical underwriting results. This enables the Group's underwriters to calculate acceptable pricing and terms of cover

> **reinsurance** – the Association does not maintain reinsurance cover as its historical underwriting surpluses and its capital adequacy reserving 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. Pioneer Insurance Company Limited has a reinsurance programme structured to adequately protect the company's solvency and capital position. It covers third party property damage and own damage catastrophe single event protection. Through reinsurance the company has been able to cap its maximum liability in the event of an accident to $100,000. This amount is well within the company's reserves. The company's reinsurer is Munich Re which has a credit rating of "A"

Notes to and forming part of the financial statements continued

For the year ended 30 June 2009

- **claims management** – claims are handled in-house by the Group's own claims departments. Staff are allocated settling limits and authorities commensurate with their levels of experience. These authority limits are reviewed regularly. Overall authority and claims management in the case of the Association's insurance contracts is provided by the Manager CUI who has over twenty years experience in the industry. In the case of Pioneer Insurance Company Limited this authority is delegated to the company's Claims Manager who has many years experience in claims management. Claims files are regularly audited on a random basis
- **investment management** – other than Government Stock investment, all premium income is held in bank accounts and short term deposits with the Association
- **geographical spread** – the Group 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

Almost all the Group's insurance contracts written are entered into on a standard form and on a monthly 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 Balance Sheet. These amounts best represent the maximum credit risk exposure at reporting date. The Association's credit risk exposure on its insurance contracts relates exclusively to Credit Unions. Refer Note 13. The credit risk relating to Pioneer Insurance Company Limited's motor vehicle insurance contracts relates primarily to premium receivable which is due from policyholders and intermediaries (Credit Unions, brokers and others). The brokers collect premium from policyholders and remit the monies in accordance with contractual arrangements, being held in a trust account and paid within 90 days. Broker introduced business terminated in the year to 30 June 2009. Other resellers of insurance are required to remit premium receivables within 14 days or by the 20th of the following month.

Interest Rate Risk

The underwriting of the disability component of the LOANMINDER 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 creates no exposure to the risk that interest rate movements may impact the vale 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.

Insurance Rating

The Association does not have a credit rating. Pioneer Insurance Company Limited has a Financial Strength rating of "B" Fair issued by AM Best.

Notes to and forming part of the financial statements continued

For the year ended 30 June 2009

8 Impairment

	Group		Association	
	2009	**2008**	**2009**	**2008**
	$000	**$000**	**$000**	**$000**
Movement in Provisions in Respect of:				
Investment Bonds	-	-	8,042	3,106
Loans Receivable	744	1,775	-	-
Goodwill	3,994	-	-	-
Advances to other Parties	24	70	24	70
Cancellation of Insurance Policies	-	10	-	-
	4,762	**1,855**	**8,066**	**3,176**
Amounts Written off in Respect of:				
Loans Receivable	-	30	-	-
Intangibles (Computer Software)	602	-	-	-
Impairment Expense	**5,364**	**1,885**	**8,066**	**3,176**

Refer to notes 14–16 for further information.

9 Taxation

	Group		Association	
	2009	**2008**	**2009**	**2008**
	$000	**$000**	**$000**	**$000**
Surplus / (Deficit) before Taxation	**(5,137)**	**(1,826)**	**(5,979)**	**(1,372)**
Income Tax at Current Rate of 30%	(1,541)	(603)	(1,794)	(453)
Exempt Income	580	(572)	1,794	453
Non Deductible Expenses	262	104	-	-
Effect of Changes in Tax Rates	-	(167)	-	-
Movement in Temporary Differences (not recognised)	33	281	-	-
Prior Period Adjustments	266			
Tax Losses (not recognised)	400	790	-	-
Other	110	-	-	-
Effect of Changes in Tax Rates (not recognised)	-	167	-	-
Taxation Expense	**110**	**-**	**-**	**-**
Unrecognised Deferred Tax Balances				
The following net deferred tax assets have not been recognised:				
Tax Losses	1294	826	-	-
Temporary Differences	820	853	-	-
	2,114	**1,679**	**-**	**-**

Taxation losses incurred in subsidiary entities have not been recognised because there is not sufficient probability of taxation profits in the proceeding year to offset such losses.

Notes to and forming part of the financial statements continued

For the year ended 30 June 2009

Unrecognised timing differences are comprised as follows:

Group

	Opening Balance $000	Charged to Income $000	Closing Balance $000
Deferred Tax Assets:			
Tax Losses	826	468	1294
Provisions	498	(528)	(30)
Impairment Losses	533	222	755
	1,857	**162**	**2,019**
Deferred Tax Liabilities:			
Property, Plant and Equipment	(21)	56	35
Intangible Assets	(157)	217	60
	(178)	**273**	**95**
	1,679	**435**	**2,114**

10 Base Capital Notes

	Group and Association		Group and Association	
	2009	**2008**	**2009**	**2008**
	Quantity	**Quantity**	**$000**	**$000**
Issue I	25	30	250	300
Issue II	12,908,379	9,432,584	12,908	9,433
Issue III	-	3,285,000	-	3,285
	12,908,404	**12,717,614**	**13,158**	**13,018**

The Rules of the Association provide for the creation of the NZACU 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.

	Group and Association		Group and Association	
	2009	**2008**	**2009**	**2008**
	Quantity	**Quantity**	**$000**	**$000**
Issue I				
Balance at 1 July	30	40	300	400
Notes Redeemed by Transfer to Base Capital Notes II	(5)	(10)	(50)	(100)
Balance at 30 June	**25**	**30**	**250**	**300**

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 One.*

Notes to and forming part of the financial statements continued

For the year ended 30 June 2009

	Group and Association		Group and Association	
	2009	2008	2009	2008
	Quantity	Quantity	$000	$000
Issue II				
Balance at 1 July	9,432,584	9,062,548	9,433	9,063
Notes Issued:				
For Capitalisation of Dividends and Rebates	140,795	270,036	140	270
By Transfer from Base Capital Notes	50,000	100,000	50	100
By Transfer from Base Capital Notes III	3,285,000	-	3,285	-
Balance at 30 June	**12,908,379**	**9,432,584**	**12,908**	**9,433**

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

	Group and Association		Group and Association	
	2009	2008	2009	2008
	Quantity	Quantity	$000	$000
Issue III				
Balance at 1 July	3,285,000	-	3,285	-
Notes Issued for Raising of Capital		3,285,000	-	3,285
By Transfer to Base Capital Notes II	(3,285,000)	-	(3,285)	-
Balance at 30 June	**-**	**3,285,000**	**-**	**3,285**

Base Capital Notes Issue III have a face value of $1 and were issued to fund the activities of the CU Group Trust.

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 Reserves

	Group		Association	
	2009	2008	2009	2008
	$000	$000	$000	$000
Stabilisation Fund Reserve				
Balance at 1 July	970	809	970	809
Transferred from Retained Earnings	60	161	60	161
Balance at 30 June	1,030	970	1,030	970
Total Reserves	**1,030**	**970**	**1,030**	**970**

Under the Rules of the Association, the Stabilisation Fund is operated as a separate self administered fund within the Association, under the control of Stabilisation Managers. Refer to Note 37.

Notes to and forming part of the financial statements continued

For the year ended 30 June 2009

12 Retained Earnings

	Group		Association	
	2009	2008	2009	2008
	$000	$000	$000	$000
Balance at 1 July	(582)	2,825	371	3,324
Operating Surplus / (Deficit)	(5,247)	(1,826)	(5,979)	(1,372)
Transferred to Stabilisation Fund Reserve	(60)	(161)	(60)	(161)
	(5,889)	**838**	**(5,668)**	**1,791**
Base Capital Note Dividends	(477)	(1,420)	(477)	(1,420)
Balance at 30 June	(6,366)	(582)	(6,145)	371
Total Retained Earnings / (Deficits)	**(6,366)**	**(582)**	**(6,145)**	**371**

The net surpluses / (deficits) for the years ended 30 June 2009 and 30 June 2008 have been transferred to Retained Earnings.

The portions of the operating results for the years ended 30 June 2009 and 30 June 2008 that relate to the operations of the Stabilisation Fund have been transferred from Retained Earnings to the Stabilisation Fund Reserve.

	Group		Association	
	2009	2008	2009	2008
	$000	$000	$000	$000
Member Services Division	1,591	1,860	1,591	1,860
Business Services Division	(7,957)	(2,442)	(7,736)	(1,489)
	(6,366)	**(582)**	**(6,145)**	**371**

Member Services Division Retained Earnings at 30 June 2009 includes the Retained Earnings of the New Zealand Credit Union Foundation of $94,000 (30 June 2008 $88,000). Refer to Note 38.

13 Cash and Cash Equivalents

	Group		Association	
	2009	2008	2009	2008
	$000	$000	$000	$000
Cash at Bank	1,569	1,771	1,569	1,763
Bank Call Deposits	7,500	5,501	7,500	5,501
	9,069	**7,272**	**9,069**	**7,264**

Notes to and forming part of the financial statements continued

For the year ended 30 June 2009

14 Accounts Receivable

	Group		Association	
	2009	**2008**	**2009**	**2008**
	$000	**$000**	**$000**	**$000**
Trade Receivables	2,097	1,778	2,070	1,775
Receivable from Subsidiaries	-	-	67	54
Future Funded Premiums	1,243	2,959	-	-
	3,340	**4,737**	**2,137**	**1,829**
Insurance Premiums Due	713	1,166	463	487
Provision for Cancellation	(13)	(95)	-	-
	700	**1,071**	**463**	**487**
Total Carrying Amount	**4,040**	**5,808**	**2,600**	**2,316**
Provision for Cancellation				
Collective Provision Against Insurance Premiums Due				
Balance at Beginning of the Year	95	-	-	-
Acquisition through Business Combination	-	85	-	-
Movement in Provision	(82)	10	-	-
Balance at End of the Year	**13**	**95**	**-**	**-**
Past Due Receivables Not Impaired				
Trade Receivables	14	89	6	77
Insurance Premiums Due	10	72	10	18
Total Past Due Receivables Not Impaired	**24**	**161**	**16**	**95**
Aging of Past Due Receivables Not Impaired				
Past Due 1–30 days	15	106	7	75
Past Due 31–90 days	3	43	3	18
Past Due over 90 days	6	12	6	2
Balance at End of the Year	**24**	**161**	**16**	**95**

In respect of the Association, Trade Receivables and Insurance Premiums are due almost exclusively from Member Credit Unions. There is no Provision for Bad Debts (2008: $Nil) and there has been no write off (2008: $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 Group, there is a provision for cancellation of $12,000 for outstanding insurance premiums relating to policies issued by Pioneer Insurance Company Limited (2008: $95,000).

Refer also to Note 32 for Related Party Disclosures.

Notes to and forming part of the financial statements continued

For the year ended 30 June 2009

15 Investments

	Group		Association	
	2009	2008	2009	2008
	$000	$000	$000	$000
Bank Deposits	18,719	7,680	18,719	7,680
Advances to Subsidiaries	-	-	54	3,632
Money Market Securities	42,805	62,566	42,805	62,566
Government Stock	1,586	2,013	1,057	997
Floating Rate Notes	5,919	6,197	5,919	6,197
Other Investments	-	1,367	-	1,367
	69,029	**79,823**	**68,554**	**82,439**
Investment Bonds	-	-	18,549	14,645
Provision for Credit Impairment	-	-	(11,147)	(3,106)
	-	**-**	**7,402**	**11,539**
Advances to Other Parties	162	279	162	279
Provision for Credit Impairment	(94)	(70)	(94)	(70)
	68	**209**	**68**	**209**
Total Carrying Amount	**69,097**	**80,032**	**76,024**	**94,187**

Testing for impairment on the investment bonds held in the CU Group Trust has been undertaken on the value in use basis applied to the individual cash generating units in which the CU Group Trust invests. A provision for credit impairment of $11,147,000 (2008: $3,106,000) has been made in respect of the underlying investments in PlatinumDirect Limited and Pioneer Insurance Company Limited. The provision in respect of PlatinumDirect Limited has been calculated using cash flow forecasts of principal and interest sums estimated to be recovered from the loan investments. Key assumptions in the cash flow forecasts are the sufficiency of the specific and collective provisions for losses on loans and the timing of receipts.

The specific provision has been calculated based on a full analysis of the loan book and the formulation of individual workout plans for all the larger loan exposures. The provision has been estimated with reference to the underlying security and the borrower's assessed capacity to repay the debt. The collective provision is based on a model which applies a formula combining the assessed probability of default and the assessed realisation outcome to the amounts outstanding under the contracts. The model generates a provision directly proportional to the customer's history of performance. Timing of receipts under the contracts has been individually assessed by customer. The assessment has been based on the customer's performance to date under the contracts, a considered view of market conditions and the contracted cash flows. The cash flows have been discounted at a weighted average cost of capital of 12%.

The provision in respect of Pioneer Insurance Company Limited has been calculated based on detailed cashflow forecasts for the four years to 30 June 2013. Key assumptions in this forecast are sales growth (assumed to be nil), and loss ratio of 62.5%.

A provision for credit impairment of $94,000 (2008: $70,000) has been made against advances to other parties associated with the former shareholders of Pioneer Insurance Company Limited. The provision is for the full extent of the amount booked in these accounts at balance date. The Association is seeking to enforce its rights of action against the guarantors of this advance. The provision makes no allowance for any possible recoveries under the guarantees.

All investments are measured at amortised cost less impairment, with the exception of Government Stock which is measured at fair value through profit or loss.

Refer also to note 32 for Related Party Disclosures.

Notes to and forming part of the financial statements continued

For the year ended 30 June 2009

16 Loans Receivable

	Group		Association	
	2009	**2008**	**2009**	**2008**
	$000	**$000**	**$000**	**$000**
Gross Loans Receivable	5,187	6,205	-	-
Provision for Credit Impairment	(2,521)	(1,775)	-	-
Total Carrying Amount	**2,666**	**4,430**	**-**	**-**
Provision for Credit Impairment				
Individually Impaired Loans				
Balance at Beginning of the Year	835	-	-	-
New Provisions During the Year	610	865	-	-
Amounts Written Off	-	(30)	-	-
Balance at End of the Year	**1,445**	**835**	**-**	**-**
Collective Provision Against Loans				
Balance at Beginning of the Year	940	-	-	-
New Provisions During the Year	136	940	-	-
Balance at End of the Year	**1,076**	**940**	**-**	**-**
Total Provision for Credit Impairment	**2,521**	**1,775**	**-**	**-**
Aging of Individually Impaired Loans				
Past Due 0–30 days	170	160	-	-
Past Due 31–90 days	43	744	-	-
Past Due over 90 days	1,766	451	-	-
Balance at End of the Year	**1,979**	**1,355**	**-**	**-**
Aging of Past Due but not Individually Impaired Loans				
Past Due 0-30 days	144	1,252	-	-
Past Due 31-90 days	384	52	-	-
Past Due over 90 days	537	346	-	-
Balance at End of the Year	**1,065**	**1,650**	**-**	**-**

Loans were all written on a secured basis. In most instances security was taken over residential property, typically second mortgage security. In the case of business lending, multiple securities were taken whenever possible so that these loans may be secured by a mix of specific security over plant and equipment, a general security over the assets of the borrowing entity and / or residential mortgage security as noted above.

At balance date there were eight restructured loans with a combined face value of $481,922 (2008: one restructured loan $20,000), against which there is a collective provision of $240,961, being 50% of the face value (2008: specific provision of $11,000).

There were no assets acquired through enforcement of security.

17 Prepayments

	Group		Association	
	2009	**2008**	**2009**	**2008**
	$000	**$000**	**$000**	**$000**
Deferred Commission				
Deferred Commission Costs	335	786	-	-
Commission Costs Paid	661	957	-	-
Commission Costs Released	(818)	(1,408)	-	-
Closing Deferred Commission Costs	178	335	-	-
Other Prepayments	266	196	260	186
	444	**531**	**260**	**186**

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.

Notes to and forming part of the financial statements continued

For the year ended 30 June 2009

18 Inventory

	Group		Association	
	2009	2008	2009	2008
	$000	$000	$000	$000
ATM Machines and Parts	114	202	114	202
Promotional and other Items	38	51	38	51
	152	**253**	**152**	**253**

The cost of inventories recognised as an expense during the year was $237,000 (2008: $707,000).

19 Derivative Financial Assets

	Group		Association	
	2009	2008	2009	2008
	$000	$000	$000	$000
Interest Rate Swaps – Registered Bank Counterparties	2,107	128	2,107	128

Interest rate swaps are held for trading and are accordingly valued at fair value with any gains or losses flowing through profit or loss.

20 Property, Plant & Equipment

	Group		Association	
	2009	2008	2009	2008
	$000	$000	$000	$000
Furniture, Fittings, Office Equipment and Vehicles				
Opening Cost at 1 July	1,401	1,159	1,199	1,115
Additions	105	308	68	201
Acquisitions through Business Combinations	-	68	-	-
Reclassification of Assets	71	-	-	-
Disposals	(154)	(134)	(52)	(117)
Closing Cost at 30 June	**1,423**	**1,401**	**1,215**	**1,199**
Opening Accumulated Depreciation at 1 July	650	481	607	480
Depreciation Expense	256	240	197	196
Acquisitions through Business Combinations	-	4	-	-
Reclassification of Assets	26	-	-	-
Disposals	(70)	(75)	(36)	(69)
Closing Accumulated Depreciation at 30 June	**862**	**650**	**768**	**607**
Net Book Value at 30 June	**561**	**751**	**447**	**592**
Computer Assets				
Opening Cost at 1 July	2,549	1,791	1,820	1,776
Additions	487	257	471	67
Acquisitions through Business Combinations	-	543	-	-
Reclassification of Assets	(74)	-	-	-
Disposals	(686)	(42)	(674)	(23)
Closing Cost at 30 June	**2,276**	**2,549**	**1,617**	**1,820**
Opening Accumulated Depreciation at 1 July	2,081	1,417	1,641	1,413
Depreciation Expense	349	416	236	251
Acquisitions through Business Combinations	-	279	-	-
Reclassification of Assets	(15)	-	-	-
Disposals	(701)	(31)	(674)	(23)
Closing Accumulated Depreciation at 30 June	**1,714**	**2,081**	**1,203**	**1,641**
Net Book Value at 30 June	**562**	**468**	**414**	**179**
Carrying Amount at 30 June	**1,123**	**1,219**	**861**	**771**

Notes to and forming part of the financial statements continued

For the year ended 30 June 2009

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

21 Goodwill

	Group		Association	
	2009	2008	2009	2008
	$000	$000	$000	$000
Gross Carrying Amount				
Opening Balance at 1 July	3,994	-	-	-
Additional Amounts Recognised from Business Combinations Occurring during the Year	-	3,994	-	-
Goodwill Written off	(3,994)	-	-	-
Closing Balance at 30 June	-	3,994	-	-
Net Carrying Amount	**-**	**3,994**	**-**	**-**

Allocation of Goodwill to Cash Generating Units

Testing for impairment on the goodwill, resulting from the acquisition of Pioneer Insurance Company Limited, was undertaken on the value in use basis, using the Company's four year budget. Cash flows have been discounted at 15%. Key assumptions in the cash flow projections are shown in Note 15.

22 Other Intangible Assets

	Group		Association	
	2009	2008	2009	2008
	$000	$000	$000	$000
Computer Software				
Opening Cost at 1 July	6,701	2,865	3,606	2,865
Additions	640	1,043	321	741
Disposals	(652)	-	(652)	-
Acquisitions through Business Combinations	-	2,793	-	-
Reclassification of Assets	4	-	-	-
Intangibles Written off (refer also to Note 8)	(602)	-	-	-
Closing Cost at 30 June	**6,091**	**6,701**	**3,275**	**3,606**
Opening Accumulated Amortisation at 1 July	3,817	2,353	2,944	2,353
Amortisation Expense	1,196	1,182	497	591
Disposals	(652)	-	(652)	-
Acquisitions through Business Combinations	-	282	-	-
Reclassification of Assets	1	-	-	-
Closing Accumulated Amortisation at 30 June	**4,362**	**3,817**	**2,789**	**2,944**
Net Book Value at 30 June	**1,729**	**2,884**	**486**	**662**

Notes to and forming part of the financial statements continued

For the year ended 30 June 2009

23 Deposits Received

	Group		Association	
	2009	**2008**	**2009**	**2008**
	$000	**$000**	**$000**	**$000**
Deposits from Credit Unions	71,085	79,102	71,085	79,102
Deposits from Subsidiaries	261	-	4,800	6,038
Deposits from Other Parties	793	850	793	850
	72,139	**79,952**	**76,678**	**85,990**

Deposits are primarily accepted on an unsecured basis. Average interest rates, repricing terms and duration are as shown in Note 30.

24 Accounts Payable

	Group		Association	
	2009	**2008**	**2009**	**2008**
	$000	**$000**	**$000**	**$000**
Trade Payables	788	939	768	832
Credit Union Rebates	669	1,656	669	1,656
Accrued Expenses	592	402	423	249
Reinsurance Accruals	626	433	-	-
GST Payable / (Receivable)	(36)	104	97	94
	2,639	**3,534**	**1,957**	**2,831**

25 Unearned Premium Liability

	Group		Association	
	2009	**2008**	**2009**	**2008**
	$000	**$000**	**$000**	**$000**
Opening Balance	5,498	6,437	-	-
Gross Written Premium	10,635	14,701	-	-
Premium Cancelled	(4,833)	(4,104)	-	-
Earnings Released	(8,770)	(11,536)	-	-
Closing Unearned Premium Liability	**2,530**	**5,498**	**-**	**-**

The company's 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 in respect of in-force policies is approximately 3% lower than the unearned premium liability (June 2008:6%). Accordingly there is no need to recognise any deficiency in the unearned premium liability.

26 Provisions

	Group		Association	
	2009	**2008**	**2009**	**2008**
	$000	**$000**	**$000**	**$000**
Employee Entitlements	495	553	402	413
Onerous Lease	-	124	-	-
	495	**677**	**402**	**413**

Notes to and forming part of the financial statements continued

For the year ended 30 June 2009

27 Leases

Group

	Minimum Future Lease Payments		Present Value of Minimum Future Lease Payments	
	2009 $000	2008 $000	2009 $000	2008 $000
Finance Lease Liabilities				
Lease Liabilities are Payable:				
Not Later than 1 Year	-	31	-	29
Minimum Future Lease Payments	-	31	-	29
Less Future Finance Charges	-	(2)	-	-
Present Value of Minimum Lease Payments	**-**	**29**	**-**	**29**

Association

	Minimum Future Lease Payments		Present Value of Minimum Future Lease Payments	
	2009 $000	2008 $000	2009 $000	2008 $000
Finance Lease Liabilities				
Lease Liabilities are Payable:				
Not Later than 1 Year	-	22	-	20
Minimum Future Lease Payments	-	**22**	-	**20**
Less Future Finance Charges	-	(2)	-	-
Present Value of Minimum Lease Payments	**-**	**20**	**-**	**20**

Finance leases relate mainly to motor vehicles.

	Group		Association	
	2009 $000	2008 $000	2009 $000	2008 $000
Non Cancellable Operating Lease Payments				
Lease Liabilities are Payable:				
Not Later than 1 Year	401	197	305	54
Later than 1 Year and not Later than 2 Years	353	139	305	-
Later than 2 Years and not Later than 5 Years	355	81	355	-
	1,109	**417**	**965**	**54**

	Group		Association	
	2009 $000	2008 $000	2009 $000	2008 $000
Non Cancellable Operating Lease Receivables				
Lease Liabilities are Payable:				
Not Later than 1 Year	78	-	42	-
Later than 1 Year and not Later than 2 Years	72	-	42	-
Later than 2 Years and not Later than 5 Years	49	-	49	-
	199	**-**	**133**	**-**

Operating leases relate to the leasing of office space.

Notes to and forming part of the financial statements continued

For the year ended 30 June 2009

28 Derivative Financial Liabilities

	Group		Association	
	2009	**2008**	**2009**	**2008**
	$000	**$000**	**$000**	**$000**
Interest Rate Swaps – Credit Union Counterparties	2,057	44	2,057	44

Interest rate swaps are held for trading and are accordingly valued at fair value with any gains or losses flowing through profit or loss.

29 Segmental Analysis

Business Segment Analysis

For management purposes, the Group is organised into 5 business units:

> **Business Services Division**
> The Business Services Division provides a full range of financial and bureau services to its Member Credit Unions.

> **Member Services Division**
> The Member Services Division provides trade association services to its Member Credit Unions.

> **PlatinumDirect Limited**
> PlatinumDirect Limited is a subsidiary company which provides financial services, mainly through residential lending secured by mortgage and business lending secured by various instruments.

> **Pioneer Insurance Company Limited**
> Pioneer Insurance Company Limited is a subsidiary company which provides motor vehicle insurance underwriting services to Credit Unions and other customers.

> **Other Entities**
> Other Entities comprise the subsidiary entities CU Group Trust, FACTS Limited and NZCU Finance Limited.

Notes to and forming part of the financial statements continued

For the year ended 30 June 2009

Group

	Business Services Division $000	Member Services Division $000	Platinum Direct Limited $000	Pioneer Insurance Company Limited $000	Other Entities $000	Inter Entity Adjustments $000	Total $000
At 30 June 2009							
Revenue from Sales with other Segments	1,460	-	1	724	780	(2,965)	-
Revenue from External Customers	25,196	1,592	718	9,788	258	-	37,552
Total Income before Interest Expense	26,656	1,592	719	10,512	1,038	(2,965)	**37,552**
Net Surplus / (Loss) before Tax	(5,770)	(209)	(608)	(2,592)	(5)	4,047	**(5,137)**
Total Assets	91,115	444	2,714	8,114	15,034	(26,994)	**90,427**
Total Liabilities	83,280	236	2,670	4,371	15,158	(23,110)	**82,605**
Other Segment Items:							
Acquisition of Property, Plant and Equipment	539	-	-	64	-	-	**603**
Acquisition of Intangible Assets	322	-	-	318	-	-	**640**
Depreciation Expense – Property, Plant and Equipment	424	11	1	169	-	-	**605**
Amortisation Expense – Software	497	-	-	700	-	-	**1,197**
Impairment Expense	4,721	-	42	601	-	-	**5,364**

	Business Services Division $000	Member Services Division $000	Platinum Direct Limited $000	Pioneer Insurance Company Limited $000	Other Entities $000	Inter Entity Adjustments $000	Total $000
At 30 June 2008							
Revenue from Sales with other Segments	1,503	-	6	928	670	(3,107)	-
Revenue from External Customers	28,082	2,085	875	12,183	241	-	**43,466**
Total Income before Interest Expense	29,585	2,085	881	13,111	911	(3,107)	**43,466**
Net Surplus / (Loss) before Tax	(1,436)	64	(2,603)	(859)	(98)	3,106	**(1,826)**
Total Assets	105,499	268	833	13,624	12,851	(26,524)	**106,551**
Total Liabilities	91,283	125	180	8,178	12,112	(18,733)	**93,145**
Other Segment Items:							
Acquisition of Property, Plant and Equipment	230	35	14	323	-	(37)	**565**
Acquisition of Intangible Assets	741	-	-	302	-	-	**1,043**
Depreciation Expense – Property, Plant and Equipment	436	15	13	192	-	-	**656**
Amortisation Expense – Software	591	-	-	591	-	-	**1,182**
Impairment Expense	3,176	-	1,805	10	-	(3,106)	**1,885**

Geographical Segment Analysis

The Group operates solely in New Zealand and therefore no geographical segment information is provided.

Notes to and forming part of the financial statements continued

For the year ended 30 June 2009

30 Financial Instruments

Financial Risk Management Objectives

The Association's Accounting and Central Banking departments provide services to the Group 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 Group companies and to the NZACU Board in relation to financial risks relating to the operations of the Group. 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. The Association reviews the activity of its Central Banking department by a Treasury Committee which meets on a regular basis. Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis. The Group does not enter into or trade financial instruments for speculative purposes.

Capital Risk Management

Capital management refers to the management of Total Equity / (Members Funds) as shown on the face of the Balance Sheet.

The Group manages its capital resources to ensure that entities in the Group will be able to withstand the assessed business and financial risks appropriate to their operation. In the case of group subsidiaries 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 the Association 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 registered banks as set by the Reserve Bank of New Zealand, market norms as advised by the Association's actuary, and estimated replacement cost.

The Group 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.

Significant Accounting Policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised are disclosed in note 1 to the financial statements.

Interest Rate Risk Management

Interest rate risk is the risk of loss to the Association 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. The Association 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 Group's profit for the year ended 30 June 2009 would increase / decrease by $32,000 (2008: increase / decrease by $56,000).

If interest rates had been 100 basis points higher / lower and all other variables were held constant, the Association's profit for the year ended 30 June 2009 would increase / decrease by $54,500 (2008: increase / decrease by $132,000).

Notes to and forming part of the financial statements continued

For the year ended 30 June 2009

Interest Rate Repricing

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

Group

At 30 June 2009	Average Interest Rate	Less than 3 months $000	3 months to 1 year $000	1–5 years $000	Non Interest Sensitive $000	Group Total $000
Assets						
Cash and Cash Equivalents	2.41%	9,069	-	-	-	**9,069**
Accounts Receivable	-	-	-	-	4,040	**4,040**
Investments	3.67%	64,130	3,385	-	1,582	**69,097**
Loans Receivable	12.67%	146	383	2,137	-	**2,666**
Derivative Financial Assets	-	-	-	-	2,107	**2,107**
		73,345	3,768	2,137	7,729	**86,979**
Liabilities and Members Funds						
Deposits Received	3.50%	70,713	1,426	-	-	**72,139**
Accounts Payable	-	-	-	-	2,639	**2,639**
Derivative Financial Liabilities	-	-	-	-	2,057	**2,057**
		70,713	1,426	-	4,696	**76,835**
On Balance Sheet Interest Sensitivity Gap – 30 June 2009		**2,632**	**2,342**	**2,137**	**3,033**	**10,144**

Association

At 30 June 2009	Average Interest Rate	Less than 3 months $000	3 months to 1 year $000	1–5 years $000	Non Interest Sensitive $000	Group Total $000
Assets						
Cash and Cash Equivalents	2.41%	9,069	-	-	-	**9,069**
Accounts Receivable	-	-	-	-	2,600	**2,600**
Investments	4.02%	71,582	3,385	-	1,057	**76,024**
Derivative Financial Assets	-	-	-	-	2,107	**2,107**
		80,651	3,385	-	5,764	**89,800**
Liabilities and Members Funds						
Deposits Received	3.15%	75,252	1,426	-	-	**76,678**
Accounts Payable	-	-	-	-	1,957	**1,957**
Derivative Financial Liabilities	-	-	-	-	2,057	**2,057**
		75,252	1,426	-	4,014	**80,692**
On Balance Sheet Interest Sensitivity Gap – 30 June 2009		**5,399**	**1,959**	**-**	**1,750**	**9,108**

Notes to and forming part of the financial statements continued

For the year ended 30 June 2009

Group

At 30 June 2008	Average Interest Rate	Less than 3 months $000	3 months to 1 year $000	1–5 years $000	Non Interest Sensitive $000	Group Total $000
Assets						
Cash and Cash Equivalents	8.13%	7,272	-	-	-	**7,272**
Accounts Receivable	-	-	-	-	5,808	**5,808**
Investments	9.06%	76,123	1,897	2,012	-	**80,032**
Loans Receivable	15.84%	520	614	3,296	-	**4,430**
Derivative Financial Assets	-	-	-	-	128	**128**
		83,915	2,511	5,308	5,936	**97,670**
Liabilities and Members Funds						
Deposits Received	8.05%	77,765	2,187	-	-	**79,952**
Accounts Payable	-	-	-	-	3,534	**3,534**
Finance Lease Liabilities	-	-	-	-	29	**29**
Derivative Financial Liabilities	-	-	-	-	44	**44**
		77,765	2,187	-	3,607	**83,559**
On Balance Sheet Interest Sensitivity Gap – 30 June 2008		**6,150**	**324**	**5,308**	**2,329**	**14,111**

Association

At 30 June 2008	Average Interest Rate	Less than 3 months $000	3 months to 1 year $000	1–5 years $000	Non Interest Sensitive $000	Group Total $000
Assets						
Cash and Cash Equivalents	8.13%	7,264	-	-	-	**7,264**
Accounts Receivable	-	-	-	-	2,316	**2,316**
Investments	9.06%	91,293	1,897	997	-	**94,187**
Derivative Financial Assets	-	-	-	-	128	**128**
		98,557	1,897	997	2,444	**103,895**
Liabilities and Members Funds						
Deposits Received	8.05%	83,803	2,187	-	-	**85,990**
Accounts Payable	-	-	-	-	2,831	**2,831**
Finance Lease Liabilities	-	-	-	-	20	**20**
Derivative Financial Liabilities	-	-	-	-	44	**44**
		83,803	2,187	-	2,895	**88,885**
On Balance Sheet Interest Sensitivity Gap – 30 June 2008		**14,754**	**(290)**	**997**	**(451)**	**15,010**

Notes to and forming part of the financial statements continued

For the year ended 30 June 2009

Interest Rate Swap Contracts

The Association offers an interest rate swap facility to Credit Unions. It is the Association's policy to economically hedge this risk as it arises by entering into back to back matching transactions with Registered Bank counterparties.

The following tables detail the notional principal amounts and remaining terms of interest rate swap contracts outstanding at balance date:

	Average Fixed Interest Rate		Notional Principal Amount		Fair Value	
	2009	2008	2009	2008	2009	2008
	%	%	$000	$000	$000	$000
Outstanding Receive Floating Pay Fixed Contracts						
Less than 1 year	7.47%	6.85%	20,919	12,360	(555)	159
1 to 2 years	7.87%	7.47%	12,609	20,919	(820)	140
2 to 5 years	7.16%	8.00%	8,415	18,824	(682)	171
			41,943	**52,103**	**(2,057)**	**128**

	Average Fixed Interest Rate		Notional Principal Amount		Fair Value	
	2009	2008	2009	2008	2009	2008
	%	%	$000	$000	$000	$000
Outstanding Receive Fixed Pay Floating Contracts						
Less than 1 year	7.56%	8.58%	20,919	12,360	566	(151)
1 to 2 years	7.96%	8.79%	12,609	20,919	836	(113)
2 to 5 years	7.25%	8.75%	8,415	18,824	705	220
			41,943	**52,103**	**2,107**	**(44)**

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is the local interbank rate. The Group will settle the difference between the fixed and floating interest rate on a net basis.

Credit Risk Management

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

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 Group Trust are authorised by the NZACU Board. Investments undertaken directly by Central Banking, with the exception of those with non rated counterparties, must be with counterparties holding a minimum credit rating of A2 (short term) or BBB (long term) from Standard and Poors or an equivalent rating agency. A minimum of 15% of the Central Banking controlled investment portfolio may be invested at any time with non rated counterparties.

Accounts receivable are concentrated amongst Credit Unions and CU Group Trust entities.

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

Liquidity Risk Management

Liquidity Risk is the risk that the Group will have difficulty in meeting commitments associated with its financial liabilities and future commitments. The Group manages its exposure to liquidity risk by maintaining sufficient liquid funds to meet its commitments based on historical and forecast cash flow needs. Subsidiary companies are required to maintain their bank accounts and place all surplus liquidity with the Association's Central Banking department. The Central Banking department is responsible for all external banking and funding relationships. Through this level of centralised control, the Group 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 Central Banking policy manual which is reviewed annually by the NZACU Board. Amongst other matters, the policy manual addresses areas with a specific bearing on liquidity such as Constraints and Lending Constraints.

Notes to and forming part of the financial statements continued

For the year ended 30 June 2009

The policy manual requires that at least 50% of investments must be capable of being liquidated within five days.

The following tables detail the Group and Association'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 Group can be required to pay. The table includes both interest and principal cash flows.

Group

2009	Note	Less than 3 months $000	3 months to 1 year $000	1–5 years $000	Over 5 years $000	Group Total $000
Assets						
Cash and Cash Equivalents		9,069	-	-	-	**9,069**
Accounts Receivable		4,040	-	-	-	**4,040**
Investments		58,211	4,387	2,907	3,592	**69,097**
Loans Receivable		523	731	1,412	-	**2,666**
Derivative Financial Assets		482	1,144	1,023	-	**2,649**
Future Interest Receivable		557	263	315	-	**1,135**
Total Assets		72,882	6,525	5,657	3,592	**88,656**
Liabilities						
Deposits Received		70,713	1,426	-	-	**72,139**
Accounts Payable		2,639	-	-	-	**2,639**
Derivative Financial Liabilities		492	1,165	1,044	-	**2,701**
Future Interest Payable		482	32	-	-	**514**
Total Liabilities		74,326	2,623	1,044	-	**77,993**
Net Assets		**(1,444)**	**3,902**	**4,613**	**3,592**	**10,663**
Unrecognised Commitments	33	(13,387)	-	-	-	**(13,387)**
Net Liquidity Gap at 30 June 2009		**(14,831)**	**3,902**	**4,613**	**3,592**	**(2,724)**

2008	Note	Less than 3 months $000	3 months to 1 year $000	1–5 years $000	Over 5 years $000	Group Total $000
Assets						
Cash and Cash Equivalents		7,272	-	-	-	**7,272**
Accounts Receivable		5,808	-	-	-	**5,808**
Investments		69,926	2,522	7,584	-	**80,032**
Loans Receivable		520	614	2,413	883	**4,430**
Derivative Financial Assets		162	441	482	-	**1,085**
Future Interest Receivable		1,924	1,189	2,547	196	**5,856**
Total Assets		85,612	4,766	13,026	1,079	**104,483**
Liabilities						
Deposits Received		77,765	2,187	-	-	**79,952**
Accounts Payable		3,534	-	-	-	**3,534**
Finance Lease Liabilities		29	-	-	-	**29**
Derivative Financial Liabilities		150	408	433	-	**991**
Future Interest Payable		988	132	-	-	**1,120**
Total Liabilities		82,466	2,727	433	-	**85,626**
Net Assets		**3,146**	**2,039**	**12,593**	**1,079**	**18,857**
Unrecognised Commitments	33	(14,187)	-	-	-	**(14,187)**
Net Liquidity Gap at 30 June 2008		**(11,041)**	**2,039**	**12,593**	**1,079**	**4,670**

Notes to and forming part of the financial statements continued

For the year ended 30 June 2009

Association

2009	Note	Less than 3 months $000	3 months to 1 year $000	1–5 years $000	Over 5 years $000	Group Total $000
Assets						
Cash and Cash Equivalents		9,069	-	-	-	**9,069**
Accounts Receivable		2,600	-	-	-	**2,600**
Investments		58,261	4,387	10,309	3,067	**76,024**
Derivative Financial Assets		482	1,144	1,023	-	**2,649**
Future Interest Receivable		557	263	315	-	**1,135**
Total Assets		70,969	5,794	11,647	3,067	**91,477**
Liabilities						
Deposits Received		75,252	1,426	-	-	**76,678**
Accounts Payable		1,957	-	-	-	**1,957**
Derivative Financial Liabilities		492	1,165	1,044	-	**2,701**
Future Interest Payable		482	32	-	-	**514**
Total Liabilities		78,183	2,623	1,044	-	**81,850**
Net Assets		**(7,214)**	**3,171**	**10,603**	**3,067**	**9,627**
Unrecognised Commitments	33	(13,523)	-	-	-	**(13,523)**
Net Liquidity Gap at 30 June 2009		**(20,737)**	**3,171**	**10,603**	**3,067**	**(3,896)**
2008						
Assets						
Cash and Cash Equivalents		7,264	-	-	-	**7,264**
Accounts Receivable		2,316	-	-	-	**2,316**
Investments		73,557	2,522	18,108	-	**94,187**
Derivative Financial Assets		162	441	482	-	**1,085**
Future Interest Receivable		1,705	606	1,349	-	**3,660**
Total Assets		85,004	3,569	19,939	-	**108,512**
Liabilities						
Deposits Received		83,803	2,187	-	-	**85,990**
Accounts Payable		2,831	-	-	-	**2,831**
Finance Lease Liabilities		20	-	-	-	**20**
Derivative Financial Liabilities		150	408	433	-	**991**
Future Interest Payable		988	132	-	-	**1,120**
Total Liabilities		87,792	2,727	433	-	**90,952**
Net Assets		**(2,788)**	**842**	**19,506**	**-**	**17,560**
Unrecognised Commitments	33	(14,296)	-	-	-	**(14,296)**
Net Liquidity Gap at 30 June 2008		**(17,084)**	**842**	**19,506**	**-**	**3,264**

The Group and Association has access to financing facilities of $7,280,000 (2008: $7,080,000). The facilities are secured by charges over interest bearing Investments. Utilisation of credit facilities at 30 June 2009 was $644,000 (2008:$407,000). The Group expects to meet its obligations from operating cash flows and proceeds of maturing financial assets.

Notes to and forming part of the financial statements continued

For the year ended 30 June 2009

Fair Value of Financial Instruments

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices; and
- the fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments.

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.

31 Investments In Subsidiaries

Subsidiaries controlled at 30 June:

Name	Percentage Holding at Balance Date 2009	2008	Principal Activities	Balance Date
Parent Entity				
Business Services Division				
Trust of the Association				
Subsidiaries				
CU Securities Limited as Trustee of the CU Group Trust	100%	100%	Corporate Trustee	30 June
FACTS Limited	100%	100%	Provision of services to non Members	30 June
NZCU Finance Limited	100%	100%	Holding company	30 June
PlatinumDirect Limited	100%	100%	Finance company	30 June
Pioneer Insurance Company Limited	100%	100%	Motor Vehicle Insurance Underwriter	30 June
Credit Union Services Limited	100%	100%	Non Trading	-
CUI Limited	100%	100%	Non Trading	-
Kiwi Credit Limited	100%	100%	Non Trading	-
Credit Union New Zealand Limited	100%	100%	Non Trading	-

32 Related Party Disclosures

Parent Entity

The parent entity in the consolidated entity is the New Zealand Association of Credit Unions (the 'Association').

Equity Interests in Related Parties

Details of the equity interests held in subsidiaries are disclosed in Note 31. The Association does not hold any other equity interests.

Transactions with Related Parties

The Association provides funding to subsidiaries by way of purchasing investment bonds issued by them. The bonds are unsecured but if the issuer is unable to repay the full amount owing at repayment date then the association is granted a charge over all present and after acquired assets of the issuer. At 30 June 2009 the Association held investment bonds issued by subsidiaries which are valued at $7,402,000 (2008 $11,539,000).

At 30 June 2009 interest of $111,000 (2008 $90,000) was payable to the Association in respect of these bonds.

The Association provides unsecured overdraft facilities to subsidiaries. At 30 June 2009 overdraft facilities available to subsidiaries totalled $190,000 (2008 $3,830,000). The total drawn down under these facilities at 30 June 2009 was $54,000 (2008 $3,601,000). Interest was charged monthly on the outstanding balances during the year at rates of between 10.5% and 5.15% (2007: between 10% and 10.5%).

Notes to and forming part of the financial statements continued

For the year ended 30 June 2009

During the year the Association charged interest and facility fees on the investment bonds and overdraft facilities of $839,000 (2008 $246,000) to subsidiaries.

The Association maintains bank accounts and short term deposit facilities for subsidiaries. All deposits are unsecured. At 30 June 2009 funds placed with the Association by subsidiaries totalled $4,799,000 (2008 $6,038,000). Interest is credited monthly on the outstanding balances at commercial interest rates.

During the year the Association paid interest of $279,000 to subsidiaries (2008 $504,000).

During the year the Association charged fees to subsidiaries of $523,000 (2008 $413,000).

During the year the Association was charged fees by the subsidiaries of $446,000 (2008 $456,000).

Key Management Personnel Compensation

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

	Group		Association	
	2009	2008	2009	2008
	$000	$000	$000	$000
Short Term Employee Benefits	1,009	1,006	813	795

33 Commitments

	Group		Association	
	2009	2008	2009	2008
	$000	$000	$000	$000
Undrawn Advances under Credit Facilities	13,345	14,132	13,481	14,241
Capital Expenditure	42	55	42	55
	13,387	**14,187**	**13,523**	**14,296**

Finance lease liabilities and non cancellable operating lease commitments are disclosed in note 27.

34 Contingent Liabilities

Income Guarantees

The Business Services Division Trust has underwritten the income to be derived for a number of Credit Unions from their conversion to a Credit Union Insurance product. Under the commitments, the Division has agreed to prepay insurance rebates to ensure that Credit Union income is equalled or proportionately exceeded provided that sales volumes from the product are maintained or proportionately exceeded. The estimated exposure of the Division to the Credit Union beneficiaries net of rebates accrued to the 30th June 2009 under the Guarantees is $5,000. The equivalent sum for the year ended 30 June 2008 was $5,000. No calls under the Guarantees are expected. The remaining contingent liability will be extinguished by payment of the rebates accrued for the year ended 30 June 2009.

35 Litigation

Pioneer Insurance Company Limited has initiated the following legal actions for a total sum of $5,123,976 plus interest and costs:

1. statement of claim against its co-guarantors in relation to a statutory demand
2. statement of claim against the former directors and auditors of the Company.

Notes to and forming part of the financial statements continued

For the year ended 30 June 2009

36 Notes to the Statement of Cash Flows

a) Reconciliation of Net Result to Net Operating Cash Flows

	Group		Association	
	2009	2008	2009	2008
	$000	$000	$000	$000
Operating Surplus/ (Deficit)	(5,247)	(1,826)	(5,979)	(1,372)
Adjustments to Reconcile Operating Surplus to Net Cash Flow from Operating Activities				
Add / (Less) non cash items:				
Depreciation	605	656	434	447
Amortisation	1,196	1,182	497	591
Provision for Credit Impairment	3,179	1,855	8,066	3,176
Loss on Disposal of Property, Plant and Equipment	6	30	(10)	(1)
Prior Period Adjustment - Accounts Receivable	185	-	-	-
Unrealised Loss on Bond Investments	(65)	(40)	(65)	(40)
Unrealised Loss on Swaps	-	(1)	-	(1)
	5,106	**3,682**	**8,922**	**4,172**
Add/(Less) Movements in Working Capital:				
(Increase) / Decrease in Inventory	101	(60)	101	(60)
(Increase) / Decrease in Accounts Receivable	1,768	(626)	(284)	(192)
(Increase) / Decrease in Loans Receivable	1,764	(3,865)	-	-
(Increase) / Decrease in Prepayments	87	(319)	(74)	-
(Increase) / Decrease in Taxation Receivable	-	4	-	-
(Increase) / Decrease in Derivative Financial Assets	(1,979)	539	(1,979)	539
Increase / (Decrease) in Accounts Payable	(895)	(3,534)	(874)	445
Increase / (Decrease) in Unearned Premium Liability	(2,968)	(939)	-	-
Increase / (Decrease) in Provisions	(182)	322	(11)	84
Increase / (Decrease) in Life Insurance Liability	58	(8)	58	(8)
Increase / (Decrease) in Other Association Insurance Liability	254	147	254	147
Increase / (Decrease) in Motor Vehicle Insurance Liability	(978)	1,301	-	-
Increase / (Decrease) in Finance Lease Liabilities	(29)	(31)	(20)	(40)
Increase / (Decrease) in Derivative Financial Liabilities	2,013	(540)	2,013	(540)
	(986)	**(7,609)**	**(816)**	**375**
Add/(Less) items classified as investing activities				
Non Cash Movement in Investments	574	19	574	19
Add Items Included within Financing Activities:				
Non Cash Movement in Deposits Received	(435)	(140)	(435)	140
Net Cash Flow from Operating Activities	**(988)**	**(5,874)**	**2,266**	**3,054**

b) 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 Group's and Association's customer, rather than those of the Group and Association.

Notes to and forming part of the financial statements continued

For the year ended 30 June 2009

37 Stabilisation Fund Reserve

Included in the financial statements are the following assets and liabilities of the Stabilisation Fund. The Stabilisation Fund 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 stabilising, promoting and assisting Member Credit Unions. It is administered by Stabilisation Managers who comprise the Board of the New Zealand Association of Credit Unions.

	Group		**Association**	
	2009	**2008**	**2009**	**2008**
	$000	**$000**	**$000**	**$000**
Current Assets				
Cash	11	2	11	2
Investments	1,019	963	1,019	963
Inter Divisional Receivable	-	5	-	5
Net Assets	**1,030**	**970**	**1,030**	**970**

Included in the financial statements are the following income & expenses which are subsequently appropriated to the Stabilisation Fund Reserve:

	Group		**Association**	
	2009	**2008**	**2009**	**2008**
	$000	**$000**	**$000**	**$000**
Income				
Membership Contributions	-	135	-	135
Investment Interest	59	71	59	71
Recoveries	1	2	1	2
Expenses				
Operating Expenses	-	(47)	-	(47)
Operating Profit	**60**	**161**	**60**	**161**

38 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 the New Zealand Association of Credit Unions.

	Group		**Association**	
	2009	**2008**	**2009**	**2008**
	$000	**$000**	**$000**	**$000**
Current Assets				
Cash	94	88	94	88
Net Assets	**94**	**88**	**94**	**88**

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

	Group		**Association**	
	2009	**2008**	**2009**	**2008**
	$000	**$000**	**$000**	**$000**
Donations, Interest and Grants Received	6	12	6	12
Grants Paid	-	(7)	-	(7)
Operating Surplus	**6**	**5**	**6**	**5**

Notes to and forming part of the financial statements continued

For the year ended 30 June 2009

39 Member Services Division Operating Supplus

	2009 $000	2008 $000
Stabilisation	60	161
New Zealand Credit Union Foundation	6	5
MSD Operations	(275)	(101)
Total	**(209)**	**65**

40 Events After the Balance Sheet Date

The Directors have declared a dividend of $435,690 payable on 30 September 2009.