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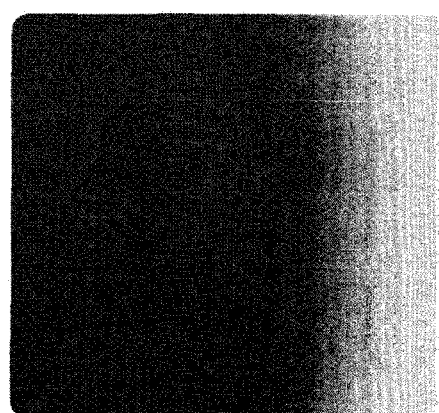
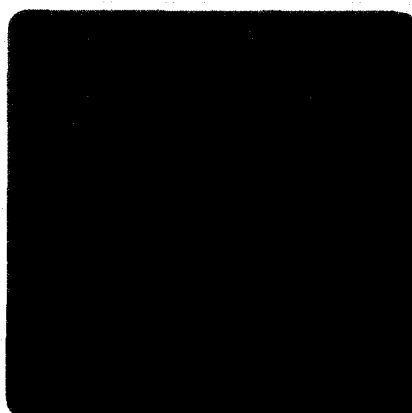
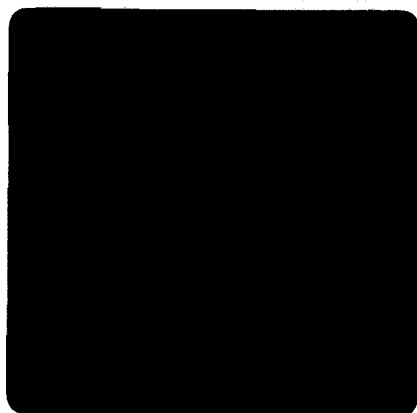


NZACU

New Zealand Association of Credit Unions

ANNUAL REPORT 2011

New Zealand Association of Credit Unions



Location of Member Credit Unions & Branches

NORTHLAND REGION

NZCU Steelsands

Marsden Point

Westforce Credit Union

Whangarei

Aotearoa Credit Union

Whangarei

AUCKLAND REGION

Aotearoa Credit Union

Botany Junction

Clendon

Glen Innes

Mangere

Otahuhu

Otara

Papakura

Papatoetoe

Carbine Credit Union

Mt. Wellington

NZCU Auckland

Auckland Airport

Penrose

Manukau City

Fisher & Paykel Credit Union

East Tamaki

NZCU Employees

Penrose

Harbour Board Staff

Credit Union

Mechanics Bay

NZCU Steelsands

Auckland City

Glenbrook

Waiuku

United Credit Union

Howick

Westforce Credit Union

Avondale

Great Barrier Island

Onehunga

Papakura

Pukekohe

WAIKATO REGION

Aotearoa Credit Union

Hamilton

First Credit Union

Hamilton City

Te Aroha

NZCU 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

NZCU North

Kawerau

Taupo

Turangi

Whakatane

Mt. Maunganui

Papamoa Beach

Greerton

Te Puke

Bethlehem

NZCU Rotorua

Rotorua

TARANAKI REGION

NZCU Baywide

New Plymouth

GISBORNE REGION

AWHI Credit Union

Gisborne

NZCU Baywide

Gisborne

HAWKE'S BAY REGION

Credit Union Bay Health

Hastings

NZCU Baywide

Dannevirke

Hastings

Napier

Waipukurau

Wairoa

WEST COAST REGION

NZCU South

Greymouth

Hokitika

Westport

CANTERBURY REGION

Christchurch Emergency Services Credit Union

Christchurch

NZCU South

Hornby

Shirley

Timaru

OTAGO REGION

NZCU South

Dunedin

Lawrence

Oamaru

Palmerston

SOUTHLAND REGION

Alliance Group Credit Union

Invercargill

NZCU South

Invercargill

Invercargill South

Gore

WELLINGTON REGION

Aotearoa Credit Union

Porirua

NZCU Baywide

Lower Hutt

Masterton

Porirua

Wainuiomata

NZ Firefighters' Credit Union

Petone

United Credit Union

Johnsonville

NELSON REGION

NZCU South

Nelson

Motueka

Richmond

Takaka

Nelson Port

MANAWATU/ WANGANUI REGION

Aotearoa Credit Union

Wanganui

NZCU Baywide

Palmerston North

Palmerston North

Hospital

Wanganui

Wanganui Hospital



NZACU Overview

Our profile

The New Zealand Association of Credit Unions (NZACU) is the industry association for credit unions. Our Members provide 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.

Competitive Advantage Member Benefits Based on Co-operation

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 21 credit unions of the 27 registered credit unions with total assets of \$654 million.

Our market

NZACU represents credit unions that meet the financial services needs of more than 175,000 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 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 by regulators.

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 - debit card which can be used at all ATM and EFTPOS terminals throughout New Zealand and overseas where the MAESTRO logo is displayed
- Accesscash - nationwide network of over 80 ATMs
- Bilateral agreements in place with all mainstream banks
- Full service bank accounts to credit union members
- Local help desk support
- Central Banking - central treasury system for managing credit union liquidity
- Credit Union Insurance - range of insurance products such as funeral, loan protection and motor vehicle insurance

Member Services provides

- Guidance on legislative changes
- Learning and development courses for credit union directors, managers and staff
- 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
- Networking opportunities for credit unions
- 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

GRAHAM CLOUSTON

Chair

Elected to the Board in September 2009.

Other responsibilities:

Manager, NZACU Stabilisation Fund
Director, CU Securities Limited

SIMON SCOTT

Vice Chair

Elected to the Board in September 2009.

Other responsibilities:

Trustee, NZACU
Manager, NZACU Stabilisation Fund

BRUCE ROSS

Director

Elected to the Board in September 2008.

Other responsibilities:

Trustee, NZACU
Manager, NZACU Stabilisation Fund
President, CUINZ

BRIAN HANCOCK

Director

Elected to the Board in December 2009.

Other responsibilities:

Member, NZACU Audit & Risk Committee
Manager, NZACU Stabilisation Fund

MALCOLM BLAIR

Director

Elected to the Board in September 2010.

Other responsibilities:

Member, NZACU Audit & Risk Committee
Manager, NZACU Stabilisation Fund

ROB NICHOLLS

Independent Director

Appointed to the Board in November 2009.

Other responsibilities:

Chair, NZACU Audit & Risk Committee
Manager, NZACU Stabilisation Fund

HENRY LYNCH

CEO & Director (Ex Officio)

Appointed to the CEO role and the Board in September 2010.

Key Highlights of the Year to 30 June 2011

FINANCIAL

Group Profit for Year:
\$881,000

Weighted Capital Adequacy
Improvement:
15.27%

Standard & Poors Credit
Rating Upgrade:
BB stable (December 2010)

Annualised Savings Returned
to Member Credit Unions:
\$1,347,000

Annual Dividend:
\$755,000

BUSINESS AND MEMBER SERVICES

New Committee Established:
Information Systems Steering Committee (ISSC)
completed Core Banking System Review and
developed Scorecard and Roadmap

Product Development:
Marketing Reporting Program

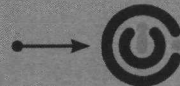
IS Channels uptime
target of: **99.98%** exceeded

9 credit unions granted QFE status

10 Submissions made on your behalf

**All credit unions became members of an approved
Dispute Resolution Scheme** ahead of deadline

PIONEER
FAIR CAR INSURANCE



CREDIT UNION INSURANCE

Rebranded: Pioneer Insurance Ltd to
Credit Union Insurance Ltd

COMMUNICATION & SUPPORT

**Comprehensive
Communications Plan**
put in place for Members

**Public Relations Strategic
Plan** developed

**Mainstream Media reports
on Credit Unions/NZACU:**
25+

**Directors Visitation
Programme to Member
Credit Unions** established

Forums & Summits Held:
2 Managers, Chairs &
Directors Forums
3 Summits – Loans, Insurance,
Anti-Money Laundering

Notices to Members issued:
55% increase

**Visits by the Chief Executive
to Member Credit Unions:**
30+ in 11 months

CU Insight Enhanced

**Member Satisfaction
Survey June 2011**
92.31%
Agree or Strongly Agree
NZACU is delivering on the
Members' Strategic Plan

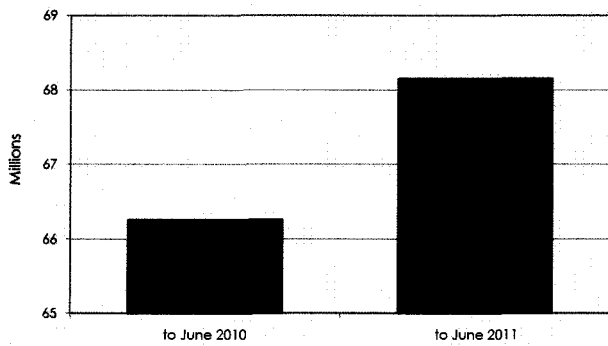
**All NZACU & CUIL Staff
completed Module 1:**
The Credit Union Movement

**Your calls answered at the
NZACU Help Desk during the
year: 6,197** in total

Our Member Credit Unions Increased
FACTS Bureau Transactions by:

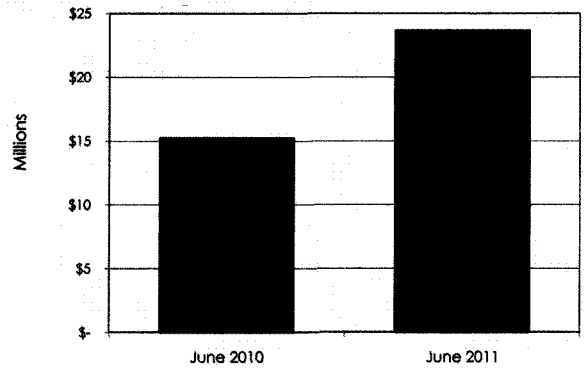
1.43 million

FACTS Bureau Transactions

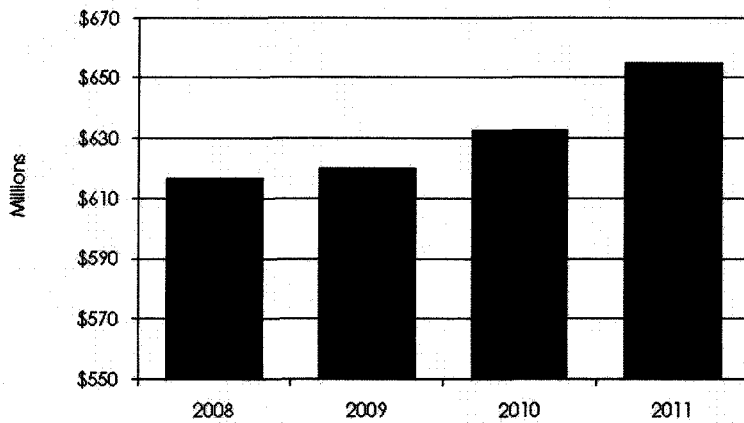


Credit Union KiwiSaver
a 25% increase in membership

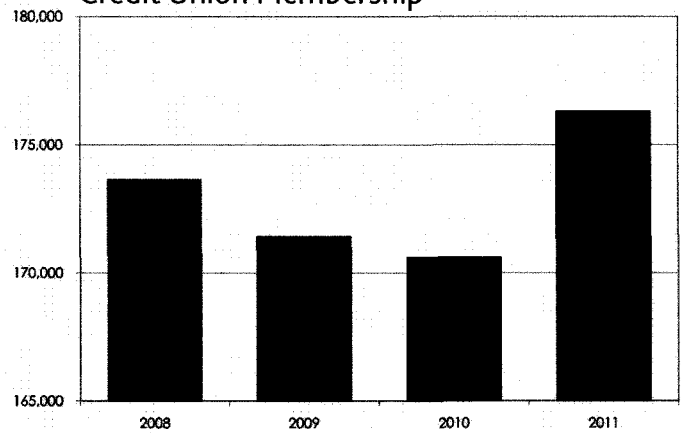
Credit Union Kiwisaver Total Value of Units Held



Credit Union Assets

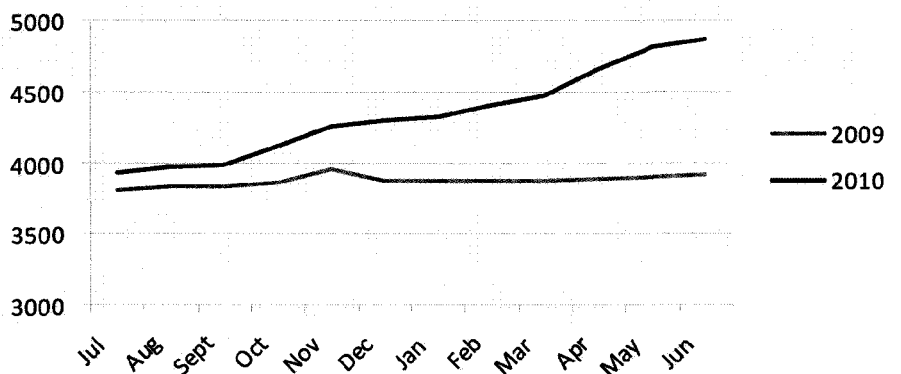


Credit Union Membership



Members' achieved
outstanding results on
Credit Union Insurance
Funeral Plan Policy sales

Credit Union Insurance Funeral Plan Policy Series



Chairman's Report

Graham Clouston

Overview

A continuation in the positive financial recovery for the NZACU in the year to 30 June 2011 has been the result of a number of factors. The hard work and dedication of the management and staff under the capable guidance of new CEO, Henry Lynch, needs to be recognised. Whilst management and procedural changes have inevitably been required as part of a strategic restructuring process, Henry has given the organisation the stability and leadership needed to bring the NZACU through the other side of a difficult period in very good shape.

A stable and unified Board has been key to implementing and managing what has been far-reaching change in the NZACU's governance and focus. Having a clear mission and strategic plan to guide all that we do has enabled us to ensure we are heading in the right direction with the support of our Member credit unions.

The first goal of the Strategic Plan was to restore the NZACU's capital adequacy and return value to our Members, which I am pleased to say we have both achieved and exceeded. As the result of a robust capital management plan developed in conjunction with and supported by Members, risk weighted capital adequacy was restored to 15.27% by the end of June 2011. Standard & Poor's reaffirmed NZACU and Credit Union Insurance Ltd's BB credit rating in December and upgraded the outlook to stable, which is a fantastic achievement by all concerned.

As part of returning value to members, the board set a target to achieve an annual dividend of bank bill mid-rate ("BBMR") plus 2% - 3%. The interim dividend paid for the six months to 31 December 2010 was declared at BBMR + 2%, which is 5.2% or \$355,625. Following balance date, the board declared a final dividend paid for the six months ended 30 June 2011 of BBMR + 3%. This is 5.83% or \$399,200, and will be paid in September.

NZACU's strategy is to seek a judicious balance between returns to Member credit unions by way of dividend and value for money through the provision of products and services that are priced as advantageously as possible.

Group profit for the year to 30 June 2011 is \$881,000, compared to the prior year \$2,348,000. This is considered very satisfactory given the savings passed to credit unions through the implementation of our Strategic Plan.

Cost Savings

In a drive to ensure the most competitive pricing available to our Member credit unions, the Board and Management have undertaken a comprehensive review of supplier costs and implemented other savings initiatives which have seen a number of significant results this year.

In total, annualised savings of \$1,347,000 have been returned to Member credit unions by a combination of re-pricing at the NZACU level and by significant price reductions achieved through negotiations with our major business partners.

Regulatory & Compliance Issues

From the 1st May 2011, the Financial Markets Authority began regulating New Zealand's financial services industry, overseeing securities, financial reporting and company law as they apply to these

markets. Their role is broader than the previous Securities Commission as they have also taken on some additional roles from the Ministry of Economic Development. Keeping credit unions in touch with the implications of such major changes has been a major role for the Risk and Compliance team over the past year.

In addition, the Financial Advisers Act (FAA) has significantly changed the way all financial services organisations operate and the way in which we are able to give advice to our members. Following the Global Financial Crisis, this Act aims to protect consumers and is a positive step towards removing the 'sharks' from the marketplace, however, compliance with this Act has understandably become a very large industry on its own and its implications and restrictions can be somewhat complex.

Fortunately, the Risk and Compliance team have been working with Member credit unions to help guide them through the requirements of the Act as they are brought on-line, and it is great to see that all nine credit unions that applied for Qualifying Financial Entity (QFE) status were approved. This is a significant achievement by Member credit unions and will have a positive impact on their ability to provide financial advice under the FAA.

In terms of lobbying for positive government and legislative support for the credit union Movement, the Board and Executive Management have undertaken numerous meetings and communications to build and reinforce relationships with key influencers and ministers, and I believe our collective voice is becoming stronger.

Whilst progress on getting the Regulatory Reform Bill through Parliament has been frustratingly slow, it has passed its first reading and been referred to the Commerce Select Committee and is now before Parliament. The bill includes a number of important proposed reforms to reduce existing prudential and operational constraints over credit unions. In particular, it proposes to remove the deposit limit of \$250,000, allow credit unions to issue certain securities and to reduce Registrar supervision requirements. With the help of our Member credit unions, I believe that we have garnered enough cross-party support so that when it is finally tabled in Parliament, it will be passed and we will at last be able to compete on a more level playing field with the banks.

Together a Positive Future

I believe the year has seen a significant leap forward in both the Unity and Cooperation between Member credit unions and the NZACU, and together we have achieved a great deal in terms of overcoming past issues.

Member credit unions can be assured that the NZACU Board, management and staff are looking forward to building on the solid foundations laid in this past year of change. I believe the future of the Movement is filled with opportunities and that we are in the best possible position we can be to take advantage of whatever the next year brings our way!

As always, I would like to thank our Members for their support of the Board, and my fellow Directors for their dedication, hard work and personal support over the past year.


Graham Clouston
Chair

Report of the Chief Executive for the year ended 30 June, 2011

Henry Lynch

In my first report as Chief Executive, after having been in the role for almost 12 months, I would like to reflect on the noticeable shift in sentiment over what has continued to be uncertain economic (and environmental) times.

The Global Financial Crisis, and the Christchurch earthquakes in particular, have had a significant effect on the psyche of many New Zealanders, prompting a re-evaluation of many facets of their lives, in particular, their financial security.

Whilst the flow-on economic effect of increased insurance premiums may have yet to be felt following the earthquakes, an overriding positive has come out of the past few years of uncertainty: Kiwis finally seem to be heading away from the "quick fixes" of borrowing and retail spending, and moving towards saving.

The trend is backed up by the NZ Institute of Economic Research's (NZIER) Quarterly Survey of Business Opinion which estimated the current savings rate to be about 2 per cent of income, the first time it was a positive figure since the early 1990s, rather than people spending more than they earned by borrowing.

I would like to think that credit union members have definitely had the advantage over most during this difficult time, as the Movement's philosophy has always been to reduce debt and promote savings, so hopefully the recent lessons learned by many New Zealanders haven't been quite so hard on them!

In line with most organisations in the current economic climate, the NZACU has undertaken a major restructure and rationalisation to help us deliver operational efficiencies for our Members. The 2010-2013 Strategic Plan has set in place a clear path for us to move forward, including measurable key performance indicators which I am pleased to say are well on their way to being fully realised.

Whilst certainly not a comprehensive list of achievements, following are some of the key projects and initiatives undertaken by the NZACU in the past 12 months on behalf of our member credit unions:

Core Banking Review

Information Systems are at the heart of our Business Services division, and it is imperative that NZACU keeps up with both the pace of technology change and the different requirements of our Member credit unions. To help improve the service we provide in this area, an Information Systems Steering Committee (ISSC) was established in 2010 with representatives from credit unions and the NZACU.

The starting point for the Group was a review of our core banking system to ensure the right fundamental infrastructure was in place. The review was undertaken by international consulting firm Deloitte to gain an outside view, and after comparing our existing FACTS system with other platform options, it was determined that it should remain as the core system for the foreseeable future.

NZACU, with the support of the ISSC, developed an Information Systems (IS) Scorecard system to monitor and report on the ongoing

IS performance of the NZACU, and an IS Roadmap that will drive the direction of changes and developments of the IS platform over the next few years.

The ISSC and the new Roadmap is helping to give the Association and our Member credit unions an excellent foundation on which to build and enhance our future information systems.

Marketing Reporting Program (MRP)

A combined marketing and information systems initiative in 2010 saw the development and release of the Marketing Reporting Program (MRP) which has so far been taken up by 7 credit unions, providing them with an invaluable evaluation tool. The program allows credit unions to automatically generate reports about their credit union membership, product and channel uptake, fees charged and so on.

This innovative new tool is now allowing credit union management to have a very accurate view of their income streams for improved financial management, and to make much more informed decisions about where their product and service focus should be to help drive growth. The prospects for the use of this new management tool within the Movement are exciting and I would encourage those Member credit unions who have not yet evaluated the potential benefits to the growth of their business to consider it further.

Increased Profile

One of the key strategic goals set in place was to significantly raise the profile of the credit union Movement across our target markets. A public relations strategic plan has been developed and public relations agency 'noodle PR' has been appointed to assist us in attaining this goal.

Senior management within NZACU have been actively building relationships with key influencers and journalists across a wide range of media, and there has been a noticeable shift in attitude and awareness in recent months, with both content and comment being sought from the NZACU and individual credit unions.

Communications

Following a communication survey completed by Member credit unions in 2010, a comprehensive Communications Plan was put in place to help improve the mutual flow and understanding of information between the Association, Member credit unions and our target audiences.

As part of the Communications Plan, the NZACU's public facing website was refreshed to provide a more professional and accessible profile to the general public and media alike. The Association's intranet, CU Insight, has also been revamped and simplified to provide Members with an easy to navigate, modern information and news repository on all matters relating to the products and services provided by the Association, as well as other useful tips and links.

One of the most valuable ways we as an Association stay in touch with our Member credit unions and gain essential feedback is through the Forums and Summits that are run throughout the year. We enjoyed two very productive Managers', Chairs' and Directors' Forums in Rotorua over the past 12 months that have provided excellent opportunities to swap ideas and make progress on a number of initiatives.

The Summits that have run in conjunction with these Forums have proved very successful in maximising learning & development opportunities for our Members whilst minimising travel costs (and time away from the coalface!).

The re-engineering of the communications and member consultation process over the past year has been a very important step in helping to significantly strengthen the relationship between the Association and our Member credit unions. Whilst good communication is always an ongoing challenge, I know the inroads we have made in the last 12 months will continue to help drive the Movement forward cohesively and thank you for your support in this key area.

Credit Union Insurance

Since the purchase of Pioneer Insurance Ltd by the NZACU, management and the NZACU Board have worked hard to achieve a number of cost and performance efficiencies, including the rationalising of the claims and administration processing for all insurance products to Pioneer's offices in Napier.

The next logical step in the strategic plan was the rebranding of Pioneer Insurance Ltd to Credit Union Insurance Ltd which took effect on 1 March 2011. The move has enhanced member acceptance of the entire insurance range, as well as simplified both the marketing and administration of the products.

Following on from the rebranding project was moving the Credit Union Insurance IT infrastructure from Napier to the NZACU office in Auckland, providing a cash saving of approximately \$242,000 per annum. This move has also allowed us to roll out a new and improved user interface ('Front End') and incorporate the Motor Vehicle Insurance (Carminder) product under the FACTS member profile. These changes will also make product usage reporting and future product enhancements much simpler and more cost effective to implement.

These initiatives will assist NZACU to improve growth in our Carminder product, reduce costs by leveraging off NZACU's IS infrastructure and improve commission returns to Member credit unions. It is also pleasing to note that the CUI rebate is \$938,000 including GST for the year, which is a small increase on the previous year.

Premises Move

Part of the overall rationalisation and review programme undertaken by the NZACU also encompassed a reassessment of the suitability and cost effectiveness of our long established premises in Parnell. Following a comprehensive market analysis, a lease was negotiated in a recently refurbished building in Teed Street, Newmarket, enabling us to move closer to the key arterial motorway accesses, and providing more suitable parking for Members and visitors.

The new Teed Street premises also has a larger floorplate which means all NZACU management and staff will all be on the same level, in a largely open plan environment. This provides much more opportunity for cross-departmental interaction and communication, as well as an overall improvement in staff relations!

In addition to a much more pleasant and productive working environment for staff, the new offices also represent a cost saving to the Association in the region of \$130,000 per annum.

50 Years of Service

September 2011 marks 50 years since the formation of the New Zealand Association of Credit Unions. From humble beginnings in 1961, the Association has seen some phenomenal periods of both growth and consolidation, and as can only be expected where passionate people have strong beliefs about a cause, some interesting times! I have made some 30 visits to member credit unions over the past twelve months and have genuinely enjoyed meeting such an enthusiastic and committed group of people.

The NZACU Team

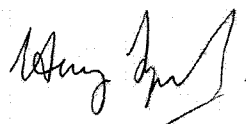
Ensuring that the ethos of 'think like a member, not about them' is enshrined in all that we do, NZACU staff engagement has been a key strategy during this challenging time of change. To enhance a better understanding across the Association's different divisions, all staff at NZACU and Credit Union Insurance have now completed online training 'Module 1: The CU Movement', with many progressing further through the training modules of their own volition.

In my relatively short time so far with the NZACU, I have seen how hard the current board, management and staff have worked to rebuild what I now believe is a very positive relationship between the Association and our Member credit unions.

I would like to thank them for all for their support and dedication.

With October 2011 seeing the launch of the UN initiated 'International Year of Cooperatives', I believe the economic conditions and market sentiment has never been better for credit unions to become a bigger and more influential part of the Kiwi financial services sector.

Our focus will continue to be on the Future: it is definitely 'our time'!



Henry Lynch
Chief Executive Officer

Board and Governance

The New Zealand Association of Credit Unions has adopted the Corporate Governance in New Zealand – Principles and Guidelines publication endorsed by the Financial Markets Authority to review and report on our governance practices. Details of the directors are set out on page 1 of this report.

At the 2010 AGM Malcolm Blair, United Credit Union was elected to the NZACU Board. He replaced Selwyn Screen. Immediately following the AGM, Graham Clouston was re-elected Chairman and Simon Scott was elected Vice Chair. Bruce Ross and Simon Scott were elected Trustees and Rob Nicholls was elected Chair of the Audit & Risk Committee. Brian Hancock and Malcolm Blair were elected as Audit & Risk Committee members.

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 only current committee of the board is the Audit and Risk Committee. 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. Management report regularly to Members on progress toward achievement of the KPIs embedded in the plan.

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 Board is ultimately responsible for the oversight of risk management and setting the Association's risk appetite and tolerances. The Audit & Risk Committee assists the Board in discharging its responsibilities with regards the oversight of risk management. The processes involved require the maintenance of a governance level Risk Management Framework and a Risk Register that identifies key operational risks facing the business and the status of various initiatives employed to reduce them. The Audit & Risk Committee is responsible for designing an internal audit programme addressing the adequacy of internal controls related to the Association's credit, liquidity, market, operational and insurance risks. The committee is also responsible for overseeing the audit programme designed to test the adequacy of internal controls related to the Information Services delivered by the Association including the security of the FACTS system.

8. Encouraging enhanced performance

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

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 comprises a base salary including the value of any benefits and may include a short term variable incentive in the form of an annual performance related payment that requires achievement of a mix of financial and business targets.

Non-executive directors' remuneration

The fees paid to non-executive directors for services in their capacity as directors of the Association during the year ended 30 June 2011 are as per the table on page 55.

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 a Director Remuneration Committee and any changes recommended to Members biennially, unless a significant market movement has occurred. The last review was in 2010 and at that AGM the directors' fees payable in any one year was increased to \$212,500.

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

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

In accordance with the Association's Rules, the Chief Executive is also a director, ex officio of the Association. Executive directors do not receive any further remuneration in their capacity as a director of the Association or its subsidiaries.

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 2011 or existed at that date.

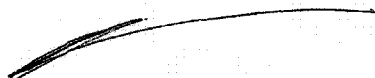
Compliance with corporate governance best practice

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.

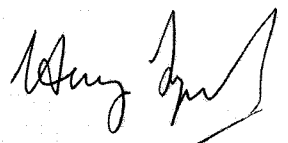
Financial Statements

The Directors are pleased to present the Financial Statements of the New Zealand Association of Credit Unions for the year ended 30 June 2011.

For and on behalf of the Board of Directors.



Graham Clouston
Chairman



Henry Lynch
Director

REPORT OF THE AUDIT AND RISK COMMITTEE

We wish to report to the members of our Association that we have attended to the requirements of the Rules as follows:

- a. We have seen that PricewaterhouseCoopers have completed the annual Audit in accordance with the Friendly Societies and Credit Unions Act 1982
- b. We have determined that a written Audit Report is received, and reviewed the Audit Report on behalf of the Members

- c. We have reviewed Association minutes and financial statements for the year to 30 June 2011 and determined that actions taken are in accordance with the Friendly Societies and Credit Unions Act 1982, Association Policy and the Rules.



Rob Nicholls
Chairman of the Audit & Risk Committee



Independent Auditors' Report

to the Members of New Zealand Association of Credit Unions

Report on the Financial Statements

We have audited the financial statements of New Zealand Association of Credit Unions ("the Association") on pages 11 to 54, which comprise the statements of financial position as at 30 June 2011, the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Association and the Group. The Group comprises the Association and the entities it controlled at 30 June 2011 or from time to time during the financial year.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

We have no relationship with, or interests in, the New Zealand Association of Credit Unions or any of its subsidiaries other than in our capacities as auditors, tax advisors and providers of other assurance services. These services have not impaired our independence as auditors of the Association and the Group.

Opinion

In our opinion, the financial statements on pages 11 to 54:

- (i) comply with generally accepted accounting practice in New Zealand;
- (ii) comply with International Financial Reporting Standards; and
- (iii) give a true and fair view of the financial position of the Association and the Group as at 30 June 2011, and their financial performance and cash flows for the year then ended.

Other Matter

The financial statements of the Association and the Group for the year ended 30 June 2010 were audited by another auditor who expressed an unmodified opinion on those financial statements on 1 September 2010.

Report on Other Legal and Regulatory Requirements

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 30 June 2011:

- (i) we have obtained all the information and explanations that we have required; and
- (ii) in our opinion, proper accounting records have been kept by the Association as far as appears from an examination of those records.

Restriction on Distribution or Use

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

Chartered Accountants
17 August 2011

Auckland

Statements of Comprehensive Income

For the year ended 30 June 2011

	NOTE	GROUP		ASSOCIATION	
		2011 \$000	2010 \$000	2011 \$000	2010 \$000
Interest Revenue	2	3,430	3,433	3,469	3,530
Interest Expense	3	2,379	2,202	2,459	2,333
NET INTEREST REVENUE		1,051	1,231	1,010	1,197
Banking Services Revenue		13,379	13,854	13,294	13,774
Insurance Premium Revenue	7	10,947	11,720	6,421	6,810
Other Revenue	4	1,732	3,625	1,717	2,106
TOTAL REVENUE NET OF INTEREST EXPENSE		27,109	30,430	22,442	23,887
Employee Costs	5	3,942	4,223	3,195	3,304
Insurance Claims and Rebates	7	7,824	9,049	4,956	5,691
Transaction Costs		8,074	8,409	8,074	8,409
Operating Expenses	6	6,008	6,707	4,692	5,068
TOTAL EXPENDITURE		25,848	28,388	20,917	22,472
NET PROFIT BEFORE IMPAIRMENT		1,261	2,042	1,525	1,415
Impairment Expenses/(Recoveries)	8	380	(306)	-	-
NET PROFIT/(LOSS) BEFORE TAXATION		881	2,348	1,525	1,415
Taxation Expense	9	-	-	-	-
PROFIT/(LOSS) AND TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		881	2,348	1,525	1,415

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

Statements of Changes in Equity (Members Funds)

For the year ended 30 June 2011

GROUP				
	Base Capital Notes \$000	Reserves \$000	Accumulated Losses \$000	Total \$000
Balance at 1 July 2009	13,158	1,030	(6,366)	7,822
Notes issued for Capitalisation of Dividends and Rebates	270	-	-	270
Notes issued by Conversion of Retained Earnings	-	-	-	-
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
Balance at 1 July 2010	13,428	389	(3,813)	10,004
Notes issued for Capitalisation of Dividends, Rebates & Stabilisation Fund	267	-	-	267
Base Capital Notes Dividends paid	-	-	(1,121)	(1,121)
Transfer to Stabilisation Fund Reserve	-	(389)	389	-
Profit/(Loss) and Total Comprehensive Income/(Loss) for the Year	-	-	881	881
Balance at 30 June 2011	13,695	-	(3,664)	10,031

ASSOCIATION				
	Base Capital Notes \$000	Reserves \$000	Accumulated Losses \$000	Total \$000
Balance at 1 July 2009	13,158	1,030	(6,145)	8,043
Notes issued for Capitalisation of Dividends and Rebates	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	-	-	1,415	1,415
Balance at 30 June 2010	13,428	389	(4,525)	9,292
Balance at 1 July 2010	13,428	389	(4,525)	9,292
Notes issued for Capitalisation of Dividends, Rebates & Stabilisation Fund	267	-	-	267
New Issues of Base Capital Notes	-	-	-	-
Base Capital Notes Dividends paid	-	-	(1,121)	(1,121)
Transfer to Stabilisation Fund Reserve	-	(389)	389	-
Profit/(Loss) and Total Comprehensive Income/(Loss) for the Year	-	-	1,525	1,525
Balance at 30 June 2011	13,695	-	(3,732)	9,963

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

Statements of Financial Position

As at 30 June 2011

	NOTE	GROUP		ASSOCIATION	
		2011 \$000	2010 \$000	2011 \$000	2010 \$000
EQUITY (MEMBER'S FUNDS)					
Base Capital Notes	10	13,695	13,428	13,695	13,428
Reserves	11	-	389	-	389
Accumulated Losses	12	(3,664)	(3,813)	(3,732)	(4,525)
TOTAL EQUITY (MEMBERS' FUNDS)		10,031	10,004	9,963	9,292
ASSETS					
Cash and Cash Equivalents	13	9,516	12,508	9,516	12,508
Accounts Receivable	14	3,614	3,909	2,087	2,491
Investments	15	69,950	75,491	71,577	79,258
Loans Receivable	16	1,448	1,974	1,373	403
Prepayments	17	637	434	447	252
Inventory	18	347	92	347	92
Derivative Financial Assets	19	448	899	448	899
Property, Plant and Equipment	20	395	787	259	664
Other Intangible Assets	21	493	766	241	199
TOTAL ASSETS		86,848	96,860	86,295	96,766
LIABILITIES					
Deposits Received	22	68,459	77,762	71,065	81,433
Accounts Payable	23	3,176	2,982	2,545	2,537
Unearned Premium Liability	24	2,070	2,364	-	-
Provisions	25	357	353	306	311
Life Insurance Liability	7	98	157	98	157
Other Association Insurance Liability	7	1,880	2,165	1,880	2,165
Motor Vehicle Insurance Liability	7	339	202	-	-
Derivative Financial Liabilities	27	438	871	438	871
TOTAL LIABILITIES		76,817	86,856	76,332	87,474
NET ASSETS		10,031	10,004	9,963	9,292

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

These financial statements were authorised for issue by the Board of Directors on 17 August 2011 and were signed for on its behalf.

Graham Clouston
Chairman

Henry Lynch
Director

Statements of Cash Flows

For the year ended 30 June 2011

NOTE	GROUP		ASSOCIATION	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Cash Flows from operating activities				
Cash was provided from				
Membership Contributions Received	759	764	759	764
Insurance Premiums Received	9,618	10,447	5,233	5,507
Other Receipts from Customers	14,304	16,679	14,165	15,346
Loan Repayments from Customers	1,524	1,132	92	-
Investment Interest Received	3,163	3,152	3,451	3,401
Motor Vehicle Claims Recoveries	692	866	-	-
Credit Union Foundation Grants & Donations	5	1	5	1
	30,065	33,041	23,705	25,019
Cash was applied to				
Payments to Suppliers & Employees	17,029	17,025	15,032	15,272
Insurance Claims and Rebates Paid	7,146	8,441	4,073	4,486
Loan Advances to Customers	1,373	-	1,373	-
Interest Paid	2,143	2,158	2,476	2,303
	27,691	27,624	22,954	22,061
NET CASH FLOWS FROM OPERATING ACTIVITIES 34	2,374	5,417	751	2,958
Cash Flows from investing activities				
Cash was provided from				
Sale of Fixed Assets	13	24	13	24
Proceeds from sales and maturities of Investment Securities	576,015	654,435	576,129	654,272
Loans Received	-	300	-	-
	576,028	654,759	576,142	654,296
Cash was applied to				
Purchase of Property, Plant and Equipment	169	286	86	283
Purchase of Intangible Assets	423	148	226	88
Purchase of Investment Securities	568,101	658,400	568,101	657,761
Loan Repaid	300	262	-	-
	568,993	659,096	568,413	658,132
NET CASH FLOWS FROM INVESTING ACTIVITIES	7,035	(4,337)	7,729	(3,836)
Cash Flows from financing activities				
Cash was provided from				
Net increase/(decrease) in Deposits	(11,280)	2,768	(10,351)	4,726
	(11,280)	2,768	(10,351)	4,726
Cash was applied to				
Base Capital Note Dividend Paid	1,121	409	1,121	409
	1,121	409	1,121	409
NET CASH FLOWS FROM FINANCING ACTIVITIES	(12,401)	2,359	(11,472)	4,317
Net increase in Cash and Cash Equivalents	(2,992)	3,439	(2,992)	3,439
Cash and Cash Equivalents at the beginning of the year	12,508	9,069	12,508	9,069
Cash and Cash Equivalents at the End of the Year 13	9,516	12,508	9,516	12,508

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 2011

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 1982.

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 Unions is domiciled in New Zealand and its principal activities are to provide trade association and financial services for 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.

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

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

Significant Judgements, Estimates and Assumptions

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

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

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

• Allowance for Impairment Loss

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

• Estimation of Fair Value of Financial Instruments

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

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

• Estimation of Insurance Contract Liabilities

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

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

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 and Expense

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

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

Other than for non accrual items, once the recorded value of the financial asset or 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.

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

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 and Receivables

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

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

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.

c. 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.

d. Deposits Received

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

(i) 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.

(ii) 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.

e. Asset Quality

Impairment of Financial Assets

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

(i) Loans Receivable

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

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

Increases in the specific and collective allowances are recognised in the profit or loss on the Statement of Comprehensive 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 Loans Receivable

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

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

(iii) Impairment of Assets as Amortised Costs

An assessment is made at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the directors about the following loss events:

- significant financial difficulty of the issuer or obligor
- a breach of contract, such as a default or delinquency in interest or principal payments
- a concession granted to the borrower that the lender would not otherwise consider for economic or legal reasons
- relating to the borrower's financial difficulty
- it becoming probable that the borrower will enter Registered Bankruptcy or other financial reorganisation
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group; including adverse changes in the payment status of borrowers in the group.

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

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of a provision account and the amount of the loss is recognised in the Statement of Comprehensive Income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient impairment may be measured on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling collateral, whether or not foreclosure is probable. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and historical loss experience for assets with similar credit characteristics.

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

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

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

(iv.) Impairment of Asset 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 of those assets, reflected directly in profit or loss on the Statement of Comprehensive Income.

f. 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.

g. 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.

h. Cash and Cash Equivalents

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

i. Accounts Receivables

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.

j. 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.

k. 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.

l. Property, Plant and Equipment

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

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

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

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.

m. 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.

n. Taxation

The Association has not provided for income tax on the basis it is exempt for tax under Section CCW44(a) of the Income Tax Act 2007. 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 liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

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

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

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

Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against

which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

(iii) Goods and Services Tax (GST)

Revenue, expenses and assets are recognised net of the amount of GST except:

- When the GST incurred on a purchase of goods and services is not recoverable from 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

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

o. Insurance Liabilities

The Association's policy liabilities have been determined in accordance with Professional Standard No. 3 of the New Zealand Society of Actuaries. Credit Union Insurance Limited, a subsidiary of the Group, policy liabilities have been determined in accordance with Professional Standard No. 4 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.

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.

p. Provisions

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

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance 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.

q. 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.

r. 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.

s. 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.

t. Statement of Cash Flows

The Statement of Cash Flows is prepared exclusive of GST. The following are definitions of the terms used in the Statement of Cash Flows:

- Cash and Cash Equivalents are considered to be cash on hand and call deposits
- Investing activities are those relating to the acquisition, holding and disposal of property, plant and equipment and investments. Investments can include movements in related party balances and securities not falling within the definition of cash and cash equivalents

- Financing activities are those activities which result in changes in the size, composition and the capital structure of the 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.

u. Segment Reporting

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

v. Comparative Financial Statements

All accounting policies, except for those affected by the adoption of new standards, have been applied on bases consistent with prior years.

w. New accounting standards and interpretations issued not yet effective and have not been early adopted by the Group

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 July 2011 or later periods, but the Group has not early adopted them.

NZ IFRS 9 Financial Instruments (effective for annual reporting periods beginning on or after 1 January 2015)

NZ IFRS 9 Financial Instruments addresses the classification, measurement and de-recognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2015 but is available for early adoption. NZ IFRS 9 replaces the multiple classification and measurement models in NZ IAS 39 with a single model that has only two classification categories: amortised cost and fair value. The Group is yet to assess the full impact of NZ IFRS 9.

NZ IAS 24 Related Party Disclosures (effective for annual reporting periods beginning on or after 1 January 2011)

In December 2009 the IASB issued a revised IAS 24 Related Party Disclosures. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Group will apply the amended standard from 1 July 2011. It is not expected to have any effect on the Group's or the parent entities related party disclosures.

Disclosures on Transfers of Financial Assets (Amendment to NZ IFRS 7) (effective for annual reporting periods beginning on or after 1 July 2011)

In November 2010, the IASB made amendments to IFRS 7 Financial Instruments: Disclosures which introduce additional disclosures in respect of risk exposures arising from transferred financial assets. The amendments will affect particularly entities that sell, factor, securitise, lend or otherwise transfer financial assets to other parties. They are not expected to have any significant impact on the Group's disclosures.

NZ IFRS 10 Consolidated Financial Statements, NZ IFRS 11 Joint Arrangements, NZ IFRS 12 Disclosure of Interests in other Entities and revised NZ IAS 27 Separate Financial Statements and NZ IAS 28 Investments in Associates and Joint Ventures (effective 1 January 2013)

In May 2011, the IASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

NZ IFRS 10 replaces all of the guidance on control and consolidation in NZ IAS 27 Consolidated and separate financial statements, and NZ SIC-12 Consolidation – special purpose entities. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. The Group does not expect the new standard to have a significant impact on its composition.

NZ IFRS 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. NZ IFRS 11 also provides guidance for parties that participate in joint arrangements but do not share joint control. As the Group is not party to any joint arrangements, this standard will not have any impact on its financial statements.

NZ IFRS 12 sets out the required disclosures for entities reporting under the two new standards, IFRS 10 and IFRS 11, and replaces the disclosure requirements currently found in IAS 28. Application of this standard by the Group will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's investments.

NZ IAS 27 is renamed Separate financial statements and is now a standard dealing solely with separate financial statements. Application of this standard by the Group will not affect any of the amounts recognised in the financial statements.

Amendments to NZ IAS 28 provide clarification that an entity continues to apply the equity method and does not re-measure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a "partial disposal" concept. Application of this standard is not expected to have any impact on the financial statements.

The Group does not expect to adopt the new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting ending 30 June 2014.

NZ IFRS 13 Fair value measurement (effective 1 January 2013)

NZ IFRS 13 was released in May 2011. NZ IFRS 13 explains how to measure fair value and aims to enhance fair value disclosures. The Group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

Revised IAS 19 Employee Benefits (effective 1 January 2013)

In June 2011, the IASB released a revised standard on accounting for employee benefits. The ASRB is expected to issue an equivalent revised NZ IAS 19 Employee Benefits shortly. The revised standard requires the recognition of all re-measurements of defined benefit liabilities/assets immediately in other comprehensive income (removal of the so-called 'corridor' method) and the calculation of a net interest expense or income by applying the discount rate to the net defined benefit liability or asset. This replaces the expected return on plan assets that is currently included in profit or loss. The standard also introduces a number of additional disclosures for defined benefit liabilities/assets and could affect the timing of the recognition of termination benefits. The amendments will have to be implemented retrospectively.

Revised IAS 1 Presentation of Financial Statements (effective 1 July 2012)

In June 2011, the IASB made an amendment to IAS 1 Presentation of Financial Statements. The ASRB is expected to make equivalent changes to NZ IAS 1 shortly. The amendment requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. It will not affect the measurement of any of the items recognised in the balance sheet or the profit or loss in the current period. The Group intends to adopt the new standard from 1 July 2012.

Notes to and forming part of the financial statements

For the year ended 30 June 2011

2. Interest Revenue

	GROUP		ASSOCIATION	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Government and Other Bond Interest	57	65	247	535
Bank, Money Market Securities, Local Authority and Floating Rate Note Interest	2,847	2,668	2,847	2,668
Gains on Interest Rate Swaps	-	13	-	13
Loan Interest	244	373	92	-
Other Interest	282	314	283	314
TOTAL INTEREST REVENUE	3,430	3,433	3,469	3,530

3. Interest Expense

	GROUP		ASSOCIATION	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Interest on Deposits	2,301	2,146	2,395	2,280
Bank Fees and Charges	64	53	64	53
Other Interest	14	3	-	-
TOTAL INTEREST EXPENSE	2,379	2,202	2,459	2,333
NET INTEREST REVENUE	1,051	1,231	1,010	1,197

4. Other Revenue

	GROUP		ASSOCIATION	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Membership Contributions	754	752	754	752
Loan Fee Revenue	-	37	-	-
Legal Settlement Received	-	1,350	-	-
Other Revenue	978	1,486	963	1,354
TOTAL OTHER REVENUE	1,732	3,625	1,717	2,106

5. Employee Costs

	GROUP		ASSOCIATION	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Salaries and Wages	3,735	3,867	3,004	2,968
Other Staff Costs	207	356	191	336
TOTAL EMPLOYEE COSTS	3,942	4,223	3,195	3,304

Notes to and forming part of the financial statements

For the year ended 30 June 2011

6. Operating Expenses

	GROUP		ASSOCIATION	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Auditors' Remuneration:				
Audit fees paid to PwC	76	-	45	-
Other fees paid to PwC	13	-	-	-
Audit fees paid to Deloitte	12	134	3	57
Other fees paid to Deloitte	52	23	16	14
Information System Review paid to PwC	34	-	34	-
Information System Review paid to Deloitte	85	10	85	10
Internal Audit fees paid to William Buck	40	17	31	17
Depreciation:				
Furniture, Fittings, Office Equipment & Vehicles	205	228	180	185
Computer Equipment	343	376	291	277
Amortisation of Intangible Assets	696	1,112	184	375
Directors' Fees	210	199	178	135
Director's Expenses and Training	75	72	73	68
Leasing Charges	352	414	283	310
(Gain)/Loss on Disposal of Property, Plant & Equipment	13	(6)	7	(6)
Legal Settlement Expense	332	-	-	-
Other Operating Expenses	3,470	4,128	3,282	3,626
TOTAL OPERATING EXPENSES	6,008	6,707	4,692	5,068

Notes to and forming part of the financial statements

For the year ended 30 June 2011

7. Insurance Products

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

	GROUP		ASSOCIATION	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Underwriting Results				
Life Insurance				
Gross Earned Premium	1,661	1,727	1,695	1,727
Net Earned Premium	1,661	1,727	1,695	1,727
Gross Claims	736	1,084	736	1,046
Reinsurance Share	-	-	-	-
Net Claims	736	1,084	736	1,046
Commission	217	221	217	221
Underwriting Result	708	422	742	460
Credit Union Rebates	444	173	444	173
	264	249	298	287
Other Association Insurance				
Gross Earned Premium	4,726	5,083	4,726	5,083
Net Earned Premium	4,726	5,083	4,726	5,083
Gross Claims	2,119	2,511	2,119	2,511
Reinsurance Share	-	-	-	-
Net Claims	2,119	2,511	2,119	2,511
Commission	1,010	1,085	1,010	1,085
Underwriting Result	1,597	1,487	1,597	1,487
Credit Union Rebates	430	655	430	655
	1,167	832	1,167	832
Motor Vehicle Insurance				
Gross Earned Premium	4,590	5,075	-	-
Reinsurance Premiums	(30)	(165)	-	-
Net Earned Premium	4,560	4,910	-	-
Gross Claims	2,517	2,970	-	-
Reinsurance Share	-	-	-	-
Net Claims	2,517	2,970	-	-
Commission	351	350	-	-
Underwriting Result	1,692	1,590	-	-
Total Insurance				
Net Earned Premium	10,947	11,720	6,421	6,810
Net Claims	5,372	6,565	2,855	3,557
Commissions	1,578	1,656	1,227	1,306
Underwriting Result	3,997	3,499	2,339	1,947
Credit Union Rebates	874	828	874	828
Insurance Claims, Commission and Rebates	7,824	9,049	4,956	5,691
Total Underwriting Result after Commission and Rebates	3,123	2,671	1,465	1,119

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. The actuary's report for the Association is based on data as at 31 May 2011. The actuary's report for Credit Union Insurance Limited is based on data as at 30 June 2011.

Association Life and Other

The Association's insurance contracts consist of group schemes providing death, disability, redundancy, trauma and bankruptcy benefits on a unit rated basis, and a group scheme providing funeral benefits on the basis of individually rated premiums.

Notes to and forming part of the financial statements

For the year ended 30 June 2011

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

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

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

The provision for open disability claims has been based on past claim termination patterns, applied to the insured benefit of notified claims. Claims provisions have been discounted using an interest rate of 3.24% per annum (2010: 3.65%).

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 Association's policy is to maintain sufficient capital to meet the Reserve Bank of New Zealand's minimum capital requirement for insurers and to maintain our long term counterparty credit rating of BB stable.

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

The IBNR provision is based on a conventional chain ladder method applied to the cost of claims reported to date in respect of each month of loss. An additional risk margin is maintained in the claim provisions to ensure a greater than 50% likelihood of the sufficiency of the provisions. The actuary has recommended a risk margin of 8.5% (2010: 8.5%), which provides a likelihood of sufficiency of 75% (2010: 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

For the year ended 30 June 2011

	GROUP		ASSOCIATION	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Outstanding Claims Liability				
Life Insurance				
Opening Claims Liability	157	185	157	185
Claims Expense	735	1,046	735	1,046
Claims Paid	(794)	(1,074)	(794)	(1,074)
Life Insurance Liability	98	157	98	157
Other Association Insurance				
Opening Claims Liability	2,165	2,237	2,165	2,237
Claims Expense	2,119	2,511	2,119	2,511
Claims Paid	(2,404)	(2,583)	(2,404)	(2,583)
Other Association Insurance Liability	1,880	2,165	1,880	2,165
Motor Vehicle Insurance				
Opening Claims Liability	750	1,070	-	-
Claims Expense	3,096	3,597	-	-
Claims Paid	(3,073)	(3,917)	-	-
Closing Gross Claims Liability	773	750	-	-
Motor Vehicle Expected Recoveries Receivable				
Opening Expected Recoveries	548	747	-	-
Increase In Expected Recoveries	465	667	-	-
Actual Third Party Recoveries Received	(579)	(866)	-	-
Closing Expected Recoveries	434	548	-	-
Motor Vehicle Insurance Liability	339	202	-	-

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.

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 2011 was approximately 6.0 months (2010: 7.7 months). The average expected term to settlement of Motor Vehicle Insurance outstanding claims was approximately 43 days (2010: 35 days).

Notes to and forming part of the financial statements

For the year ended 30 June 2011

	GROUP		ASSOCIATION	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Composition of Outstanding Claims Liability				
Life Insurance				
Outstanding claims	-	20	-	20
IBNR	98	137	98	137
Life Insurance Liability	98	157	98	157
Other Association Insurance				
Outstanding claims	1,553	1,806	1,553	1,806
IBNR	327	359	327	359
Other Association Insurance Liability	1,880	2,165	1,880	2,165
Motor Vehicle Insurance				
Outstanding claims	523	504	-	-
Risk Margin	44	43	-	-
Indirect Claims Management	96	93	-	-
IBNR	110	110	-	-
Closing Gross Claims Liability	773	750	-	-
Closing Expected Recoveries	(434)	(548)	-	-
Motor Vehicle Insurance Liability	339	202	-	-

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.

Reinsurance - the Association does not maintain reinsurance cover as its historical underwriting surpluses are such that in the Directors view there are sufficient underwriting surpluses being generated to be able to meet the obligations that would otherwise have been met by a catastrophe reinsurer. Credit Union Insurance Limited (the "Company") 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 department. Staff are allocated settling limits and authorities commensurate with their levels of experience. These authority limits are reviewed regularly. Overall authority and claims management for both the Association and Credit Union Insurance Limited is provided by the Credit Union Insurance Limited Claims Manager who has over twenty years experience in the industry. 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

The Group's insurance contracts written are entered into on a standard form and in 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 in 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 Credit Union Insurance Limited's motor vehicle insurance contracts relates primarily to *premium receivable* which is due from 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 management strategy includes consideration of operational risk. Management and staff are responsible for identifying, assessing and managing operational risks in accordance with their roles and responsibilities.

Insurance Rating

The Association has a long term counterparty credit rating of BB issued by Standard & Poor's. Credit Union Insurance Limited has a Financial Strength rating of BB- Stable issued by Standard & Poor's.

Notes to and forming part of the financial statements

For the year ended 30 June 2011

8. Impairment

	GROUP		ASSOCIATION	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Movement in Provisions in respect of:				
Loans Receivable	102	(1,635)	-	-
	102	(1,635)	-	-
Amounts written off in respect of:				
Loans Receivable	278	1,329	-	-
IMPAIRMENT EXPENSE/(RECOVERIES)	380	(306)	-	-

Refer to notes 14 and 16 for further information.

9. Taxation

	GROUP		ASSOCIATION	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Profit / (Loss) before Taxation	881	2,348	1,525	1,415
Income Tax at current rate of 30%	264	704	458	425
Exempt Income	(458)	(425)	(458)	(425)
Non Deductible Expenses	45	12	-	-
Effect of Changes in Tax Rates	-	-	-	-
Movement in Temporary Differences (not recognised)	(33)	(699)	-	-
Prior Period Adjustments	(80)	32	-	-
Utilisation of Tax Losses (not previously recognised)	262	376	-	-
TAXATION EXPENSE	-	-	-	-
Unrecognised Deferred Tax Balances				
The following net deferred tax assets have not been recognised:				
Tax Losses	1,408	1,670	-	-
Temporary Differences	155	122	-	-
	1,563	1,792	-	-

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 the Inland Revenue Departments assessment in the next tax return.

Notes to and forming part of the financial statements

For the year ended 30 June 2011

Unrecognised deferred tax assets are comprised as follows:

2011	Opening Balance \$000	Charged to Income \$000	Closing Balance \$000
Deferred Tax Assets:			
Tax Losses	1,670	(262)	1,408
Provisions	16	(2)	14
Impairment Losses	265	(68)	197
	1,951	(332)	1,619
Deferred Tax Liabilities:			
Property, Plant and Equipment	1	(2)	1
Intangible Assets	(111)	102	(9)
Deferred Acquisition Costs	(49)	3	(46)
	(159)	103	(56)
	1,792	(229)	1,563

2010

Deferred Tax Assets:			
Tax Losses	1,294	376	1,670
Provisions	23	(7)	(16)
Impairment Losses	756	(491)	265
	2,073	(122)	1,951
Deferred Tax Liabilities:			
Property, Plant and Equipment	35	(34)	1
Intangible Assets	61	(172)	(111)
Deferred Acquisition Costs	(53)	4	(49)
	43	(202)	(159)
	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 changed from 30% to 28% with effect 1 April 2011. As the unrecognised deferred tax items will reverse after 1 April 2011, they will be utilised at the new 28% tax rate.

Notes to and forming part of the financial statements

For the year ended 30 June 2011

10. Base Capital Notes

	GROUP & ASSOCIATION		GROUP & ASSOCIATION	
	2011	2010	2011	2010
	Quantity	Quantity	\$000	\$000
Issue I	21	22	210	220
Issue II	13,484,680	13,208,141	13,485	13,208
	13,484,701	13,208,163	13,695	13,428

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 & ASSOCIATION		GROUP & ASSOCIATION	
	2011	2010	2011	2010
	Quantity	Quantity	\$000	\$000
Issue I				
Balance at 1 July	22	25	220	250
Notes redeemed by transfer to Base Capital Notes II	(1)	(3)	(10)	(30)
Balance at 30 June	21	22	210	220

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.

	GROUP & ASSOCIATION		GROUP & ASSOCIATION	
	2011	2010	2011	2010
	Quantity	Quantity	\$000	\$000
Issue II				
Balance at 1 July	13,208,141	12,908,379	13,208	12,908
Notes issued:				
For capitalisation of Dividends and Rebates	36,923	68,352	37	69
For capitalisation of Stabilisation Fund	229,616	201,410	230	201
By transfer from Base Capital Notes I	10,000	30,000	10	30
Balance at 30 June	13,484,680	13,208,141	13,485	13,208

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

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

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

Notes to and forming part of the financial statements

For the year ended 30 June 2011

11. Reserves	GROUP 2011 \$000	2010 \$000	ASSOCIATION 2011 \$000	2010 \$000
Stabilisation Fund Reserve				
Balance at 1 July	389	1,030	389	1,030
Transferred from/(to) Retained Earnings	(389)	(641)	(389)	(641)
Balance at 30 June	-	389	-	389
TOTAL RESERVES	-	389	-	389

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 35).

12. Accumulated Losses

	GROUP 2011 \$000	2010 \$000	ASSOCIATION 2011 \$000	2010 \$000
Balance at 1 July	(3,813)	(6,366)	(4,525)	(6,145)
Operating Profit/(Loss)	1,091	2,348	1,525	1,415
Transferred from/(to) Stabilisation Fund Reserve	389	641	389	641
	(2,333)	(3,377)	(2,611)	(4,089)
Base Capital Note Dividends	(1,121)	(436)	(1,121)	(436)
Balance at 30 June	(3,454)	(3,813)	(3,732)	(4,525)
TOTAL ACCUMULATED LOSSES	(3,454)	(3,813)	(3,732)	(4,525)

The net profit / (loss) for the years ended 30 June 2011 and 30 June 2010 have been transferred to Accumulated Losses.

The portions of the operating results for the years ended 30 June 2010 and 30 June 2011 that relate to the operations of the Stabilisation Fund have been transferred from Accumulated Losses to the Stabilisation Fund Reserve.

	GROUP 2011 \$000	2010 \$000	ASSOCIATION 2011 \$000	2010 \$000
Member Services Division	1,466	1,530	1,466	1,530
Business Services Division	(4,920)	(5,343)	(5,198)	(6,055)
	(3,454)	(3,813)	(3,732)	(4,525)

Member Services Division Retained Earnings at 30 June 2011 includes the Retained Earnings of the New Zealand Credit Union Foundation of \$98,000, (30 June 2010 \$93,000). Refer note 36.

13. Cash and Cash Equivalents

	GROUP 2011 \$000	2010 \$000	ASSOCIATION 2011 \$000	2010 \$000
Cash at Bank	1,516	1,007	1,516	1,007
Bank Call Deposits	8,000	11,501	8,000	11,501
	9,516	12,508	9,516	12,508

Notes to and forming part of the financial statements

For the year ended 30 June 2011

14. Accounts Receivable

	GROUP		ASSOCIATION	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Trade Receivables	1,763	1,983	1,569	1,765
Receivable from Subsidiaries	-	-	96	267
Future Funded Premiums	1,311	1,304	-	-
	3,074	3,287	1,665	2,032
Insurance Premiums Due	546	631	422	459
Provision for Cancellation	(6)	(9)	-	-
	540	622	422	459
Total Carrying Amount	3,614	3,909	2,087	2,491
Provision for Cancellation				
Collective Provision Against Insurance Premiums Due				
Balance at Beginning of the Year	9	13	-	-
Movement in provision	(3)	(4)	-	-
Balance at End of the Year	6	9	-	-
Past Due Receivables Not Impaired				
Trade Receivables	182	220	12	218
Total Past Due Receivables Not Impaired	182	220	12	218
Aging of Past Due Receivables Not Impaired				
Past Due 1-30 days	182	3	12	1
Past Due 31-90 days	-	47	-	47
Past Due over 90 days	-	170	-	170
Balance at End of the Year	182	220	12	218

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 (2010: \$Nil) and there has been no write off (2010: \$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 \$6,000 for outstanding insurance premiums relating to policies issued by Credit Union Insurance Limited (2010: \$9,000)

Refer also to note 31 for Related Party Disclosures.

Notes to and forming part of the financial statements

For the year ended 30 June 2011

15. Investments

	GROUP		ASSOCIATION	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Bank Deposits	38,340	34,768	38,340	34,768
Advances to Subsidiaries	-	-	83	71
Money Market Securities	27,906	34,397	27,906	34,397
Government Stock	1,531	1,557	1,020	1,038
Floating Rate Notes	2,173	4,769	2,173	4,769
	69,950	75,491	69,522	75,043
Investment Bonds	-	-	13,202	15,362
Provision for Credit Impairment	-	-	(11,147)	(11,147)
	-	-	2,055	4,215
Total Carrying Amount	69,950	75,491	71,577	79,258

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 (2010: \$11,147,000) is in place in respect of the underlying investments in NZCU Finance Limited and Credit Union Insurance Limited as at 30 June 2011. The provision in respect of NZCU Finance Limited of \$3,809,000 covers the remaining investment.

The provision in respect of Credit Union Insurance Limited of \$7,339,000 was reviewed based on detailed cashflow forecasts for the four years to 30 June 2015. Key assumptions in this forecast were sales growth of 1.0%, a loss ratio of 60.0% and a discount rate of 10%. This exercise revealed that the existing provision was appropriate.

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 31 for Related Party Disclosures.

Notes to and forming part of the financial statements

For the year ended 30 June 2011

16. Loans Receivable

	GROUP		ASSOCIATION	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Gross Loans Receivable	2,362	2,859	1,373	403
Provision for Credit Impairment	(914)	(885)	-	-
Total Carrying Amount	1,448	1,974	1,373	403
Provision for Credit Impairment				
Individually Impaired Loans				
Balance at Beginning of the Year	240	1,445	-	-
New Provisions during the Year	871	160	-	-
Amounts Released/Written Off	(209)	(1,365)	-	-
Balance at End of the Year	902	240	-	-
Collective Provision Against Loans				
Balance at Beginning of the Year	645	1,076	-	-
Amounts Released/Written Off	(633)	(431)	-	-
Balance at End of the Year	12	645	-	-
Total Provision for Credit Impairment	914	885	-	-
Aging of Individually Impaired Loans				
Past Due 0-30 days	-	-	-	-
Past Due 31-90 days	-	-	-	-
Past Due over 90 days	909	300	-	-
Balance at End of the Year	909	300	-	-
Aging of Past Due but not Individually Impaired Loans				
Past Due 0-30 days	80	106	-	-
Past Due 31-90 days	-	253	-	-
Past Due over 90 days	-	825	-	-
Balance at End of the Year	80	1,184	-	-

Loans were all written on a secured basis. In relation to the Association there is one outstanding loan which is secured against a mix of mainly residential loans and some business loans, generally under-pinned by second mortgages. In addition we have the guarantee of the borrower supported by an estimated equity position of approximately \$2,000,000. There were five other loans retained by NZCU Finance Limited at balance date. These loans are a mix of unsecured loans and loans secured by caveats or second mortgages.

There are nine additional partially secured loans for which NZCU Finance Limited is entitled to a majority share of the actual collections. These are currently under legal action for recovery.

At balance date there were no restructured loans (2010: seven restructured loans \$299,694), against which there is a collective provision of nil (2010: collective provision of \$166,446).

There were no assets acquired through enforcement of security.

Notes to and forming part of the financial statements

For the year ended 30 June 2011

17. Prepayments

	GROUP		ASSOCIATION	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Deferred Commission				
Deferred Commission Costs	162	177	-	-
Commission Costs Paid	352	414	-	-
Commission Costs Released	(350)	(429)	-	-
Closing Deferred Commission Costs	164	162	-	-
Other Prepayments	473	272	447	252
	637	434	447	252

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	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
ATM Machines and Parts	135	75	135	75
Promotional and Other Items	212	17	212	17
	347	92	347	92

The cost of inventories recognised as an expense during the year was \$313,000 (2010: \$267,000).

19. Derivative Financial Assets

	GROUP		ASSOCIATION	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Interest Rate Swaps - Credit Union Counterparties	448	899	448	899

Interest rate swaps are valued at fair value with any gains or losses flowing through profit or loss.

Notes to and forming part of the financial statements

For the year ended 30 June 2011

20. Property, Plant & Equipment

	GROUP		ASSOCIATION	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Furniture & Fittings, Office Equipment and Vehicles				
Opening Cost at 1 July	1,438	1,423	1,232	1,215
Additions	13	77	8	77
Disposals	(104)	(62)	(76)	(60)
Closing Cost at 30 June	1,347	1,438	1,164	1,232
Opening Accumulated Depreciation at 1 July	1,045	862	909	768
Depreciation Expense	205	228	180	185
Disposals	(78)	(45)	(56)	(44)
Closing Accumulated Depreciation at 30 June	1,172	1,045	1,033	909
Net Book Value at 30 June	175	393	131	323
Computer Equipment				
Opening Cost at 1 July	2,469	2,276	1,808	1,617
Additions	169	210	78	206
Disposals	(313)	(17)	(313)	(15)
Closing Cost at 30 June	2,325	2,469	1,573	1,808
Opening Accumulated Depreciation at 1 July	2,075	1,714	1,467	1,203
Depreciation Expense	343	376	291	277
Disposals	(313)	(15)	(313)	(13)
Closing Accumulated Depreciation at 30 June	2,105	2,075	1,445	1,467
Net Book Value at 30 June	220	394	128	341
Carrying Amount at 30 June	395	787	259	664

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

Notes to and forming part of the financial statements

For the year ended 30 June 2011

21. Other Intangible Assets

	GROUP		ASSOCIATION	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Computer Software				
Opening Cost at 1 July	6,240	6,091	3,363	3,275
Additions	423	149	226	88
Disposals	(9)	-	(9)	-
Closing Cost at 30 June	6,654	6,240	3,580	3,363
Opening Accumulated Amortisation at 1 July	5,474	4,362	3,164	2,789
Amortisation expense	696	1,112	184	375
Disposals	(9)	-	(9)	-
Closing Accumulated Amortisation at 30 June	6,161	5,474	3,339	3,164
Net Book Value at 30 June	493	766	241	199

22. Deposits Received

	GROUP		ASSOCIATION	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Deposits from Credit Unions	67,762	77,057	67,762	77,057
Deposits from Subsidiaries	-	-	2,689	3,793
Deposits from Other Parties	697	705	614	583
	68,459	77,762	71,065	81,433

Deposits are accepted on an unsecured basis. Average interest rates, repricing terms and duration are as shown in note 29.

23. Accounts Payable

	GROUP		ASSOCIATION	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Trade Payables	1,111	495	1,033	945
Credit Union Rebates	874	827	874	827
Accrued Expenses	956	839	537	748
Reinsurance Accruals	133	791	-	-
GST Payable	102	30	101	17
	3,176	2,982	2,545	2,537

Notes to and forming part of the financial statements

For the year ended 30 June 2011

24. Unearned Premium Liability

	GROUP		ASSOCIATION	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Opening Balance	2,364	2,530	-	-
Gross Written Premium	5,077	5,841	-	-
Premium Cancelled	(781)	(932)	-	-
Earnings Released	(4,590)	(5,075)	-	-
Closing Unearned Premium Liability	2,070	2,364	-	-

The Group'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 9.6% lower than the unearned premium liability (June 2010: 11%). Accordingly there is no need to recognise any deficiency in the unearned premium liability.

25. Provisions

	GROUP		ASSOCIATION	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Employee Entitlements	357	353	306	311
	357	353	306	311

26. Leases

	GROUP		ASSOCIATION	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Non Cancellable Operating Lease Payments				
Lease liabilities are payable:				
Not later than 1 year	150	395	113	347
Later than 1 year and not later than 2 years	184	58	147	58
Later than 2 years and not later than 5 years	3,033	-	3,021	-
	3,367	453	3,281	405
Non Cancellable Operating Lease Receivables				
Lease liabilities are receivable:				
Not later than 1 year	15	42	15	42
Later than 1 year and not later than 2 years	-	7	-	7
Later than 2 years and not later than 5 years	-	-	-	-
	15	49	15	49

Operating leases relate to the leasing of office space.

Notes to and forming part of the financial statements

For the year ended 30 June 2011

27. Derivative Financial Liabilities

	GROUP		ASSOCIATION	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Interest Rate Swaps - Registered Bank Counterparties	438	871	438	871

Interest rate swaps are valued at fair value with any gains or losses flowing through profit or loss.

28. Segmented 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 residual.

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.

Credit Union Insurance Limited

Credit Union Insurance 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 and FACTS Limited.

Notes to and forming part of the financial statements

For the year ended 30 June 2011

GROUP

	Business Services Division \$000	Member Services Division \$000	Platinum Direct Limited \$000	NZCU Finance \$000	Credit Union Insurance Company Limited \$000	Other Entities \$000	Inter Entity Adjustments \$000	Total \$000
At 30 June 2011								
Revenue from sales with other Segments, excluding interest	508	-	-	-	413	-	(921)	-
Revenue from external customers	20,417	1,015	-	17	5,341	189	(921)	26,058
Total Interest Income	3,410	59	-	151	114	240	(544)	3,430
Total Interest Expense	2,459	-	-	51	167	246	(544)	2,379
Total Revenue before Interest Expense	24,335	1,074	-	168	5,868	429	(2,386)	29,488
Net Profit/(Loss) before Tax	1,978	(453)	-	(485)	(168)	9	-	881
Total Assets	86,127	168	-	93	5,267	5,463	(10,270)	86,848
Total Liabilities	76,180	152	-	316	3,170	9,413	(12,414)	76,817
Other Segment Items:								
Acquisition of Property, Plant and Equipment	86	-	-	-	96	-	-	182
Acquisition of Intangible Assets	226	-	-	-	197	-	-	423
Depreciation Expense - Property, Plant and Equipment	465	6	-	-	77	-	-	548
Amortisation Expense - Software	184	-	-	-	512	-	-	696
Impairment Expense	-	-	-	380	-	-	-	380

ASSOCIATION

At 30 June 2010								
Revenue from sales with other Segments, excluding interest	690	-	-	-	455	-	(1,145)	-
Revenue from external customers	21,332	1,358	34	150	7,109	361	(1,145)	29,199
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	25,462	1,448	211	346	7,731	856	(3,422)	32,632
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)

Notes to and forming part of the financial statements

For the year ended 30 June 2011

Geographical Segment Analysis

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

29. 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 Management Committee which meets bi-monthly. Compliance with policies and exposure limits is reviewed by the internal auditors on a regular 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 the minimum capital adequacy measures for New Zealand non-bank deposit takers, and the draft solvency standard for non-life insurers as set by the Reserve Bank of New Zealand.

The Group meets its objectives for managing capital by formally reviewing its available capital in relation to its risks at least once per annum or more frequently if required.

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 2011 would increase / decrease by \$30,000 (2010: increase / decrease by \$27,000).

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 2011 would increase / decrease by \$26,000 (2010: increase / decrease by 32,000).

Notes to and forming part of the financial statements

For the year ended 30 June 2011

Interest Rate Repricing

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

GROUP

At 30 June 2011	Average Interest Rate	Less than 3 months \$000	3 months to 1 year \$000	1-2 years \$000	2-5 years \$000	5+ years \$000	Non interest Sensitive \$000	Group Total \$000
Assets								
Cash and Cash Equivalents	2.42%	9,516	-	-	-	-	-	9,516
Accounts Receivable	-	-	-	-	-	-	2,134	2,134
Investments	3.97%	59,375	10,575	-	-	-	-	69,950
Loans Receivable	11.17%	68	-	1,373	-	-	7	1,448
Derivative Financial Assets	-	-	-	-	-	-	448	448
		68,959	10,575	1,373	-	-	2,589	83,496
Liabilities and Members Funds								
Deposits Received	3.31%	65,865	2,594	-	-	-	-	68,459
Accounts Payable	-	-	-	-	-	-	2,703	2,703
Derivative Financial Liabilities	-	-	-	-	-	-	438	438
		65,865	2,594	-	-	-	3,141	71,600
On Balance Sheet Interest Sensitivity Gap - 30 June 2011		3,094	7,981	1,373	-	-	(552)	11,896

ASSOCIATION

Assets								
Cash and Cash Equivalents	2.42%	9,516	-	-	-	-	-	9,516
Accounts Receivable	-	-	-	-	-	-	2,087	2,087
Investments	3.85%	61,512	10,065	-	-	-	-	71,577
Loan Receivable	10.49%	-	-	1,373	-	-	-	1,373
Derivative Financial Assets	-	-	-	-	-	-	448	448
		71,028	10,065	1,373	-	-	2,535	85,001
Liabilities and Members Funds								
Deposits Received	3.31%	68,471	2,594	-	-	-	-	71,065
Accounts Payable	-	-	-	-	-	-	2,138	2,138
Derivative Financial Liabilities	-	-	-	-	-	-	438	438
		68,471	2,594	-	-	-	2,576	73,641
On Balance Sheet Interest Sensitivity Gap - 30 June 2011		2,557	7,471	1,373	-	-	(41)	11,360

Notes to and forming part of the financial statements

For the year ended 30 June 2011

GROUP

At 30 June 2010	Average Interest Rate	Less than 3 months \$000	3 months to 1 year \$000	1-2 years \$000	2-5 years \$000	5+ 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	1,556	-	-	-	75,491
Loans Receivable	13.67%	107	396	369	956	146	-	1,974
Derivative Financial Assets	-	-	-	-	-	-	899	899
		78,057	8,889	1,925	956	146	4,808	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		2,683	6,501	1,925	956	146	955	13,166

ASSOCIATION

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	46	170	146	-	403
Derivative Financial Assets	-	-	-	-	-	-	899	899
		82,245	8,524	1,084	170	146	3,390	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	1,084	170	146	(18)	10,718

Notes to and forming part of the financial statements

For the year ended 30 June 2011

Interest Rate Swap Contracts

The Association offers an interest rate swap facility to Member 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	
	2011 %	2010 %	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Outstanding Receive Floating Pay Fixed Contracts						
Less than 1 year	6.20%	7.53%	9,241	13,809	(276)	(273)
1 to 2 years	7.50%	5.56%	2,475	10,640	(162)	(392)
2 to 5 years	N/A	7.50%	-	2,475	-	(206)
			11,716	26,924	(438)	(871)

	Average Fixed Interest Rate		Notional Principal Amount		Fair Value	
	2011 %	2010 %	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Outstanding Receive Fixed Pay Floating Contracts						
Less than 1 year	6.29%	7.62%	9,241	13,809	283	279
1 to 2 years	7.60%	6.00%	2,475	10,640	165	398
2 to 5 years	N/A	7.60%	-	2,475	-	222
			11,716	26,924	448	899

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 & 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.

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

Liquidity Risk Management

Liquidity Risk is the risk that the Group will have difficulty in meeting commitments associated with its financial liabilities and future commitments. The Group manages its exposure to liquidity risk by maintaining sufficient liquid funds to meet its commitments based on historical and forecast cash flow needs. Subsidiary companies are required to maintain their bank accounts and place all surplus liquidity with the Association's Central Banking department. The Central Banking department is responsible for all external banking and funding relationships. Through this level of centralised control, the Group monitors its overall liquidity

position on a daily basis and forecasts cash flows from operating activities taking account of the cash flow characteristics and expected volatility in the balances of the various classes of recognised assets and liabilities, budgeted and forecast cash flows and seasonal cash cycles. The activity and risk exposure limits of the Central Banking department is detailed in a 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

2011	Note	Less than 3 months \$000	3 months to 1 year \$000	1-2 years \$000	2-5 years \$000	5+ years \$000	Group total \$000
Assets							
Cash and Cash Equivalents		9,516	-	-	-	-	9,516
Accounts Receivable		2,134	-	-	-	-	2,134
Investments		57,201	10,575	-	2,174	-	69,950
Loans Receivable		114	121	177	657	379	1,448
Derivative Financial Assets		106	284	58	-	-	448
Future Interest Receivable		324	278	180	292	29	1,103
Total Financial Assets		69,395	11,258	415	3,123	408	84,599
Liabilities							
Deposits Received		65,865	2,594	-	-	-	68,459
Accounts Payable		2,703	-	-	-	-	2,703
Derivative Financial Liabilities		104	278	56	-	-	438
Future Interest Payable		205	50	-	-	-	255
Total Financial Liabilities		68,877	2,922	56	-	-	71,855
Net Financial Assets		518	8,336	359	3,123	408	12,744
Unrecognised Commitments	32	(8,142)	-	-	-	-	(8,142)
Net Liquidity Gap at 30 June 2011		(7,624)	8,336	359	3,123	408	4,602

2010

Assets							
Cash and Cash Equivalents		12,508	-	-	-	-	12,508
Accounts Receivable		3,909	-	-	-	-	3,909
Investments		63,432	8,492	1,557	2,010	-	75,491
Loans Receivable		107	396	369	956	146	1,974
Derivative Financial Assets		235	355	309	-	-	899
Future Interest Receivable		275	284	106	208	17	890
Total Financial Assets		80,466	9,527	2,341	3,174	163	95,671
Liabilities							
Deposits Received		75,374	2,388	-	-	-	77,762
Accounts Payable		2,982	-	-	-	-	2,982
Derivative Financial Liabilities		226	335	310	-	-	871
Future Interest Payable		210	36	-	-	-	246
Total Financial Liabilities		78,792	2,759	310	-	-	81,861
Net Financial Assets		1,674	6,768	2,031	3,174	163	13,810
Unrecognised Commitments	32	(11,419)	-	-	-	-	(11,419)
Net Liquidity Gap at 30 June 2010		(9,745)	6,768	2,031	3,174	163	2,391

Notes to and forming part of the financial statements

For the year ended 30 June 2011

ASSOCIATION

2011	Note	Less than 3 months \$000	3 months to 1 year \$000	1-2 years \$000	2-5 years \$000	5+ years \$000	Group total \$000
Assets							
Cash and Cash Equivalents		9,516	-	-	-	-	9,516
Accounts Receivable		2,087	-	-	-	-	2,087
Investments		59,339	10,065	-	2,173	-	71,577
Loans Receivable		39	121	177	657	379	1,373
Derivative Financial Assets		106	284	58	-	-	448
Future Interest Receivable		324	278	180	292	29	1,103
Total Financial Assets		71,411	10,748	415	3,122	408	86,104
Liabilities							
Deposits Received		68,471	2,594	-	-	-	71,065
Accounts Payable		2,138	-	-	-	-	2,138
Derivative Financial Liabilities		104	278	56	-	-	438
Future Interest Payable		205	50	-	-	-	255
Total Financial Liabilities		70,918	2,922	56	-	-	73,896
Net Financial Assets		493	7,826	359	3,122	408	12,208
Unrecognised Commitments	32	(8,179)	-	-	-	-	(8,179)
Net Liquidity Gap at 30 June 2011		(7,686)	7,826	359	3,122	408	4,029
2010							
Assets							
Cash and Cash Equivalents		12,508	-	-	-	-	12,508
Accounts Receivable		2,491	-	-	-	-	2,491
Investments		67,718	8,492	1,038	2,010	-	79,258
Loans Receivable		10	31	46	170	146	403
Derivative Financial Assets		235	355	309	-	-	899
Future Interest Receivable		275	284	106	208	17	890
Total Financial Assets		83,237	9,162	1,499	2,388	163	96,449
Liabilities							
Deposits Received		79,045	2,388	-	-	-	81,433
Accounts Payable		2,537	-	-	-	-	2,537
Derivative Financial Liabilities		226	335	310	-	-	871
Future Interest Payable		210	36	-	-	-	246
Total Financial Liabilities		82,018	2,759	310	-	-	85,087
Net Financial Assets		1,219	6,403	1,189	2,388	163	11,362
Unrecognised Commitments	32	(11,467)	-	-	-	-	(11,467)
Net Liquidity Gap at 30 June 2010		(10,248)	6,403	1,189	2,388	163	(105)

The Group and Association has access to financing facilities of \$7,600,000 (2010: \$7,280,000). The facilities are secured by charges over interest bearing Investments. Utilisation of credit facilities at 30 June 2011 was \$685,000 (2010: \$681,000). 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

For the year ended 30 June 2011

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 data (unobservable inputs).

As at 30 June 2011	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
GROUP				
Financial assets at fair value				
- Derivative financial assets	-	448	-	448
- Bond (Government)	1,531	-	-	1,531
	1,531	448	-	1,979
Financial liabilities at fair value				
- Derivative financial liabilities	-	438	-	438
	-	438	-	438
ASSOCIATION				
Financial assets at fair value				
- Derivative financial assets	-	448	-	448
- Bond (Government)	1,020	-	-	1,020
	1,020	448	-	1,468
Financial liabilities at fair value				
- Derivative financial liabilities	-	438	-	438
	-	438	-	438

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

Notes to and forming part of the financial statements

For the year ended 30 June 2011

As 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
	1,557	899	-	2,456
Financial liabilities at fair value				
- Derivative financial liabilities	-	871	-	871
	-	871	-	871
ASSOCIATION				
Financial assets at fair value				
- Derivative financial assets	-	899	-	899
- Bond (Government)	1,038	-	-	1,038
	1,038	899	-	1,937
Financial liabilities at fair value				
- Derivative financial liabilities	-	871	-	871
	-	871	-	871

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

Financial Instruments by Category	GROUP		ASSOCIATION	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Financial assets at fair value through the profit or loss				
Investments	1,531	1,557	1,020	1,038
Derivative financial assets	448	899	448	899
Total assets at fair value through the profit or loss	1,979	2,456	1,468	1,937
Loans and receivables				
Cash and cash equivalents	9,516	12,508	9,516	12,508
Accounts receivable	2,134	3,909	2,087	2,491
Loans receivable	1,448	1,974	1,373	403
Investments	68,419	73,934	70,557	78,220
Total loans and receivables	81,517	92,325	83,533	93,622
Total financial assets	83,496	94,781	85,001	95,559
Other financial liabilities at amortised cost				
Deposits received	68,459	77,762	71,065	81,433
Accounts payable	2,703	2,952	2,138	2,520
Total other financial liabilities at amortised cost	71,162	80,714	73,203	83,953
Financial liabilities at fair value through the profit or loss				
Derivative financial liabilities	438	871	438	871
Total liabilities at fair value through the profit or loss	438	871	438	871
Total financial liabilities	71,600	81,585	73,641	84,824

Notes to and forming part of the financial statements

For the year ended 30 June 2011

30. Investments in Subsidiaries

Subsidiaries controlled at 30 June:

Name	Percentage Holding at Balance Date		Principal Activities	Balance Date
	2011	2010		
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%	Finance Company	30 June
Credit Union Insurance Limited	100%	100%	Motor Vehicle Insurance Underwriter	30 June
Credit Union Services Limited	100%	100%	Non Trading	30 June
CUI Limited	100%	100%	Non Trading	30 June
Kiwi Credit Limited	100%	100%	Non Trading	30 June
Credit Union New Zealand Limited	100%	100%	Non Trading	30 June

Pioneer Insurance Company Limited was renamed Credit Union Insurance Limited during the year ended 2011.

Notes to and forming part of the financial statements

For the year ended 30 June 2011

31. 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 30. 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 2011 the Association held investment bonds issued by subsidiaries which are valued at \$2,055,000 (2010: \$4,215,000).

At 30 June 2011 interest of \$102,000 (2010: \$102,000) was payable to the Association in respect of these bonds.

The Association provides unsecured overdraft facilities to subsidiaries. At 30 June 2011 overdraft facilities available to subsidiaries totalled \$120,000 (2010: \$120,000). The total drawn down under these facilities at 30 June 2011 was \$83,000 (2010: \$71,000). Interest was charged monthly on the outstanding balances during the year at rates of between 5.9% and 6.4% (2010: between 5.15% and 5.9%).

During the year the Association charged interest and facility fees on the investment bonds and overdraft facilities of \$216,000 (2010: \$498,000) to subsidiaries.

The Association maintains bank accounts and short term deposit facilities for subsidiaries. All deposits are unsecured. At 30 June 2011 funds placed with the Association by subsidiaries totalled \$2,689,000 (2010: \$3,793,000). Interest is credited monthly on the outstanding balances at commercial interest rates.

During the year the Association paid interest of \$94,000 to subsidiaries (2010: \$137,000).

During the year the Association charged fees to subsidiaries of \$267,000 (2010: \$459,000).

During the year the Association was charged fees by the subsidiaries of \$447,000 (2010: \$455,000).

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	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Short Term Employee Benefits	884	1,176	852	1,113

There were no other payments made to Key Management Personnel.

32. Commitments

	Group		Association	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Undrawn advances under credit facilities	7,855	11,414	7,892	11,462
Capital expenditure	287	5	287	5
	8,142	11,419	8,179	11,467

33. Contingent Liabilities

There are no material contingent liabilities for year ended 30 June 2011 (2010: \$310,640 plus interest in respect of a legal claim received from a third party).

Notes to and forming part of the financial statements

For the year ended 30 June 2011

34. Notes to Statement of Cash Flows

a. Reconciliation of Net Result to Net Operating Cash Flows

	Group 2011 \$000	2010 \$000	Association 2011 \$000	2010 \$000
Profit/(Loss)	881	2,348	1,525	1,415
Adjustments to reconcile operating profit/(loss) to net cash flow from operating activities				
Add/(less) non cash items:				
Depreciation	548	603	471	462
Amortisation	696	1,112	183	376
Impairment Expense/(Recoveries)	380	(306)	-	-
Loss on Disposal of Property, Plant & Equipment	13	(7)	7	(7)
Unrealised Loss/(Profit) on Bond Investments	18	19	18	19
	1,655	1,421	679	850
Add/(less) movement in Working Capital:				
(Increase)/Decrease in Inventory	(255)	60	(255)	60
(Increase)/Decrease in Accounts Receivable	295	131	404	109
(Increase)/Decrease in Loans Receivable	94	1,401	(1,373)	-
(Increase)/Decrease in Prepayments	(203)	10	(195)	7
(Increase)/Decrease in Derivative Financial Assets	451	1,208	451	1,207
Increase/(Decrease) in Accounts Payable	194	343	8	580
Increase/(Decrease) in Unearned Premium Liability	(294)	(166)	-	-
Increase/(Decrease) in Provisions	4	(142)	(5)	(90)
Increase/(Decrease) in Life Insurance Liability	(59)	(27)	(59)	(28)
Increase/(Decrease) in Other Association Insurance Liability	(285)	(73)	(285)	(72)
Increase/(Decrease) in Motor Vehicle Insurance Liability	137	(122)	-	-
Increase/(Decrease) in Derivative Financial Liabilities	(433)	(1,186)	(433)	(1,186)
	(354)	1,437	(1,742)	587
Add/(less) items classified as investing activities				
Non Cash movement in Investments	39	(61)	39	(166)
Add items included within Financing Activities:				
Non Cash movement in Deposits Received	(114)	29	(17)	29
Non Cash movement in Base Capital Notes	267	243	267	243
Net Cash Flow from Operating Activities	2,374	5,417	751	2,958

b. Treatment of Deposits Received

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

Notes to and forming part of the financial statements

For the year ended 30 June 2011

35. 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	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Current Assets				
Cash	-	308	-	308
Investments	-	-	-	-
Net Assets	-	308	-	308

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

Income				
Investment Interest	-	35	-	35
Recoveries	-	-	-	-
Expenses				
Operating Expenses	(389)	(676)	(389)	(676)
Operating Profit/ (Loss)	(389)	(641)	(389)	(641)

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

36. 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	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Current Assets				
Cash	98	93	98	93
NET ASSETS	98	93	98	93

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

Donations, Interest and Grants received	7	3	7	3
Grant Paid	(2)	(4)	(2)	(4)
OPERATING SURPLUS/(LOSS)	5	(1)	5	(1)

Notes to and forming part of the financial statements

For the year ended 30 June 2011

37. Member Services Division Operating Surplus

	2011 \$000	2010 \$000
Stabilisation	(389)	(641)
New Zealand Credit Union Foundation	5	(1)
MSD Operations	(65)	(59)
TOTAL	(449)	(701)

38. Events After the Balance Sheet Date

The Directors have declared a dividend of \$399,200 payable on 30 September 2011.

Directors Fees - For Year Ending 2011

	Role	Period	ASSOCIATION		TOTAL ASSOCIATION FEES	CUIL	TOTAL GROUP
			Director Fees	Audit & Risk Committee		Director Fees	
G Clouston	Chair	1/7/10-30/6/11	\$47,500	-	\$47,500	\$18,333	\$65,833
	A & R Comm	1/7/10-30/6/11	-	-	-	-	-
B Ross	Director	1/7/10-30/6/11	\$25,000	-	\$25,000	-	\$25,000
	Vice Chair	1/7/10-30/9/10	-	-	-	-	-
S Screen	Director	1/7/10-30/9/10	\$6,250	-	\$6,250	-	\$6,250
	Audit Chair	1/7/10-30/9/10	-	\$750	\$750	-	\$750
M Blair	Director	1/10/10-30/06/11	\$18,750	-	\$18,750	-	\$18,750
	A & R Comm	1/10/10-30/06/11	-	-	-	-	-
S Scott	Director	1/7/10-30/6/11	\$28,438	-	\$28,438	\$13,750	\$42,188
	Vice Chair	1/10/10-30/06/11	-	-	-	-	-
B Hancock	Director	1/7/10-30/6/11	\$23,750	-	\$23,750	-	\$23,750
	A & R Comm	1/7/10-30/6/11	-	\$2,250	\$2,250	-	\$2,250
R Nicholls	Director	1/7/10-30/6/11	\$28,438	-	-	-	-
	Audit Chair	1/7/10-30/6/11	-	\$750	\$29,188	-	\$29,188
H Lynch	Director	6/9/10 - 30/6/11	-	-	-	-	-
TOTAL			\$178,125	\$3,749	\$181,874	\$32,083	\$213,957

Board of Directors/Audit & Risk Committee Meetings

	G Clouston	S Scott	B Ross	B Hancock	M Blair	S Screen	R Nicholls	H Lynch	D Smart
Formal Board Meetings	12/13	13/13	13/13	10/13	10/10	3/3	13/13	11/11	2/2
Audit & Risk Committee Meetings	0/1			4/5	4/4	1/1	4/4		

S Screen left the Board and Audit & Risk Committee on 26 September 2010, G Clouston ceased to be a member of the Audit & Risk committee as at 26 September 2010, M Blair and R Nicholls were elected to the Audit & Risk Committee on 26 September 2010. D Smart was acting CEO until 6 September 2010, when H Lynch joined the NZACU as CEO and Director.

DIRECTORY

New Zealand Association of Credit Unions

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PricewaterhouseCoopers

Internal Auditors

William Buck

Bankers

Westpac Institutional Bank

Insurers

Crombie Lockwood Insurance Brokers

Trust Deed Supervisors

Trustees Executors Limited

Perpetual Trust Limited

Maori Trustee

Executive Team

Henry Lynch

David Smart

Jonathan Lee

Deane Johns

Chief Executive Officer

Chief Financial Officer

General Manager Business Development

Chief Information Officer

Leadership Team

Peter Miles

Margaret Fleming

Hugh Floyd

Jo Johnson

Phil Abraham

John Lanyon

Diane Ellis

Anne Brown

Central Banking Manager

Learning & Development Manager

Manager Banking Services

Service Delivery Manager

IS Infrastructure Manager

Credit Union Insurance Manager

EA & Project Manager

Group Product Manager