Annual Report 2010

Directory

New Zealand Association of Credit Unions
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Solicitors
Stace Hammond

External Auditors
Deloitte

Internal Auditors
William Buck HMT

Bankers
Westpac

Insurers
Crombie Lockwood Insurance Brokers

Trust Deed Supervisors
Trustees Executors Limited
Perpetual Trust Limited
Maori Trustee

Board of Directors
Graham Clouston
Bruce Ross
Selwyn Screen
Simon Scott
Brian Hancock
Rob Nicholls

Senior Management

David Smart	Acting Chief Executive
Michael Cathro	Manager of Pioneer Insurance and CUI
Mike Stankiewicz	Marketing Manager
Sue Gavin	Risk & Compliance Services Manager
Margaret Fleming	Education Training and Development Consultant
Paul James	ICT Manager

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.

Mission

The NZACU exists to represent, promote and support Member credit unions and provide cost effective business services.

Vision

All New Zealand credit unions and the NZACU cooperating together.

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 22 credit unions of the 30 registered credit unions with total assets of $633 million.

Our market

NZACU represents credit unions that meet the financial services needs of more than 170,000 New Zealanders. With a focus on members, not shareholder profits, customer satisfaction levels for credit unions are among the highest in the market. Our Member credit unions 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 centres and in 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.

Business Services provides

- FACTS Computer Bureau – 24/7 real time bureau and core banking software platform with a full suite of savings and loans products. Functionality includes card processing, internet, telephone and text banking
- Accesscard – a debit card which can be utilised at all ATM and EFTPOS terminals throughout New Zealand and overseas where the MAESTRO logo is displayed
- Accesscard – nationwide ATM network
- Banking Services – an interface to the clearing system
- Systems Support – help desk support
- Central Banking – a central treasury system for managing credit union liquidity
- Credit Union Insurance – Funeral, House and Contents, Loan Protection, Life and Income Protection
- Motor Vehicle insurance through Pioneer Insurance Company Limited.

Member Services provides

- guidance on legislative changes
- education and development courses for credit union directors, managers and staff
- networking opportunities for credit unions
- strategic planning assistance
- governance guidance
- management systems and accounting procedures
- financial and operational performance monitoring
- best practice guidelines and benchmarking
- advocacy in lobbying with Government regulators
- marketing guidance and assistance with growth strategies
- public affairs, public relations and communications
- development of credit union websites hosted by the Association
- liaison with World Council of Credit Unions on international events and other affiliated organisations where appropriate.

Our Board of Directors

Chair

Vice Chair

Director

Director

Director

Independant Director

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
Auckland City

United Credit Union
Howick

Westforce Credit Union
Avondale
Great Barrier Island
Onehunga
Papakura
Pukekohe

WAIKATO REGION

Aotearoa
Hamilton

First Credit Union
Hamilton City
Te Aroha

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

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 Baywide
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

Aotearoa Credit Union
Porirua

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

OTAGO REGION

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

Graham Clouston

Overview

The year to 30 June 2010 saw a significant recovery in the financial position of the NZACU. We finished the year in a very good position to serve the needs of our 22 Member credit unions.

Following the write-offs and losses brought to account in the two prior years, the Board and management took firm action to address the situation. Understandably our Member credit unions, being our owners and customers, had concerns about the NZACU performance and relationships were tested.

Pressures for change within the NZACU governance structure and processes resulted in further changes in the Board. The long standing Chief Executive, Doug McLaren, resigned and left the NZACU in September, prior to the 2009 AGM.

The Board decided to initiate a broad ranging strategic review process before appointing a new Chief Executive. The review resulted in a revised strategic plan that was endorsed by Members in May 2010. Key actions were implemented during the five month review process.

The NZACU gained a Standard and Poor's rating of BB but with a negative outlook primarily due to the inadequate capital position and Member credit union concerns resulting from the prior financial year outcomes. We are on track to be in a position to seek a review of the outlook as capital adequacy is restored before 31 December 2010.

The financial performance for the year to 30 June 2010 was satisfactory with a Group surplus of $2.348 million. Additionally the sale of subsidiary PlatinumDirect Ltd has substantially reduced commercial loans outstanding and, together with a performance improvement in subsidiary Pioneer Insurance Company Ltd, has enabled NZACU Group capital to improve from $7.8 million at 30 June 2009 to $10.0 million as at 30 June 2010. After balance date, in light of this improved performance, the Board declared a dividend of 5.79% on Base Capital Notes.

Our Member credit unions have continued to perform well in a continuing challenging economic environment. Regulatory change continues unabated placing significant compliance costs and resource demands on all Boards and management.

Chief Executive

Doug McLaren served the NZACU as Chief Executive for 11 years and following his departure in September 2009, our CFO David Smart was appointed Acting Chief Executive. The Board deferred the Chief Executive recruitment process to undertake the strategic review process which was undertaken by Independent NZACU Director Rob Nicholls who was appointed Acting Chief Executive from 1 January 2010. When the strategic review was successfully completed CFO David Smart resumed the Acting Chief Executive role from 9 June until the appointment of Henry Lynch as Chief Executive from 6 September 2010.

While these changes in the Chief Executive position initially created some uncertainty, the Board is convinced that the success of the strategic review process, and Members endorsing a new way forward together, demonstrates that the correct decisions were taken.

The Board expresses its appreciation for the service provided to the NZACU by Doug McLaren, the support of David Smart through the change process, and to Rob Nicholls who undertook the strategic review process that engaged all Member credit unions and staff of the NZACU. We wish new Chief Executive Henry Lynch every success going forward with the support of the Board.

Strategic Plan

The NZACU Strategic Plan 2010 to 2013 provides the framework for our Member Services and Business Services Divisions to better serve our Member credit unions in continuing to rebuild our stakeholder relationships and financial performance.

Our new mission will guide us to being aligned and relevant to our Members viz "The NZACU exists to represent, promote and support Member credit unions and provide cost effective business services".

The seven key strategic goals over the three year plan will reinforce and deliver the Mission. Additionally the establishment of the Information Systems Steering Committee, incorporating elected representatives of our Member credit unions, has a critical role to play in reviewing the core banking system and related network and resource services.

Continuing work to establish the Group Guarantee Scheme and the implementation of a debit card product for our Members remain key goals to be achieved.

Board

Your Board is committed to restoring Member confidence in the NZACU and to gain increased support for our cooperative products and services. The Board is united and focused on the task at hand in implementing the new strategic plan and working with the new Chief Executive to better support all Member credit unions.

Director Simon Scott and I were elected to the Board at the 2009 AGM and Rob Nicholls was appointed an Independent Director following the AGM. Following his time as Acting Chief Executive, Rob continues on the Board in the Independent Director role.

In December 2009 both Independent Director and Board Chair Ray Tibbits, and Director and Board Vice Chair Bill Sinclair, resigned from the Board. They wrote to all Members explaining their position. The Board thanks Ray and Bill for their contribution to the NZACU and notes that they have continued to serve on the Group Guarantee Scheme Supervisory Board.

Following these resignations the Board appointed me as Chair, Director Bruce Ross as Vice Chair and Brian Hancock as Director to fill the casual vacancy. As explained to Members at the May forum the Board does not see a need to fill the second Independent Director position at this time.

Future

Our themes for this period of restoration are Unity – Cooperation – Future.

Unity of purpose within the New Zealand credit union Movement whilst embracing diversity. **Cooperation** on a voluntary and proactive basis. Focusing on the **Future** as we address the issues of the past.

I sincerely thank all Member credit unions for your support, patience and participation in our strategic review and change processes. I also recognise the excellent support the NZACU staff has provided to our Members during the difficult environment we encountered internally and externally during the year. The Board and I thank you.

Finally I thank my fellow Directors for supporting me and the challenging work we needed to undertake together during the year. We are in good shape.

Graham Clouston

Chair

Directors Fees - FY2010

		Association			Group	
	Role	Director Fees	Audit & Risk Committee	Total Association	Director Fees	Total Group
G Clouston	Chair (from 15 December)	$25,963	$1,250	**$27,213**	$30,000	**$57,213**
B Ross	Vice Chair (from 15 December)	$22,708		**$22,708**		**$22,708**
S Screen	Director	$21,250	$1,005	**$22,255**		**$22,255**
R Tibbits	Chair (until 14 December)	$18,201	$1,576	**$19,777**		**$19,777**
L Sinclair	Vice Chair (until 14 December)	$11,376	$3,775	**$15,151**		**$15,151**
S Scott	Director	$15,000		**$15,000**	$18,750	**$33,750**
B Hancock	Director	$10,110	$750	**$10,860**		**$10,860**
R Nicholls	Advisor/Ind Director	$10,000		**$10,000**		**$10,000**
G Earle	Director (Pioneer Insurance Co Ltd)				$15,000	**$15,000**
Total		**$134,608**	**$8,356**	**$142,965**	**$63,750**	**$206,715**

Attendance at meetings during the financial year ended 30 June 2010

Formal board meetings

	24/7 2009	14/8 2009	25/9 2009	27/9 2009	16/10 2009	05/11 2009	07/12 2009	16/12 2009	25/1 2010	22/2 2010	29/3 2010	27/4 2010	31/5 2010	28/6 2010
R Tibbits	√	√	√	√		√	√							
A Sinclair	√	√	√	√	√	√	√							
S Screen	√	√	√	√	√	√	√	√	√	√	√	√	√	√
B Ross	√	√	√	√	√	√	√	√	√	√	√	√	√	√
AD McLaren	√	√												
D Smart			√	√	√	√								
G Clouston				√		√	√	√	√	√	√	√	√	√
S Scott				√	√	√	√	√	√	√	√	√	√	√
B Hancock									√	√	√	√	√	√
R Nicholls							√	√	√	√	√	√	√	√

Audit & Risk Committee meetings

	30/7 2009	12/8 2009	24/11 2009	02/12 2009	04/2 2010	25/3 2010	15/5 2010	23/6 2010
A Sinclair	√	√	√	√				
R Tibbits	√	√	√	√				
S Screen			√	√	√	√	√	√
G Clouston					√	√	√	√
B Hancock					√	√	√	√

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 2009 AGM Graham Clouston, Credit Union Taranaki and Simon Scott, First Credit Union were elected to the NZACU Board. They replaced long standing directors John Keenan and Neil McDonald who had resigned prior to the AGM. Following the resignation of Ray Tibbits, Chairman and Bill Sinclair, Vice Chair in December 2009, Graham Clouston was appointed Chairman and Bruce Ross Vice Chair. Rob Nicholls was appointed an Independent Director in November. Bruce Ross and Simon Scott were appointed Trustees and Selwyn Screen was appointed Chair of the Audit & Risk 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.

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

The governance procedures require the Board to have up to two independent directors to complement the elected directors. The Board appointed Rob Nicholls as Independent Director in November 2009 and Members agreed at the May 2010 forum not to appoint a second Independent Director.

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 Chief Executive. The directors serve a term of two years with the appointed directors being limited to a maximum of two, two year terms. Although Rob Nicholls was appointed an Independent Director in November 2009, from 1 January 2010 until 8 June 2010 he undertook the role of Acting Chief Executive. Effective 9 June 2010 he again took up the role of Independent Director.

Committees of the Board

The current committees of the board are Audit and Risk, Chief Executive 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 a strategic planning process was undertaken in the first half of 2010 by Acting Chief Executive, Rob Nicholls, and the results reported back and voted on by Members at the forum held in May 2010. The Strategic Plan for 2010 to 2013 has been approved by Members. Additionally there was a forum held in November 2009, a number of Member credit union visits by directors and the Annual General Meeting and associated forum in September.

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 Committee operating under a written charter
- Review and consideration by the Audit & Risk Committee of the accounts and appropriate policies
- A process to oversee and ensure the independence and competence of the Association's external auditors
- Responsibility for appointment of the external auditors resides with the Audit & Risk Committee subject to approval by the Board
- Establishment of an independent external party who conducts the internal audit function with reporting responsibility to the Audit & Risk Committee
- The Audit & Risk Committee meet on a regular basis throughout the year and report directly to the Board.

5. Making timely and balanced disclosure

Accountability for compliance with disclosure obligations is with the Association's Secretary. The Secretary's position has been delegated by the Board to the Chief Executive.

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 Chief Executive and Chief Financial Officer to seek prior approval from the Audit & Risk 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 formalised 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 Committee's internal audit programme.

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, education and training that will be of direct benefit to their role as an Association director.

As part of the annual review of its governance processes, the Board via a sub-committee, evaluates annually the performance of the Chief Executive. 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 and a short term variable incentive in the form of an annual performance related payment that requires achievement of a mix of financial and personal targets.

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 2010 are as per the 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.

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

Rob Nicholls was the Acting Chief Executive from 1 January 2010 until 8 June 2010 and during this period was also a director, ex-officio of the Association. As an executive director, Mr Nicholls did not receive 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 stakeholders such as employees, regulatory authorities, suppliers and the community as a whole.

Its commitment to these obligations is captured in our Code of Ethics and various policies and procedures for ethical conduct, the responsibility to employees and relationships with suppliers and customers. These are incorporated into the employment terms of all employees.

Holding securities

No director or executive of the Association holds any notes 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 2010 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.

Report of the Acting Chief Executive for the year ended 30 June, 2010

David Smart

In a year of economic downturn for many businesses, credit unions have justifiably continued to receive support from their members as demonstrated by stability in the level of deposits and lending. Capital adequacy has continued to strengthen. Total credit union reserves as a percentage of total credit union assets increased from 17.08% at 30 June 2009 to 17.36% at 30 June 2010.

With one minor exception all 22 Member credit unions increased their Reserves over the 12 months. This is despite credit union assets increasing by only 2% over the same period. It is pleasing to observe a significant improvement in profitability within the Movement.

NZACU Financial Performance

I am also pleased to report a substantial improvement in financial performance and financial position at NZACU following disappointing results in the two prior years.

Group profitability was $2,348,000 compared to a loss of $5,247,000 in the prior year. All trading group entities contributed bottom line profits. The group loss in the prior year was due to impairment losses including the write-off of Goodwill on the acquisition of Pioneer Insurance Company Limited, the write-off by Pioneer of a software development capitalised by the former owners and additional provisions within PlatinumDirect Limited.

These write-offs cleared the decks and together with improved operating performance resulted in the positive outcome recorded this financial year.

The Association through its core business activities again made a positive contribution of $1,415,000 over the year compared with a surplus prior to impairment of $2,087,000 in the prior year. The prior year bottom line loss of $5,979,000 was entirely attributable to increases in provision for impairment on CU Group Trust investments. These investments are now conservatively stated in the Association's accounts. The reduction in the current year of the Association's surplus prior to impairment is attributable to repayment to credit unions of $672,000 in Stabilisation Funds. The Association's surplus before repayment was $2,087,000 – the same as the surplus prior to impairment for the year to 30 June 2009. This coincidence illustrates the underlying resilience in the Association's profitability.

PlatinumDirect Limited was sold with effect 1 December 2009, however the group remains on risk for thirty one loans not acquired by the purchaser, two small loans subject to a put option from the purchaser and a further loan from NZACU to the purchaser to fund part of the acquisition price. Net loan receivables at the 30 June 2010 reduced to $1,974,000 from $2,666,000 at the prior year end. The remaining book is conservatively provisioned and the group result benefited from a net credit in impairment expense of $306,000 for the year.

We continue to work on exit strategies for the balance of the book.

Pioneer Insurance Company Limited contributed a significantly improved bottom line surplus of $621,000 compared to a prior year loss before tax of $2,592,000. A decision to focus on credit union introduced business was carried out in the last quarter of the prior financial year. This resulted in a much improved loss ratio prior to acquisition costs of 60.1% compared to 78% in the prior year.

The Pioneer surplus is after paying a return to the Association of $236,000 compared to the prior year of $391,000. A significant element in the Pioneer result was the receipt of substantial proceeds from the settlement of legal action initiated in earlier years.

The company is continuing to reduce overhead costs and it is budgeting for a modest profit after paying a return to the Association in the new financial year.

The Group and Association Balance Sheets have significantly strengthened over the year. This together with the improved level of profitability has enabled the directors to declare a higher level of dividend of $765,000 for the year compared to $436,000 in the prior year. The dividend is payable on 30 September 2010.

Member Services

Our Education Training and Development Consultant has responsibility for learning and development initiatives undertaken by the Association. Good traction was gained on a number of fronts including the successful launch of director induction guidelines and a board appraisal kit as well as the provision of a greater range of online learning courses or modules for credit union staff and directors. An important initiative has been the launch in New Zealand of a member-centric advisor program. This was developed by Credit Union Australia and kindly provided to the New Zealand Movement. The program puts Members at the centre of everything, thus guaranteeing a successful credit union.

The Business Development team acted proactively to the challenging market conditions by offering Member credit unions assistance in enhancing their market strategies on a user pays basis. Consequently, new customer segmentation techniques were introduced allowing credit unions to better define their target markets as well as their potential. In addition to this, the team assisted the NZCU Group to re-design, develop and launch their new websites. Currently the Business Development team is working on re-branding and enhancing the Association's communications. The team will continue to offer marketing support, guidance and advice to all Member credit unions.

The Risk and Compliance team has been heavily focused on all of the regulatory reforms and regularly meets with officials at the Ministry of Economic Development and Securities Commission, as examples, to both enhance their understanding about credit unions in general and to openly discuss the implications policy options have on the operations of our Member credit unions.

The last few years have seen some of the most extensive reforms in the financial services sector for decades and 2010 continued this trend. As a result, your Association has prepared submissions on eleven consultation documents, bills and regulations during the last financial year.

Whilst legislation of many of these reforms was passed in 2008, the resultant Acts have either been significantly amended or the regulations have been promulgated in more recent times.

The Reserve Bank Amendment Act 2008, for example, deemed all credit unions as well as this Association to be deposit takers and thereby regulated by the Reserve Bank of New Zealand (RBNZ). However as at the end of the financial year only draft regulations were available, leaving uncertainty and an inability for our Members, and indeed the NZACU, to apply for exemptions where necessary.

We have advocated and contributed to some positive improvements from the original capital adequacy proposals. Examples include the ability to take into account member deposits used as security for loans as these are now treated as collateral, and a recognition of the lower risk posed by low value personal loans.

Over this time there have also been extensive reporting requirements for credit unions. We have continued to support Members with understanding these requirements and providing reports and other tools to help reduce at least some of the time spent on compliance reporting.

Prior to and since prudential regulation by the RBNZ was first mooted, we have been assured by successive governments that many of the archaic restrictions within the Friendly Societies and Credit Union Act 1982 would be removed, in particular the maximum deposit limit of $250,000. Disappointingly, the undertakings have not come to fruition. We will continue to work closely with officials to expedite changes to ensure that credit unions do not continue to be handicapped by these restrictions.

We have seen some successes through amendments to the Financial Advisers Act 2008 such as the reclassification of credit union call shares as category 2 (less complex), financial products and a change in the definition of financial planning which mean the good work credit unions do for their members to improve financial literacy and assist them with budgeting will no longer be captured as financial planning.

Business Services

A considerable investment in NZACU's IT infrastructure has occurred over the period.

In the first half of the financial year the entire server network outside the FACTS and Postilion servers were replaced resulting in a significant reduction in the number of servers (virtualisation technology was used – a process by which large numbers of physical servers are consolidated into a smaller number of servers which are partitioned into separate areas that virtual servers run on). Each physical server contains built in redundancy to avoid a single point of failure.

In March the FACTS core banking system was installed to run on new Sun M4000 servers. These replace our old V880 servers which have been retired. The new servers are four times faster than the old V880s, have built in redundancy, take up one third of the storage space, consume less power and generate less heat.

In April the Postilion card management system was upgraded to the latest software version. In addition we replaced the servers and updated the SQL database.

Over and above this all production environments are mirrored in our DR systems.

During the year the IS team successfully cut over both our core FACTS and Postilion processes to DR, processed business as usual in our DR environment then cut back to the production environment. This is a significant achievement that proceeded without blemish.

Card transactions on external ATM and EFT networks and banking transactions were slightly higher than the prior year. However there was 16% year on year growth in the number of transactions on our ACCESSCASH ATM network. The ATM fleet expanded to 68 active terminals compared to 61 at the end of the prior year.

Mobile banking transactions were flat, telephone banking transactions fell but internet banking transactions rose. In part these movements reflect the subdued economic environment, however they also reflect changes in technology uptake amongst the credit union membership.

The volume of direct credits, direct debits and automatic payments through our Banking Services product grew by 2% over the year. Again this appears to be symptomatic of the subdued economic environment.

Premium income in Credit Union Insurance products was flat (0.8% higher than for the prior year at $5.5 million). However there was a reduction in the overall loss ratio from 71.7% in the prior year to 64.6% in the current year. As a consequence, Credit Union Insurance rebates for the year recovered to $828,000 excluding GST, compared to $546,000 in the prior year. Total claims processed by Credit Union Insurance were 1,555, 12.3% down from the previous year's high of 1,774. The major reduction was in new disability and redundancy claims.

Although Central Banking investments, including cash and cash equivalents, at 30 June 2010 were higher than at the 30 June 2009, the average level of investments was 11% lower over the year compared to the prior year ($76.7 million compared to $86.2 million). We believe that credit union liquidity has been steady over the two years and therefore a number of credit unions have extended a practice of placing a significant portion of their liquidity with their banking competitors. This volume decline together with a high level of competition for 'retail deposits' from registered banks resulted in a lower contribution to NZACU's profits from Central Banking.

Pioneer Insurance Company Limited

NZACU's investment in CU Group Trust entities declined from a net $7.4 million to $4.2 million over the year. This reflects good progress in collection of the loans written through Platinum Direct Ltd and a reduction in funding for Pioneer Insurance Company Limited where most of the remaining capital is invested. Pioneer's book is now focused on credit union members who make up 88% of current policyholders.

Pioneer's management has worked hard at achieving cost and performance efficiencies during the year. Staff numbers and associated costs have been reduced without loss of customer service quality and a move to smaller premises late 2010 will produce additional savings. Management will continue to seek cost reductions and efficiency gains in the year ahead.

Credit Union Guarantee Scheme

Progress on this initiative has been disappointingly slow. The guarantee and underwrite structure is designed to enhance depositor protection and reduce systemic risk. This structure provides a greater level of assurance than a standard parent subsidiary relationship which may or may not be supported by cross guarantees. However whilst the RBNZ requires parent subsidiary arrangements to report on a consolidated basis for regulatory purposes, the tighter arrangement that we are proposing needs to follow an exemption process in order to achieve regulatory approval.

We are working to bring this project to fruition as soon as possible.

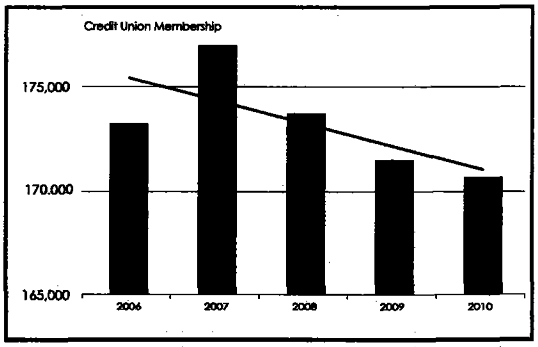
People

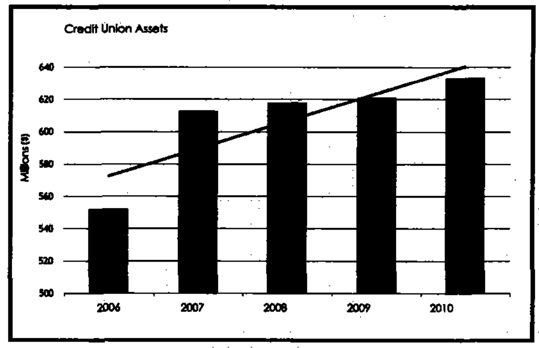
The team at the Association remain dedicated to achieving the best outcome for credit unions and their members. I would like to thank all staff for continuing to focus on this outcome in what has been a testing period.

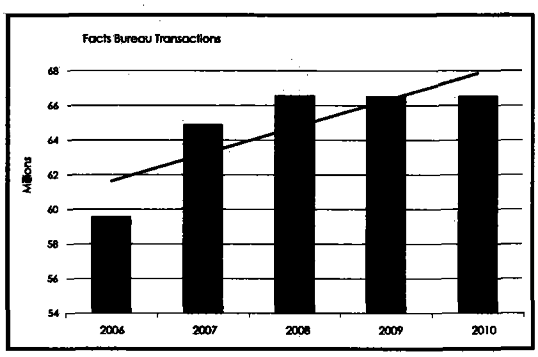
David Smart

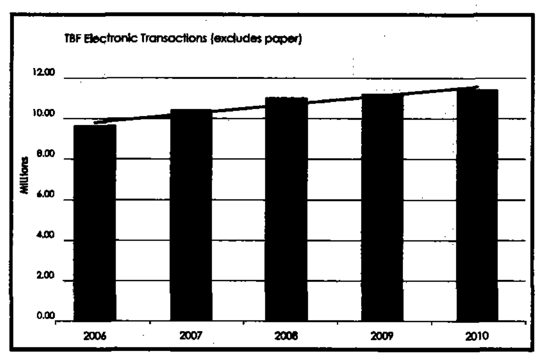
Acting Chief Executive

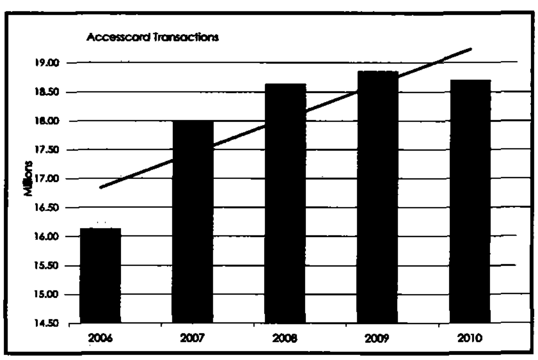
Key Statistics as at 30 June 2010

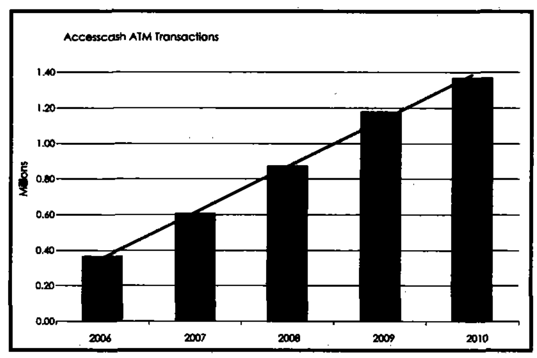


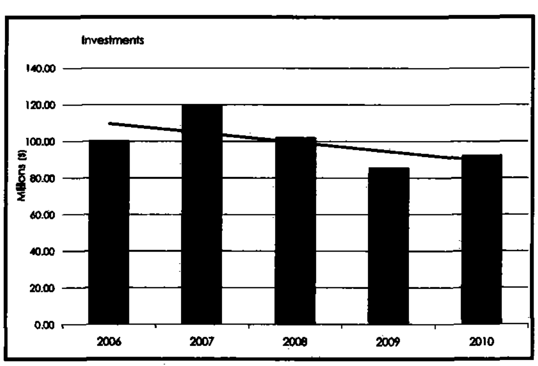


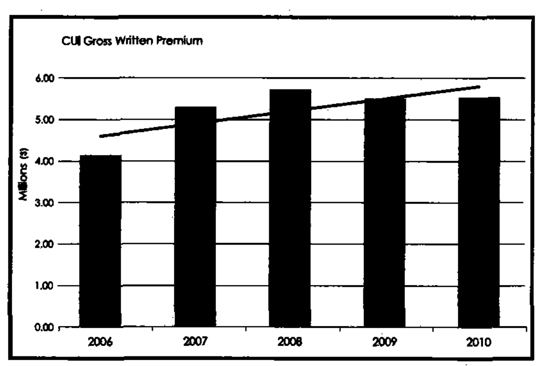


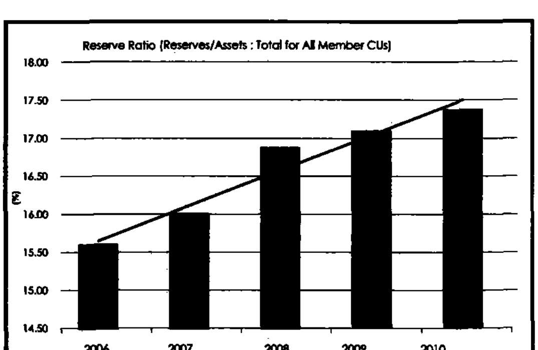


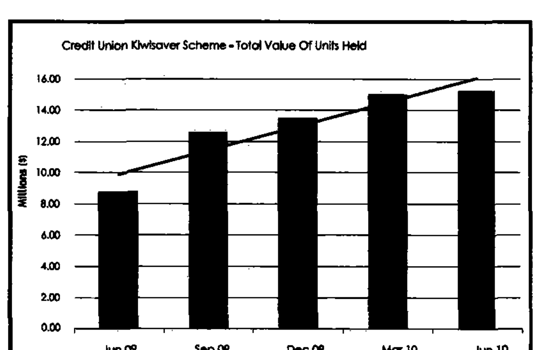












Financial Statements

The Directors are pleased to present the Financial Statements of the New Zealand Association of Credit Unions for the year ended 30 June 2010.

For and on behalf of the Board of Directors as at 1 September 2010.

Graham Clouston	**David Smart**
Chairman	*Acting Chief Executive*

Deloitte.

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

We have audited the financial statements on pages 13 to 57. 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 2010. This information is stated in accordance with the accounting policies set out on pages 17 to 25.

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 2010 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 13 to 57:
  - 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 2010 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 1 September 2010 and our unqualified opinion is expressed as at that date.

Deloitte

Chartered Accountants
AUCKLAND, NEW ZEALAND

Statement of Comprehensive Income

For the year ended 30 June 2010

	Note	Group		Association	
		2010	**2009**	**2010**	**2009**
		$000	**$000**	**$000**	**$000**
Interest Revenue	2	3,433	6,539	3,530	6,700
Interest Expense	3	2,202	4,584	2,333	4,851
Net Interest Revenue		1,231	1,955	1,197	1,849
Banking Services Revenue		13,908	13,831	13,828	13,724
Insurance Premium Revenue	7	10,414	14,040	5,504	5,463
Other Revenue	4	3,625	3,142	2,106	2,361
Total Revenue Net of Interest Expense		**29,178**	**32,968**	**22,635**	**23,397**
Employee Benefits	5	4,223	5,383	3,304	3,663
Insurance Claims and Rebates	7	7,743	11,947	4,385	4,462
Transaction Costs		8,409	8,339	8,409	8,339
Operating Expenses	6	6,761	7,072	5,122	4,846
Total Expenditure		**27,136**	**32,741**	**21,220**	**21,310**
Net Profit Before Impairment		2,042	227	1,415	2,087
Impairment	8	(306)	5,364	-	8,066
Net Profit/(Loss) Before Taxation		2,348	(5,137)	1,415	(5,979)
Taxation Expense	9	-	110	-	-
Profit/(Loss) and Total Comprehensive Income/ (Loss) for the Year		**2,348**	**(5,247)**	**1,415**	**(5,979)**

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

Statement of Changes in Equity (Members Funds)

For the year ended 30 June 2010

GROUP

	Base Capital Notes $000	Stabilisation Fund Reserve $000	Retained Earnings $000	Total $000
Balance at 1 July 2008	13,018	970	(582)	13,406
Notes issued for Capitalisation of Dividends and Rebates	140	-	-	140
Notes issued by Conversion of Retained Earnings	-	-	-	-
Base Capital Notes Dividends paid	-	-	(477)	(477)
Transfer to Stabilisation Fund Reserve	-	60	(60)	-
Profit/(Loss) and Total Comprehensive Income/(Loss) for the Year	-	-	(5,247)	(5,247)
Balance at 30 June 2009	**13,158**	**1,030**	**(6,366)**	**7,822**
Balance at 1 July 2009	13,158	1,030	(6,366)	7,822
Notes issued for Capitalisation of Dividends, Rebates & Stabilisation Fund	270	-	-	270
Base Capital Notes Dividends paid	-	-	(436)	(436)
Transfer to Stabilisation Fund Reserve	-	(641)	641	-
Profit/(Loss) and Total Comprehensive Income/(Loss) for the Year	-	-	2,348	2,348
Balance at 30 June 2010	**13,428**	**389**	**(3,813)**	**10,004**

ASSOCIATION

	Base Capital Notes $000	Stabilisation Fund Reserve $000	Retained Earnings $000	Total $000
Balance at 1 July 2008	13,018	970	371	14,359
Notes issued for Capitalisation of Dividends and Rebates	140	-	-	140
Base Capital Notes Dividends paid	-	-	(477)	(477)
Transfer to Stabilisation Fund Reserve	-	60	(60)	-
Profit/(Loss) and Total Comprehensive Income/(Loss) for the Year	-	-	(5,979)	(5,979)
Balance at 30 June 2009	**13,158**	**1,030**	**(6,145)**	**8,043**
Balance at 1 July 2009	13,158	1,030	(6,145)	8,043
Notes issued for Capitalisation of Dividends, Rebates & Stabilisation Fund	270	-	-	270
New Issues of Base Capital Notes	-	-	-	-
Base Capital Notes Dividends paid	-	-	(436)	(436)
Transfer to Stabilisation Fund Reserve	-	(641)	641	-
Profit/(Loss) and Total Comprehensive Income/(Loss) for the Year	-	-	1,415	1,415
Balance at 30 June 2010	**13,428**	**389**	**(4,525)**	**9,292**

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

Statement of Financial Position

As at 30 June 2010

	Note	Group		Association	
		2010	2009	2010	2009
		$000	$000	$000	$000
Equity (Members' Funds)					
Base Capital Notes	10	13,428	13,158	13,428	13,158
Reserves	11	389	1,030	389	1,030
Retained Earnings/(Deficit)	12	(3,813)	(6,366)	(4,525)	(6,145)
Total Equity (Members' Funds)		**10,004**	**7,822**	**9,292**	**8,043**
Assets					
Cash and Cash Equivalents	13	12,508	9,069	12,508	9,069
Accounts Receivable	14	3,909	4,040	2,491	2,600
Investments	15	75,491	69,097	79,258	76,024
Loans Receivable	16	1,974	2,666	403	-
Prepayments	17	434	444	252	260
Inventory	18	92	152	92	152
Derivative Financial Assets	19	899	2,107	899	2,107
Property Plant and Equipment	20	787	1,123	664	861
Goodwill	21	-	-	-	-
Other Intangible Assets	22	766	1,729	199	486
Total Assets		**96,860**	**90,427**	**96,766**	**91,559**
Liabilities					
Deposits Received	23	77,762	72,139	81,433	76,678
Accounts Payable	24	2,982	2,639	2,537	1,957
Unearned Premium Liability	25	2,364	2,530	-	-
Provisions	26	353	495	311	402
Life Insurance Liability	7	157	185	157	185
Other Association Insurance Liability	7	2,165	2,237	2,165	2,237
Motor Vehicle Insurance Liability	7	202	323	-	-
Derivative Financial Liabilities	28	871	2,057	871	2,057
Total Liabilities		**86,856**	**82,605**	**87,474**	**83,516**
Net Assets		**10,004**	**7,822**	**9,292**	**8,043**

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

Signed for and on behalf of the Board as at 1 September 2010.

Graham Clouston
Chairman

David Smart
Acting Chief Executive

Statement of Cash Flows

For the year ended 30 June 2010

	Note	Group		Association	
		2010 $000	2009 $000	2010 $000	2009 $000
Cash Flows from operating activities					
Cash was provided from					
Membership Contributions Received		764	805	764	805
Insurance Premiums Received		10,447	13,163	5,507	5,488
Other Receipts from Customers		16,679	16,495	15,346	14,988
Loan Repayments from Customers		1,132	1,710	-	-
Investment Interest Received		3,152	6,430	3,401	7,247
Interest from Customers		-	-	-	-
Motor Vehicle Claims Recoveries		866	1,592	-	-
Credit Union Foundation Grants & Donations		1	6	1	6
		33,041	**40,200**	**25,019**	**28,534**
Cash was applied to					
Payments to Suppliers & Employees		17,025	23,240	15,272	16,832
Insurance Claims and Rebates Paid		8,441	13,424	4,486	4,150
Interest Paid		2,158	4,523	2,303	5,286
		27,624	**41,187**	**22,061**	**26,268**
Net Cash Flow from operating activities	**36**	**5,417**	**(988)**	**2,958**	**2,266**
Cash flows from investing activities					
Cash was provided from					
Sale of Fixed Assets		24	42	24	25
Proceeds from sales and maturities of Investment Securities		654,435	803,135	654,272	802,635
Loan Received		300	-	-	-
		654,759	**803,177**	**654,296**	**802,660**
Cash was applied to					
Purchase of Property, Plant and Equipment		286	539	283	539
Purchase of Intangible Assets		148	642	88	322
Purchase of Investment Securities		658,400	789,944	657,761	793,046
Loan Repaid		262	-	-	-
		659,095	**791,124**	**658,132**	**793,907**
Net Cash Flows from investing activities		**(4,337)**	**12,053**	**(3,836)**	**8,753**
Cash flows from financing activities					
Cash was provided from					
Base Capital Notes Issued		-	-	-	-
Net increase/(decrease) in Credit Union Deposits		2,768	(8,931)	4,726	(8,877)
		2,768	**(8,931)**	**4,726**	**(8,877)**
Cash was applied to					
Base Capital Notes Dividend Paid		409	337	409	337
		409	**337**	**409**	**337**
Net Cash Flows from financing activities		**2,359**	**(9,268)**	**4,317**	**(9,214)**
Net increase in Cash and Cash Equivalents		3,439	1,797	3,439	1,805
Cash and Cash Equivalents at the beginning of the period		9,069	7,272	9,069	7,264
Cash and Cash Equivalents at the end of the period		12,508	9,069	12,508	9,069

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 2010

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.

New Zealand Association of Credit Union is domiciled in New Zealand and its principal activities are to provide member and business services for the credit unions.

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 is subject to and meets the requirements of NZ IFRS 7 "Financial Instruments; Disclosures".

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.

Notes to and forming part of the financial statements continued

For the year ended 30 June 2010

The computations are made by suitably qualified personnel on the basis of recognised actuarial methods, with due regard to relevant actuarial principles.
The methodology takes into account the risks and uncertainties of the particular classes of insurance business written.
The key factors that affect the estimation of these liabilities and related assets are:

- discontinuance experience, which affects the 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 profit or loss on the Statement of Comprehensive Income 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 profit or loss on the Statement of Comprehensive Income over the period of the contract in accordance with the pattern of incidence of risk expected under the insurance contract. Premium revenue excludes fire service and earthquake levies collected on behalf of statutory bodies. The unearned portion of premium is recognised as an unearned premium liability on the Statement of Financial Position.

Notes to and forming part of the financial statements continued

For the year ended 30 June 2010

Reinsurance Expense

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

Expense Recognition

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

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 Statement of Financial Position when cash is advanced to the customer.

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

Fair Value Through Profit or Loss

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

Investments in New Zealand Government Stock are measured at fair value with movements recognised in profit or loss on the Statement of Comprehensive Income. 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 profit or loss on the Statement of Comprehensive Income.

There are currently no financial assets in this category.

Notes to and forming part of the financial statements continued

For the year ended 30 June 2010

Financial Liabilities

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

Liabilities are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, liabilities are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit or loss on the Statement of Comprehensive Income over the period of borrowing using the effective interest rate method. Interest expense is recognised in profit or loss on the Statement of Comprehensive Income 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 Statement of Financial Position where there is a legally enforceable right to set-off and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

(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 net fair value of interest rate swaps receivable from counterparties is disclosed as Derivative Financial Assets. The net fair value of interest rate swaps payable to counterparties is disclosed as Derivative Financial Liabilities.

Interest rate swaps are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The movement in the fair value of interest rate swaps is recognised in profit or loss on the Statement of Comprehensive Income 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.

Loan Receivables

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

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

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

(ii) Impaired Loan Receivables

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

Notes to and forming part of the financial statements continued

For the year ended 30 June 2010

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.

(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 profit or loss on the Statement of Comprehensive Income.

(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 is recognised at the lower of cost or recoverable value. Any impairment is recognised in profit or loss on the Statement of Comprehensive Income.

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 profit or loss on the Statement of Comprehensive Income 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.

Notes to and forming part of the financial statements continued

For the year ended 30 June 2010

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	40%
Motor Vehicles	22%
Office Furniture & Equipment	10 – 36%
Leasehold Improvement Costs	15 – 34%

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

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 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 profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or directly in equity.

(i) Current Tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable). Tax assets and liabilities are offset only when the 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.

Notes to and forming part of the financial statements continued

For the year ended 30 June 2010

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 Receivables and Accounts Payable, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of accounts receivable or accounts payable in the Statement of Financial Position.

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.

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 profit or loss on the Statement of Comprehensive Income is unearned premium and is recognised in the Statement of Financial Position as an unearned premium liability.

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

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 balance date. If the effect of the time value of money is material, provisions are discounted using a pre tax rate that reflects the time value of money and the risks specific to the liability. The increase in the provisions resulting from the passage of time is recognised as a finance cost.

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

Notes to and forming part of the financial statements continued

For the year ended 30 June 2010

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 Statement of Financial Position as a finance lease obligation.

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

Present obligations arising under onerous leases are recognised and measured as provisions. An onerous lease is considered to exist where the 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 salaries and wages, annual leave, long service leave and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

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

Provisions made in respect of employee entitlements which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group 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.

p. Statement of Cash Flows

The Statement of Cash Flows is prepared exclusive 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

The Group has adopted NZ IFRS 8 Operating Segments, with effect from 1 July 2009. NZ IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. The identification of the Group's reportable segments has not changed as a result of adopting NZ IFRS 8.

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

Notes to and forming part of the financial statements continued

For the year ended 30 June 2010

r. Comparative Financial Statements

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

s. Adoption of new and revised Standards and Interpretations

Standards and Interpretations effective in the current period

In the current year, the Group has adopted the following Standards and Amendments. The impact of adoption of these Standards and Amendments has been to expand the disclosures provided in these financial statements:

Name	Impact
NZ IAS 1 *Presentation of Financial Statements (revised 2007)*	This has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of financial statements.
NZ IFRS 8 *Operating Segments*	This is a disclosure Standard. Adoption of this Standard does not result in redesignation of the Group's reportable segments (see note q).
Amendments to NZ IFRS 7 – *Financial Instruments: Disclosures*	The amendments to NZ IFRS 7 expand the disclosures required in respect of fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of fair value measurement hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on the Group's financial position or performance.

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 and Group's financial report. Standards adopted this year are Standards and Interpretations effective in the current period.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
Improvements to New Zealand Equivalents to International Financial Reporting Standards 2009	*	30 June 2011
Amendment to NZ IAS 32 'Financial Instruments: Presentation' – Classification of Rights Issues	1 February 2010	30 June 2011
Amendments to NZ IAS 24 'Related Party Disclosures'	1 January 2011	30 June 2012
NZ IFRS 9 'Financial Instruments'	1 January 2013	30 June 2014
NZ IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments'	1 July 2010	30 June 2011
Improvements to International Financial Reporting Standards 2010		
- Improvements to IFRS 3 and IAS 27	1 July 2010	30 June 2011
- Improvements to other standards	1 January 2011	30 June 2012

* 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, and they are to be applied retrospectively.

Notes to and forming part of the financial statements continued

For the year ended 30 June 2010

2 Interest Revenue

	Group		Association	
	2010	2009	2010	2009
	$000	$000	$000	$000
Government and Other Bond Interest	65	205	535	962
Bank, Money Market Securities, Local Authority and Floating Rate Note Interest	2,668	5,328	2,668	5,328
Gains on Interest Rate Swaps	13	10	13	10
Loan Interest	373	589	-	-
Other Interest	314	407	314	400
Total Interest Revenue	**3,433**	**6,539**	**3,530**	**6,700**

3 Interest Expense

	Group		Association	
	2010	2009	2010	2009
	$000	$000	$000	$000
Interest on Deposits	2,146	4,534	2,280	4,813
Bank Fees and Charges	53	38	53	38
Other Interest	3	12	-	-
Total Interest Expense	2,202	4,584	2,333	4,851
Net Interest Revenue	**1,231**	**1,955**	**1,197**	**1,849**

4 Other Revenue

	Group		Association	
	2010	2009	2010	2009
	$000	$000	$000	$000
Membership Contributions	752	803	752	803
Loan Fee Revenue	37	130	-	-
Other Revenue	2,836	2,209	1,354	1,558
Total Other Revenue	**3,625**	**3,142**	**2,106**	**2,361**

5 Employee Benefits

	Group		Association	
	2010	2009	2010	2009
	$000	$000	$000	$000
Salaries and Wages	3,867	5,213	2,968	3,520
Other Staff Costs	356	170	336	143
Total Employee Benefits	**4,223**	**5,383**	**3,304**	**3,663**

Notes to and forming part of the financial statements continued

For the year ended 30 June 2010

6 Operating Expenses

	Group		Association	
	2010	2009	2010	2009
	$000	$000	$000	$000
Auditors' Remuneration				
Audit Services	134	166	57	57
Taxation Services	9	71	-	-
Information System Review	10	(10)	10	(10)
IFRS Review	-	9	-	9
Other Services	14	2	14	2
Other Service Providers - Internal Audit	17	22	17	13
Depreciation				
Furniture, Fittings, Office Equipment & Vehicles	228	256	185	197
Computer Assets	376	349	277	237
Amortisation of Intangible Assets	1,112	1,196	375	497
Directors' Fees	199	223	135	156
Directors' Expenses and Training	72	218	68	218
Leasing Charges	414	359	310	339
Gain/(Loss) on Disposal of Property, Plant & Equipment	(6)	6	(6)	(10)
Other Operating Expenses	4,182	4,205	3,680	3,141
Total Operating Expenses	**6,761**	**7,072**	**5,122**	**4,846**

Notes to and forming part of the financial statements continued

For the year ended 30 June 2010

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	
	2010	**2009**	**2010**	**2009**
	$000	**$000**	**$000**	**$000**
Underwriting Results				
Life Insurance				
Gross Earned Premium	1,506	1,436	1,506	1,436
Net Earned Premium	**1,506**	**1,436**	**1,506**	**1,436**
Gross Claims	1,084	1,001	1,046	942
Net Claims	**1,084**	**1,001**	**1,046**	**942**
Underwriting Result	422	435	460	494
Less Credit Union Rebates	(173)	(253)	(173)	(253)
	249	182	287	241
Other Association Insurance				
Gross Earned Premium	3,998	4,027	3,998	4,027
Net Earned Premium	**3,998**	**4,027**	**3,998**	**4,027**
Gross Claims	2,511	2,974	2,511	2,974
Net Claims	**2,511**	**2,974**	**2,511**	**2,974**
Underwriting Result	1,487	1,053	1,487	1,053
Less Credit Union Rebates	(655)	(293)	(655)	(293)
	832	760	832	760
Motor Vehicle Insurance				
Gross Earned Premium	5,075	8,771	-	-
Reinsurance Premiums	(165)	(194)	-	-
Net Earned Premium	**4,910**	**8,577**	-	-
Gross Claims	3,320	7,426	-	-
Net Claims	**3,320**	**7,426**	-	-
Underwriting Result	1,590	1,151	-	-
Total Insurance				
Net Earned Premium	10,414	14,040	5,504	5,463
Net Claims	6,915	11,401	3,557	3,916
Credit Union Rebates	828	546	828	546
Insurance Claims and Rebates	**7,743**	**11,947**	**4,385**	**4,462**
Total Underwriting Result after Rebates	**2,671**	**2,093**	**1,119**	**1,001**

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:

Notes to and forming part of the financial statements continued

For the year ended 30 June 2010

- 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 3.66% per annum (2009: 3.59%).

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 Statement of Financial Position 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% (2009: 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 8.5% (2009: 4%), which provides a likelihood of sufficiency of 75% (2009: 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 2010

	Group		Association	
	2010	**2009**	**2010**	**2009**
	$000	**$000**	**$000**	**$000**
Outstanding Claims Liability				
Life Insurance				
Opening Claims Liability	185	127	185	127
Claims Expense	1,046	942	1,046	942
Claims Paid	(1,074)	(884)	(1,074)	(884)
Closing Claims Liability	**157**	**185**	**157**	**185**
Other Association Insurance				
Opening Claims Liability	2,237	1,983	2,237	1,983
Claims Expense	2,511	2,974	2,511	2,974
Claims Paid	(2,583)	(2,720)	(2,583)	(2,702)
Closing Claims Liability	**2,165**	**2,237**	**2,165**	**2,237**
Motor Vehicle Insurance				
Opening Claims Liability	1,070	2,252	-	-
Claims Expense	3,597	8,032	-	-
Claims Paid	(3,917)	(9,214)	-	-
Closing Gross Claims Liability	**750**	**1,070**	**-**	**-**
Motor Vehicle Expected Recoveries Receivable				
Opening Expected Recoveries	747	951	-	-
Increase in Expected Recoveries	667	1,387	-	-
Actual Third Party Recoveries Received	(866)	(1,591)	-	-
Closing Expected Recoveries	**548**	**747**	**-**	**-**
Motor Vehicle Insurance	**202**	**323**	**-**	**-**

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 2010 there was one outstanding claim lodged with the reinsurer for a sum of $26,025 (2009: $26,025), therefore Expected Recovereries Receivable as at balance date consists of third party debtors and the reinsurance claim.

Outstanding claims are reported in the Statement of Financial Position 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 2010 was approximately 7.7 months (2009: 7.7 months). The average expected term to settlement of Motor Vehicle Insurance outstanding claims was approximately 35 days (2009: 35 days).

Notes to and forming part of the financial statements continued

For the year ended 30 June 2010

	Group		Association	
	2010	**2009**	**2010**	**2009**
	$000	**$000**	**$000**	**$000**
Composition of Outstanding Claims Liability				
Life Insurance				
Outstanding claims	20	60	20	60
IBNR	137	125	137	125
Closing Claims Liability	**157**	**185**	**157**	**185**
Other Association Insurance				
Outstanding claims	1,806	1,841	1,806	1,841
IBNR	154	157	154	157
Risk Margin	205	239	205	239
Closing Claims Liability	**2,165**	**2,237**	**2,165**	**2,237**
Motor Vehicle Insurance				
Outstanding claims	504	744	-	-
Risk Margin	43	30	-	-
Indirect Claims Management	93	131	-	-
IBNR	110	165	-	-
Closing Gross Claims Liability	**750**	**1,070**	-	-
Closing Expected Recoveries	**(548)**	**(747)**	-	-
Motor Vehicle Insurance	**202**	**323**	-	-

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 historical underwriting results. This enables the Group's underwriters to calculate acceptable pricing and terms of cover

Notes to and forming part of the financial statements continued

For the year ended 30 June 2010

- **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 "AA-"
- **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 Statement of Financial Position. 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. 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 credit union intermediaries.

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 value of the outstanding claims liability. The outstanding claims liability is not discounted due to the very short term nature of the claims.

Operational Risk

Operational risk is the risk of financial loss (including lost opportunities) resulting from external events and/or inadequate or failed internal processes, people and systems. Operational risk is identified and assessed on an ongoing basis and the capital mangement 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 has a long term counterparty credit rating of BB issued by Standard & Poor's. Pioneer Insurance Company Limited has a Financial Strength rating of BB- issued by Standard & Poor's.

Notes to and forming part of the financial statements continued

For the year ended 30 June 2010

8 Impairment

	Group		Association	
	2010	2009	2010	2009
	$000	$000	$000	$000
Movement in Provisions in respect of				
Investment Bonds	-	-	-	8,042
Loans Receivable	(1,635)	744	-	-
Goodwill	-	3,994	-	-
Advances to Other Parties	-	24	-	24
Cancellation of Insurance Policies	-	-	-	-
	(1,635)	**4,762**	**-**	**8,066**
Amounts written-off in respect of				
Loans Receivable	1,329	-	-	-
Intangibles (Computer Software)	-	602	-	-
Impairment Expense	**(306)**	**5,364**	**-**	**8,066**

Refer to notes 14 – 16 for further information.

9 Taxation

	Group		Association	
	2010	2009	2010	2009
	$000	$000	$000	$000
Profit/(Loss) before Taxation	**2,348**	**(5,137)**	**1,415**	**(5,979)**
Income Tax at Current Rate of 30%	704	(1,541)	425	(1,794)
Exempt Income	(425)	580	(425)	1,794
Non Deductible Expenses	12	262	-	-
Effect of Changes in Tax Rates	-	-	-	-
Movement in Temporary Differences (not recognised)	(699)	33	-	-
Prior Period Adjustments	32	266	-	-
Tax Losses (not recognised)	376	400	-	-
Other	-	110	-	-
Effect of Changes in Tax Rates (not recognised)	-	-	-	-
Taxation Expense	**0**	**110**	**-**	**-**
Unrecognised Deferred Tax Balances				
The following net deferred tax assets have not been recognised:				
Tax Losses	1,670	1,294	-	-
Temporary Differences	122	820	-	-
	1,792	**2,114**	**-**	**-**

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. Tax losses are subject to Inland Revenue Department assessment in the next tax return.

Notes to and forming part of the financial statements continued

For the year ended 30 June 2010

Unrecognised timing differences are comprised as follows:

GROUP

	Opening Balance $000	Charged to Income $000	Closing Balance $000
Deferred Tax Assets			
Tax Losses	1,294	376	1,670
Provisions	(30)	(3)	(33)
Impairment Losses	756	(491)	265
	2,020	**(118)**	**1,902**
Deferred Tax Liabilities			
Property, Plant and Equipment	35	(34)	1
Intangible Assets	61	(172)	(111)
	96	**(206)**	**(110)**
	2,116	**(324)**	**1,792**

The tax rate used in the calculation of the above unrecognised deferred tax is the tax rate of 30% payable by New Zealand corporate entities on taxable profits under New Zealand tax law. The corporate tax rate in New Zealand will change from 30% to 28% with effect 1 April 2011. A portion of these unrecognised deferred tax items will have the potential to reverse after 1 April 2011 and so would be utilised at the new 28% tax rate.

10 Base Capital Notes

	Group and Association		Group and Association	
	2010 Quantity	2009 Quantity	2010 $000	2009 $000
Issue I	22	25	220	250
Issue II	13,208,141	12,908,379	13,208	12,908
	13,208,163	**12,908,404**	**13,428**	**13,158**

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	
	2010 Quantity	2009 Quantity	2010 $000	2009 $000
Issue I				
Balance at 1 July	25	30	250	300
Notes Redeemed by Transfer to Base Capital Notes II	(3)	(5)	(30)	(50)
Balance at 30 June	**22**	**25**	**220**	**250**

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 2010

	Group and Association		Group and Association	
	2010	2009	2010	2009
	Quantity	Quantity	$000	$000
Issue II				
Balance at 1 July	12,908,379	9,432,584	12,908	9,433
Notes issued				
For capitalisation of Dividends and Rebates	68,352	140,795	69	140
For capitalisation of Stabilisation Fund	201,410	-	201	-
By Transfer from Base Capital Notes I	30,000	50,000	30	50
By Transfer from Base Capital Notes III	-	3,285,000	-	3,285
Balance at 30 June	**13,208,141**	**12,908,379**	**13,208**	**12,908**

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

	Group and Association		Group and Association	
	2010	2009	2010	2009
	Quantity	Quantity	$000	$000
Issue III				
Balance at 1 July	-	3,285,000	-	3,285
Notes Issued for Raising of Capital	-	-	-	-
By Transfer to Base Capital Notes II	-	(3,285,000)	-	(3,285)
Balance at 30 June	-	-	-	-

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	
	2010	2009	2010	2009
	$000	$000	$000	$000
Stabilisation Fund Reserve				
Balance at 1 July	1,030	970	1,030	970
Transferred from/(to) Retained Earnings	(641)	60	(641)	60
Balance at 30 June	389	1,030	389	1,030
Total Reserves	**389**	**1,030**	**389**	**1,030**

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 note 37).

Notes to and forming part of the financial statements continued

For the year ended 30 June 2010

12 Retained Earnings

	Group		Association	
	2010	**2009**	**2010**	**2009**
	$000	**$000**	**$000**	**$000**
Balance at 1 July	(6,366)	(582)	(6,145)	371
Operating Profit/(Loss)	2,348	(5,247)	1,415	(5,979)
Transferred from/(to) Stabilisation Fund Reserve	641	(60)	641	(60)
	(3,377)	**(5,889)**	**(4,089)**	**(5,668)**
Base Capital Note Dividends	(436)	(477)	(436)	(477)
Balance at 30 June	(3,813)	(6,366)	(4,525)	(6,145)
Total Retained Profits/(Losses)	**(3,813)**	**(6,366)**	**(4,525)**	**(6,145)**

The net profit/(loss) for the years ended 30 June 2010 and 30 June 2009 have been transferred to Retained Earnings.

The portions of the operating results for the years ended 30 June 2010 and 30 June 2009 that relate to the operations of the Stabilisation Fund have been transferred from Retained Earnings to the Stabilisation Fund Reserve.

	Group		Association	
	2010	**2009**	**2010**	**2009**
	$000	**$000**	**$000**	**$000**
Member Services Division	1,530	1,591	1,530	1,591
Business Services Division	(5,343)	(7,957)	(6,055)	(7,736)
	(3,813)	**(6,366)**	**(4,525)**	**(6,145)**

Member Services Division Retained Earnings at 30 June 2010 includes the Retained Earnings of the New Zealand Credit Union Foundation of $93,000, (30 June 2009 $94,000). Refer note 38.

13 Cash And Cash Equivalents

	Group		Association	
	2010	**2009**	**2010**	**2009**
	$000	**$000**	**$000**	**$000**
Cash at Bank	1,007	1,569	1,007	1,569
Bank Call Deposits	11,501	7,500	11,501	7,500
	12,508	**9,069**	**12,508**	**9,069**

Notes to and forming part of the financial statements continued

For the year ended 30 June 2010

14 Accounts Receivable

	Group		Association	
	2010	**2009**	**2010**	**2009**
	$000	**$000**	**$000**	**$000**
Trade Receivables	1,983	2,097	1,765	2,070
Receivable from Subsidiaries	-	-	267	67
Future Funded Premiums	1,304	1,243	-	-
	3,287	**3,340**	**2,032**	**2,137**
Insurance Premiums Due	631	713	459	463
Provision for Cancellation	(9)	(13)	-	-
	622	**700**	**459**	**463**
Total Carrying Amount	**3,909**	**4,040**	**2,491**	**2,600**
Provision for Cancellation				
Collective Provision Against Insurance Premiums Due				
Balance at Beginning of the Year	13	95	-	-
Acquisition through business combination	-	-	-	-
Movement in provision	(4)	(82)	-	-
Balance at End of the Year	**9**	**13**	**-**	**-**
Past Due Receivables Not Impaired				
Trade Receivables	220	14	218	6
Insurance Premiums Due	-	10	-	10
Total Past Due Receivables Not Impaired	**220**	**24**	**218**	**16**
Aging of Past Due Receivables Not Impaired				
Past Due 1–30 days	3	15	1	7
Past Due 31–90 days	47	3	47	3
Past Due over 90 days	170	6	170	6
Balance at End of the Year	**220**	**24**	**218**	**16**

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 (2009: $Nil) and there has been no write off (2009: $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 $9,000 for outstanding insurance premiums relating to policies issued by Pioneer Insurance Company Limited (2009: $3,000)
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 2010

15 Investments

	Group		Association	
	2010	**2009**	**2010**	**2009**
	$000	**$000**	**$000**	**$000**
Bank Deposits	34,768	18,719	34,768	18,719
Advances to Subsidiaries	-	-	71	54
Money Market Securities	34,397	42,805	34,397	42,805
Government Stock	1,557	1,586	1,038	1,057
Floating Rate Notes	4,769	5,919	4,769	5,919
Other Investments	-	-	-	-
	75,491	**69,029**	**75,043**	**68,554**
Investment Bonds	-	-	15,362	18,549
Provision for Credit Impairment	-	-	(11,147)	(11,147)
	-	**-**	**4,215**	**7,402**
Advances to Other Parties	-	162	-	162
Provision for Credit Impairment	-	(94)	-	(94)
	-	**68**	**-**	**68**
Total Carrying Amount	**75,491**	**69,097**	**79,258**	**76,024**

Testing for impairment on the investment bonds held in the CU Group Trust was 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 (2009: $11,147,000) was in place in respect of the underlying investments in PlatinumDirect Limited and Pioneer Insurance Company Limited as at 30 June 2009. The provision in respect of PlatinumDirect Limited was 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 were the sufficiency of the specific and collective provisions for losses on loans and the timing of receipts. The specific provision was 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 was estimated with reference to the underlying security and the borrower's assessed capacity to repay the debt. The collective provision was 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 generated 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 was 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 were discounted at a weighted average cost of capital of 12%.

The provision in respect of Pioneer Insurance Company Limited was calculated based on detailed cashflow forecasts for the four years to 30 June 2013. Key assumptions in this forecast were sales growth (assumed to be nil), a loss ratio of 62.5% and a discount rate of 15%.

The provisions were reviewed as at 30 June 2010 using the same methodology as adopted for the prior year but with updated cashflow forecasts and discount rates of 9.54% for NZCU Finance (which has a residual loan portfolio acquired from PlatinumDirect Limited, refer note 29), and 10% for Pioneer. This exercise revealed that the existing provisions were conservatively stated.

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 2010

16 Loans Receivable

	Group		Association	
	2010	**2009**	**2010**	**2009**
	$000	**$000**	**$000**	**$000**
Gross Loan Receivables	2,859	5,187	403	-
Provision for Credit Impairment	(885)	(2,521)	-	-
Total Carrying Amount	**1,974**	**2,666**	**403**	**-**
Provision for Credit Impairment				
Individually Impaired Loans				
Balance at Beginning of the Year	1,445	835	-	-
New Provisions during the Year	160	610	-	-
Amounts Released/Written-off	(1,365)	-	-	-
Balance at End of the Year	**240**	**1,445**	**-**	**-**
Collective Provision Against Loans				
Balance at Beginning of the Year	1,076	940	-	-
New Provisions during the Year	-	136	-	-
Amounts Released/Written Off	(431)	-	-	-
Balance at End of the Year	**645**	**1,076**	**-**	**-**
Total Provision for Credit Impairment	**885**	**2,521**	**-**	**-**
Aging of Individually Impaired Loans				
Past Due 0 – 30 days	-	170	-	-
Past Due 31 – 90 days	-	43	-	-
Past Due over 90 days	300	1,766	-	-
Balance at End of the Year	**300**	**1,979**	**-**	**-**
Aging of Past Due but not Individually Impaired Loans				
Past Due 0–30 days	106	144	-	-
Past Due 31–90 days	253	384	-	-
Past Due over 90 days	825	537	-	-
Balance at End of the Year	**1,184**	**1,065**	**-**	**-**

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 seven restructured loans with a combined face value of $299,694 (2009: eight restructured loans $481,922), against which there is a collective provision of $166,446 (2009: collective provision of $240,961).

There were no assets acquired through enforcement of security.

Loans sold on 30 June 2010 by NZCU Finance Limited to Diversified Finance Limited were financed by NZACU. The advance of $403,121 is payable on a fully amortising basis over a term of 7 years, and at an interest rate of 10.49 percent per annum, that rate being fixed for two years. Thereafter the defined rate will apply as a floating rate, adjusted quarterly, but limited to a maximum of 15% per annum.

Notes to and forming part of the financial statements continued

For the year ended 30 June 2010

17 Prepayments

	Group		Association	
	2010	2009	2010	2009
	$000	$000	$000	$000
Deferred Commission				
Deferred Commission Costs	177	335	-	-
Commission Costs Paid	414	661	-	-
Commission Costs Released	(429)	(818)	-	-
Closing Deferred Commission Costs	162	178	-	-
Other Prepayments	272	266	252	260
	434	**444**	**252**	**260**

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

18 Inventory

	Group		Association	
	2010	2009	2010	2009
	$000	$000	$000	$000
ATM Machines and Parts	75	114	75	114
Promotional and Other Items	17	38	17	38
	92	**152**	**92**	**152**

The cost of inventories recognised as an expense during the year was $267,000 (2009: $237,000)

19 Derivative Financial Assets

	Group		Association	
	2010	2009	2010	2009
	$000	$000	$000	$000
Interest Rate Swaps - Credit Union Counterparties	899	2,107	899	2,107

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

Notes to and forming part of the financial statements continued

For the year ended 30 June 2010

20 Property, Plant & Equipment

	Group		Association	
	2010	2009	2010	2009
	$000	$000	$000	$000
Furniture, Fittings, Office Equipment and Vehicles				
Opening Cost at 1 July	1,423	1,401	1,215	1,199
Additions	77	105	77	68
Reclassification of Assets	-	71	-	-
Disposals	(62)	(154)	(60)	(52)
Closing cost at 30 June	**1,438**	**1,423**	**1,232**	**1,215**
Opening Accumulated Depreciation at 1 July	862	650	768	607
Depreciation Expense	228	256	185	197
Reclassification of Assets	-	26	-	-
Disposals	(45)	(70)	(44)	(36)
Closing accumulated depreciation at 30 June	**1,045**	**862**	**909**	**768**
Net Book Value at 30 June	**393**	**561**	**323**	**447**
Computer Assets				
Opening Cost at 1 July	2,276	2,549	1,617	1,820
Additions	210	487	206	471
Reclassification of Assets	-	(74)	-	-
Disposals	(17)	(686)	(15)	(674)
Closing cost at 30 June	**2,469**	**2,276**	**1,808**	**1,617**
Opening Accumulated Depreciation at 1 July	1,714	2,081	1,203	1,641
Depreciation Expense	376	349	277	236
Reclassification of Assets	-	(15)	-	-
Disposals	(15)	(701)	(13)	(674)
Closing Accumulated Depreciation at 30 June	**2,075**	**1,714**	**1,467**	**1,203**
Net Book Value at 30 June	**394**	**562**	**341**	**414**
Carrying Amount at 30 June	**787**	**1,123**	**664**	**861**

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

21 Goodwill

	Group		Association	
	2010	2009	2010	2009
	$000	$000	$000	$000
Gross Carrying Amount				
Opening Balance at 1 July	-	3,994	-	-
Goodwill Written-off	-	(3,994)	-	-
Closing Balance at 30 June	-	-	-	-
Net Carrying Amount	-	-	-	-

Notes to and forming part of the financial statements continued

For the year ended 30 June 2010

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 were discounted at 15%. Key assumptions in the cash flow projections are shown in note 15.

22 Other Intangible Assets

	Group		Association	
	2010	**2009**	**2010**	**2009**
	$000	**$000**	**$000**	**$000**
Computer Software				
Opening Cost at 1 July	6,091	6,701	3,275	3,606
Additions	149	640	88	321
Disposals	-	(652)	-	(652)
Reclassification of Assets	-	4	-	-
Intangibles Written-off (refer also to Note 8)	-	(602)	-	-
Closing Cost at 30 June	**6,240**	**6,091**	**3,363**	**3,275**
Opening Accumulated Amortisation at 1 July	4,362	3,817	2,789	2,944
Amortisation Expense	1,112	1,196	375	497
Disposals	-	(652)	-	(652)
Reclassification of Assets	-	1	-	-
Closing Accumulated Depreciation at 30 June	**5,474**	**4,362**	**3,164**	**2,789**
Net Book Value at 30 June	**766**	**1,729**	**199**	**486**

23 Deposits Received

	Group		Association	
	2010	**2009**	**2010**	**2009**
	$000	**$000**	**$000**	**$000**
Deposits from Credit Unions	77,057	71,085	77,057	71,085
Deposits from Subsidiaries	83	261	3,793	4,800
Deposits from Other Parties	622	793	583	793
	77,762	**72,139**	**81,433**	**76,678**

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

24 Accounts Payable

	Group		Association	
	2010	**2009**	**2010**	**2009**
	$000	**$000**	**$000**	**$000**
Trade Payables	495	788	945	768
Credit Union Rebates	827	669	827	669
Accrued Expenses	839	592	748	423
Reinsurance Accruals	791	626	-	-
GST Payable /(Receivable)	30	(36)	17	97
	2,982	**2,639**	**2,537**	**1,957**

Notes to and forming part of the financial statements continued

For the year ended 30 June 2010

25 Unearned Premium Liability

	Group		Association	
	2010	2009	2010	2009
	$000	$000	$000	$000
Opening Balance	2,530	5,498	-	-
Gross Written Premium	5,841	10,635	-	-
Premium Cancelled	(932)	(4,833)	-	-
Earnings Released	(5,075)	(8,770)	-	-
Closing Unearned Premium Liability	**2,364**	**2,530**	**-**	**-**

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 11% lower than the unearned premium liability (June 2009: 3%). Accordingly there is no need to recognise any deficiency in the unearned premium liability.

26 Provisions

	Group		Association	
	2010	2009	2010	2009
	$000	$000	$000	$000
Employee Entitlements	353	495	311	402
	353	**495**	**311**	**402**

27 Leases

	Group		Association	
	2010	2009	2010	2009
	$000	$000	$000	$000
Non Cancellable Operating Lease Payments				
Lease liabilities are payable:				
Not later than 1 year	395	401	347	305
Later than 1 year and not later than 2 years	58	353	58	305
Later than 2 years and not later than 5 years	-	355	-	355
	453	**1,109**	**405**	**965**

	Group		Association	
	2010	2009	2010	2009
	$000	$000	$000	$000
Non Cancellable Operating Lease Receivables				
Lease liabilities are receivable:				
Not later than 1 year	42	78	42	42
Later than 1 year and not later than 2 years	7	72	7	42
Later than 2 years and not later than 5 years	-	49	-	49
	49	**199**	**49**	**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 2010

28 Derivative Financial Liabilities

	Group		Association	
	2010	**2009**	**2010**	**2009**
	$000	**$000**	**$000**	**$000**
Interest Rate Swaps - Registered Bank Counterparties	871	2,057	871	2,057

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 was a subsidiary company which provided financial services, mainly through residential lending secured by mortgage and business lending secured by various instruments. It was sold 1 December 2009 and the remaining loan portfolio is managed by NZCU Finance Limited which is entitled to the risk and return of this remaining portfolio.

- **NZCU Finance Limited**

  NZCU Finance Limited is a subsidiary company which has a residual loan portfolio acquired from PlatinumDirect Limited, mainly through residential lending secured by mortgage and business lending secured by various instruments. This portfolio is in the process of collection with the intention of re-deploying capital back to the Association.

- **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 incorporate 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 2010

GROUP

	Business Services Division $000	Member Services Division $000	Platinum Direct Limited $000	NZCU Finance $000	Pioneer Insurance Company Limited $000	Other Entities $000	Inter Entity Adjustments $000	Total $000
At 30 June 2010								
Revenue from sales with other Segments,excluding interest	690	-	-	-	455	-	(1,145)	-
Revenue from external customers	20,080	1,358	34	150	7,109	361	(1,145)	**27,947**
Total Interest Income	3,440	90	177	196	167	495	(1,132)	**3,433**
Total Interest Expense	2,333	-	59	69	369	504	(1,132)	**2,202**
Total Revenue before Interest Expense	24,210	1,448	211	346	7,731	856	(3,422)	**31,380**
Net Profit/(Loss) before Tax	2,117	(702)	(15)	326	621	1	-	**2,348**
Total Assets	96,560	206	-	441	6,605	11,645	(18,597)	**96,860**
Total Liabilities	87,304	170	-	179	3,591	11,767	(16,155)	**86,856**
Other Segment Items:								
Acquisition of Property, Plant and Equipment	283	-	-	-	4	-	-	**287**
Acquisition of Intangible Assets	88	-	-	-	61	-	-	**149**
Depreciation Expense – Property, Plant and Equipment	454	8	-	-	142	-	-	**604**
Amortisation Expense – Software	375	-	-	-	737	-	-	**1,112**
Impairment Expense	-	-	28	(334)		-	-	**(306)**

	Business Services Division $000	Member Services Division $000	Platinum Direct Limited $000	NZCU Finance $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,excluding interest	599	-	-	-	446	-	(1,045)	-
Revenue from external customers	19,956	1,592	130	-	10,123	258	(1,045)	**31,014**
Total Interest Income	6,610	90	589	-	390	780	(1,920)	**6,539**
Total Interest Expense	4,851	-	314	-	533	806	(1,920)	**4,584**
Total Income before Intereset Expense	27,165	1,682	719	-	10,958	1,038	(4,010)	**37,552**
Net Profit/(Loss) before Tax	(5,770)	(209)	(608)	-	(2,592)	(5)	4,047	**(5,137)**
Total Assets	94,753	444	2,714	94	8,114	14,940	(30,632)	**90,427**
Total Liabilities	83,280	236	2,670	94	4,371	15,063	(23,110)	**82,604**
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**

Notes to and forming part of the financial statements continued

For the year ended 30 June 2010

Geographical Segment Analysis

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

30 Financial Instruments

Financial Risk Management Objectives

The Association's Finance 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 an Asset and Liability 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

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 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 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 2010 would increase / decrease by $48,000 (2009: increase / decrease by $32,000).

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 2010 would increase / decrease by $51,000 (2009: increase / decrease by $54,500).

Notes to and forming part of the financial statements continued

For the year ended 30 June 2010

Interest Rate Repricing

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

GROUP

At 30 June 2010	Average Interest Rate	Less than 3 months $000	3 months to 1 year $000	1–7 years $000	Non Interest Sensitive $000	Group Total $000
Assets						
Cash and Cash Equivalents	2.71%	12,508	-	-	-	**12,508**
Accounts Receivable	-	-	-	-	3,909	**3,909**
Investments	4.36%	65,442	8,493	518	1,038	**75,491**
Loans Receivable	13.67%	107	396	1,471	-	**1,974**
Derivative Financial Assets	-	-	-	-	899	**899**
		78,047	8,858	2,030	5,846	**94,781**
Liabilities and Members Funds						
Deposits Received	3.43%	75,374	2,388	-	-	**77,762**
Accounts Payable	-	-	-	-	2,982	**2,982**
Derivative Financial Liabilities	-	-	-	-	871	**871**
		75,374	2,388	-	3,853	**81,615**
On Balance Sheet Interest Sensitivity Gap – 30 June 2010		**2,673**	**6,470**	**2,030**	**1,993**	**13,166**

ASSOCIATION

At 30 June 2010	Average Interest Rate	Less than 3 months $000	3 months to 1 year $000	1 – 7 years $000	Non Interest Sensitive $000	Group Total $000
Assets						
Cash and Cash Equivalents	2.71%	12,508	-	-	-	**12,508**
Accounts Receivable	-	-	-	-	2,491	**2,491**
Investments	4.11%	69,728	8,492	-	1,038	**79,258**
Loan receivable	10.49%	9	32	362	-	**403**
Derivative Financial Assets	-	-	-	-	899	**899**
		82,245	8,524	362	4,428	**95,559**
Liabilities and Members Funds						
Deposits Received	3.43%	79,045	2,388	-	-	**81,433**
Accounts Payable	-	-	-	-	2,537	**2,537**
Derivative Financial Liabilities	-	-	-	-	871	**871**
		79,045	2,388	-	3,408	**84,841**
On Balance Sheet Interest Sensitivity Gap – 30 June 2010		**3,200**	**6,136**	**362**	**1,020**	**10,718**

Notes to and forming part of the financial statements continued

For the year ended 30 June 2010

GROUP

At 30 June 2009	Average Interest Rate	Less than 3 months $000	3 months to 1 year $000	1-7 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	1-7 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 2010

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	
	2010	2009	2010	2009	2010	2009
	%	%	$000	$000	$000	$000
Outstanding Receive Floating Pay Fixed Contracts						
Less than 1 year	7.53%	7.47%	13,809	20,919	(273)	(555)
1 to 2 years	5.56%	7.87%	10,640	12,609	(392)	(820)
2 to 5 years	7.50%	7.16%	2,475	8,415	(206)	(682)
			26,924	**41,943**	**(871)**	**(2,057)**

	Average Fixed Interest Rate		Notional Principal Amount		Fair Value	
	2010	2009	2010	2009	2010	2009
	%	%	$000	$000	$000	$000
Outstanding Receive Fixed Pay Floating Contracts						
Less than 1 year	7.62%	7.56%	13,809	20,919	279	566
1 to 2 years	6.00%	7.96%	10,640	12,609	398	836
2 to 5 years	7.60%	7.25%	2,475	8,415	222	705
			26,924	**41,943**	**899**	**2,107**

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 maximum 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

Notes to and forming part of the financial statements continued

For the year ended 30 June 2010

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 Liquidity and Market Risk 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 Investment Constraints and Lending Constraints. 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

2010	Note	Less than 3 months $000	3 months to 1 year $000	1-7 years $000	Group Total $000
Assets					
Cash and Cash Equivalents		12,508	-	-	**12,508**
Accounts Receivable		3,909	-	-	**3,909**
Investments		63,432	8,492	3,567	**75,491**
Loans Receivable		107	396	1,471	**1,974**
Derivative Financial Assets		275	475	468	**1,218**
Future Interest Receivable		606	324	324	**1,254**
Total Assets		80,837	9,687	5,830	**96,354**
Liabilities					
Deposits Received		75,374	2,388	-	**77,762**
Accounts Payable		2,982	-	-	**2,982**
Derivative Financial Liabilities		268	459	451	**1,178**
Future Interest Payable		454	65	-	**519**
Total Liabilities		79,078	2,912	451	**82,441**
Net Assets		**1,759**	**6,775**	**5,379**	**13,913**
Unrecognised Commitments	33	(11,419)	-	-	**(11,419)**
Net Liquidity Gap at 30 June 2010		**(9,660)**	**6,775**	**5,379**	**2,494**

2009	Note	Less than 3 months $000	3 months to 1 year $000	1-7 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	6,499	**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	9,249	**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	1,404	**77,993**
Net Assets		**(1,444)**	**3,902**	**8,205**	**10,663**
Unrecognised Commitments	33	(13,387)	-	-	**(13,387)**
Net Liquidity Gap at 30 June 2009		**(14,831)**	**3,902**	**8,205**	**2,724**

Notes to and forming part of the financial statements continued

For the year ended 30 June 2010

ASSOCIATION

2010	Note	Less than 3 months $000	3 months to 1 year $000	1–7 years $000	Group Total $000
Assets					
Cash and Cash Equivalents		12,508	-	-	**12,508**
Accounts Receivable		2,491	-	-	**2,491**
Investments		67,718	8,492	3,048	**79,258**
Loans Recievable		10	31	362	**403**
Derivative Financial Assets		275	475	468	**1,218**
Future Interest Receivable		606	324	324	**1,254**
Total Assets		83,608	9,322	4,202	**97,132**
Liabilities					
Deposits Received		79,045	2,388	-	**81,433**
Accounts Payable		2,537	-	-	**2,537**
Derivative Financial Liabilities		268	459	451	**1,178**
Future Interest Payable		454	65	-	**519**
Total Liabilities		82,304	2,912	451	**85,667**
Net Assets		**1,304**	**6,410**	**3,751**	**11,465**
Unrecognised Commitments	33	(11,467)	-	-	**(11,467)**
Net Liquidity Gap at 30 June 2010		**(10,163)**	**6,410**	**3,751**	**(2)**

2009	Note	Less than 3 months $000	3 months to 1 year $000	1–7 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	13,376	**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	14,714	**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**	**13,670**	**9,627**
Unrecognised Commitments	33	(13,523)	-	-	**(13,523)**
Net Liquidity Gap at 30 June 2009		**(20,737)**	**3,171**	**13,670**	**(3,896)**

The Group and Association has access to financing facilities of $7,280,000 (2009: $7,280,000). The facilities are secured by charges over interest bearing Investments. Utilisation of credit facilities at 30 June 2010 was $681,000 (2009: $644,000). 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 2010

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.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market date (unobservable inputs).

At 30 June 2010	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Group				
Financial assets at fair value				
- Derivative Financial Assets	-	899	-	**899**
- Bond (Government)	-	1,557	-	**1,557**
	-	**2,456**	-	**2,456**
Financial liabilities at fair value				
- Derivative Financial Liabilites	-	871	-	**871**
		1,585	-	**1,585**
Association				
Financial assets at fair value				
- Derivative Financial Assets	-	899	-	**899**
- Bond (Government)	-	1,038	-	**1,038**
	-	**1,937**	-	**1,937**
Financial liabilities at fair value				
- Derivative Financial Liabilites	-	871	-	**871**
	-	**1,066**	-	**1,066**

There were no transfers between Level 1 and 2 in the period.

Notes to and forming part of the financial statements continued

For the year ended 30 June 2010

31 Investments In Subsidiaries

Subsidiaries controlled at 30 June

Name	Percentage Holding at Balance Date 2010	2009	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	0%	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	-
PlatinumDirect Limited was sold in the current year.				

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 2010 the Association held investment bonds issued by subsidiaries which are valued at $4,214,000 (2009: $7,402,000).

At 30 June 2010 interest of $102,000 (2009: $111,000) was payable to the Association in respect of these bonds.

The Association provides unsecured overdraft facilities to subsidiaries. At 30 June 2010 overdraft facilities available to subsidiaries totalled $120,000 (2009: $190,000). The total drawn down under these facilities at 30 June 2010 was $71,000 (2009: $54,000). Interest was charged monthly on the outstanding balances during the year at rates of between 5.9% and 5.15% (2009: between 10% and 5.15%).

During the year the Association charged interest and facility fees on the investment bonds and overdraft facilities of $498,000 (2009: $839,000) to subsidiaries.

The Association maintains bank accounts and short term deposit facilities for subsidiaries. All deposits are unsecured. At 30 June 2010 funds placed with the Association by subsidiaries totalled $3,793,000 (2009: $4,799,000). Interest is credited monthly on the outstanding balances at commercial interest rates.

Notes to and forming part of the financial statements continued

For the year ended 30 June 2010

During the year the Association paid interest of $137,000 to subsidiaries (2009 $279,000).
During the year the Association charged fees to subsidiaries of $459,000 (2009 $523,000).
During the year the Association was charged fees by the subsidiaries of $455,000 (2009 $446,000).

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	
	2010	**2009**	**2010**	**2009**
	$000	**$000**	**$000**	**$000**
Short Term Employee Benefits	1,176	1,009	1,113	942

33 Commitments

	Group		Association	
	2010	**2009**	**2010**	**2009**
	$000	**$000**	**$000**	**$000**
Undrawn advances under credit facilities	11,414	13,345	11,462	13,481
Capital expenditure	5	42	5	42
	11,419	**13,387**	**11,467**	**13,523**

34 Contingent Liabilities

As shown in note 16, loans and receivables owing to NZCU Finance Limited for $403,121 were sold on 30 June 2010 by the company to Diversified Finance Limited and financed by NZACU. Two of the loans were sold with a put option back to NZCU Finance Limited by 31 December 2010. The maximum amount of exposure under the put options is $39,379.

The Association has received a claim from a third party for $310,640 plus interest in relation to a deed of arrangement between NZACU and Pioneer Insurance Company Limited dated 27 June 2007. The Association denies that it is in breach of the deed of arrangement and the Board does not consider that the claim has any validity.

35 Litigation

Pioneer Insurance Company Limited initiated the following legal action in 2009 for a total sum of $5,123,976 plus interest and costs:

1. Statement of claim against the former auditor of the Company
2. Statement of claim against its co-guarantors in relation to payment of a statutory demand made under a guarantee given by the Company
3. Statement of claim against the former directors of the Company.

Pioneer has concluded the legal action initiated in respect of points 1,2 and 3. A substantial settlement was received as full and final settlement of points 1 and 3, and is included within Other Revenue. Pioneer has decided to discontinue any action in relation to point 2.

Notes to and forming part of the financial statements continued

For the year ended 30 June 2010

36 Notes to The Statement of Cash Flows

a) Reconciliation of Profit/(Loss) to Net Operating Cash Flows

	Group		Association	
	2010	**2009**	**2010**	**2009**
	$000	**$000**	**$000**	**$000**
Profit/(Loss)	2,348	(5,247)	1,415	(5,979)
Adjustments to reconcile operating profit/(loss) to net cashflow from operating activities				
Add/(less) non cash items:				
Depreciation	603	605	462	434
Amortisation	1,112	1,195	376	497
Provision for Credit Impairment	-	3,179	-	8,066
Loss on Disposal of Property, Plant and Equipment	(7)	6	(7)	(10)
Unrealised Loss/(Profit) on Bond Investments	19	(65)	19	(65)
Prior year adjustment - Accounts Receivable	-	185	-	-
	1,727	**5,106**	**850**	**8,922**
Add/(less) movements in Working Capital:				
(Increase)/Decrease in Inventory	60	101	60	101
(Increase)/Decrease in Accounts Receivable	131	1,768	109	(284)
(Increase)/Decrease in Loans Receivable	1,095	1,764	-	-
(Increase)/Decrease in Prepayments	10	87	7	(74)
(Increase)/Decrease in Taxation Receivable	-	-	-	-
(Increase)/Decrease in Derivative Financial Assets	1,208	(1,979)	1,207	(1,979)
Increase/(Decrease) in Accounts Payable	343	(895)	580	(874)
Increase/(Decrease) in Unearned Premium Liability	(166)	(2,968)	-	-
Increase/(Decrease) in Provisions	(142)	(182)	(90)	(11)
Increase/(Decrease) in Life Insurance Liability	(27)	58	(28)	58
Increase/(Decrease) in other Association Insurance Liability	(73)	254	(72)	254
Increase/(Decrease) in Motor Vehicle Insurance Liability	(122)	(978)	-	-
Increase/(Decrease) in Finance Lease Liabilities	-	(29)	-	(20)
Increase/(Decrease) in Derivative Financial Liabilities	(1,186)	2,013	(1,186)	2,013
	(1,131)	**(968)**	**587**	**(816)**
Add/(less) items classified as investing activities				
Non Cash movement in Investments	(61)	574	(166)	574
Add items included within Financing Activities:				
Non Cash movement in Deposits Received	29	(435)	29	(435)
Non Cash movement in Base Capital Notes	243	-	243	-
Net Cash Flow From Operating Activities	**5,417**	**(988)**	**2,958**	**2,266**

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 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 2010

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	
	2010	**2009**	**2010**	**2009**
	$000	**$000**	**$000**	**$000**
Current Assets				
Cash	308	11	308	11
Investments	-	1,019	-	1,019
Net Assets	**308**	**1,030**	**308**	**1,030**

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

	Group		Association	
	2010	**2009**	**2010**	**2009**
	$000	**$000**	**$000**	**$000**
Income				
Investments Interest	35	59	35	59
Recoveries	-	1	-	1
Expenses				
Operating Expenses	(676)	-	(676)	-
Operating Profit/(loss)	**(641)**	**60**	**(641)**	**60**

A meeting of the Members of the Association on 22 May 2010 resolved to repay the Stabilisation Fund. At balance date part of the Fund was distributed to Members with the balance payable in the year to 30 June 2011.

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	
	2010	**2009**	**2010**	**2009**
	$000	**$000**	**$000**	**$000**
Current Assets				
Cash	93	94	93	94
Net Assets	**93**	**94**	**93**	**94**

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

Donations, Interest and Grants received	3	6	3	6
Grant Paid	(4)	-	(4)	-
Operating Profit/(loss)	**(1)**	**6**	**(1)**	**6**

Notes to and forming part of the financial statements continued

For the year ended 30 June 2010

39 Member Services Division Operating Surplus

	2010 $000	2009 $000
Stabilisation	(641)	60
New Zealand Credit Union Foundation	(1)	6
MSD Operations	(59)	(275)
Total	**(701)**	**(209)**

40 Events After The Balance Sheet Date

The Directors have declared a dividend of $765,264 payable on 30 September 2010.