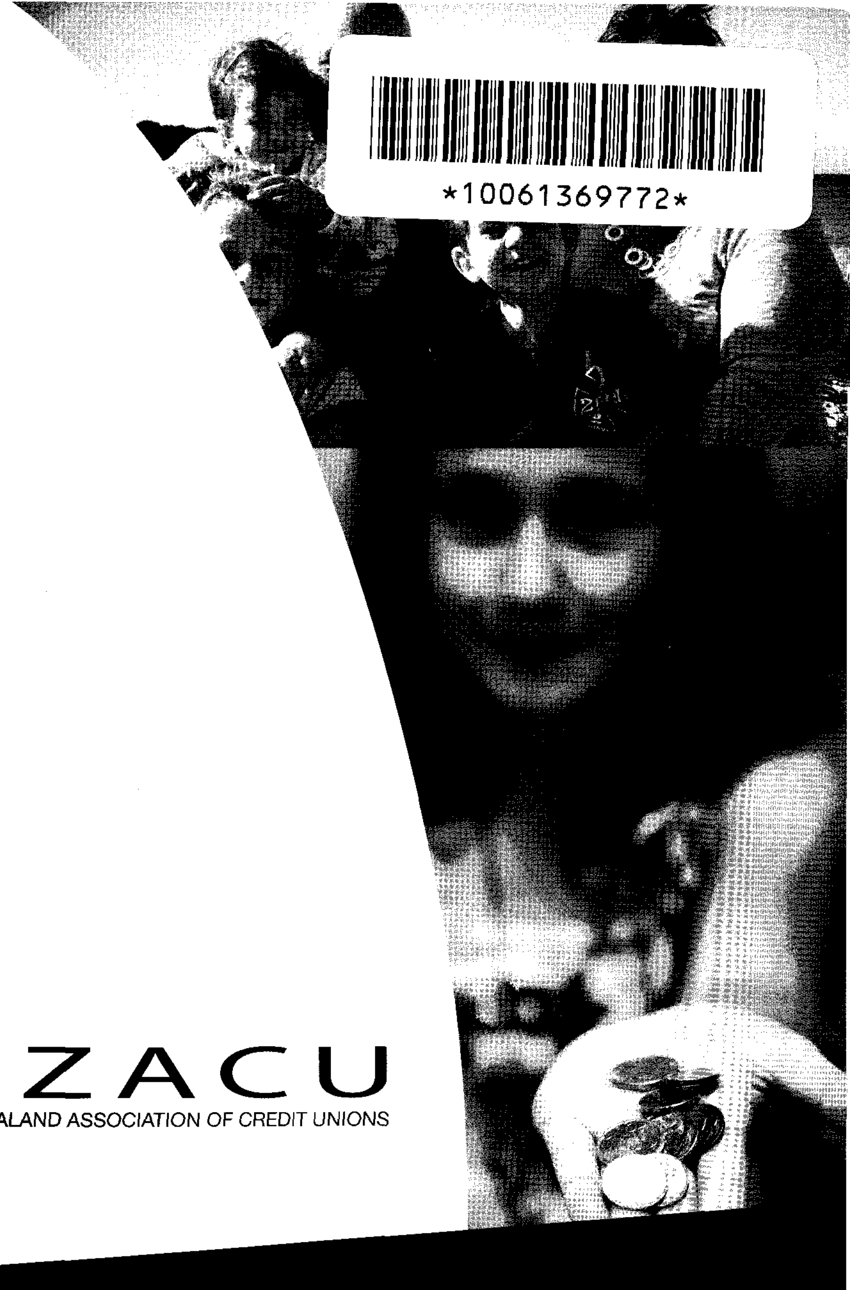


NZACU
NEW ZEALAND ASSOCIATION OF CREDIT UNIONS

ANNUAL REPORT 2012
New Zealand Association of Credit Unions

LOCATION OF MEMBER 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

NZCU Steelsands
Auckland City
Glenbrook
Waiuku

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

Heretaunga Building Society
Hastings

Napier Building Society
Napier

NZCU Baywide
Dannevirke
Hastings
Napier
Waipukurau
Wairoa

MANAWATU/ WANGANUI REGION

Aotearoa Credit Union
Wanganui

NZCU Baywide
Palmerston North
Palmerston North Hospital
Wanganui
Wanganui Hospital

WELLINGTON REGION

Aotearoa Credit Union
Porirua

NZCU Baywide
Lower Hutt
Masterton
Porirua
Wainuiomata

NZ Firefighters' Credit Union
Petone

United Credit Union
Johnsonville

Wairarapa Building Society
Masterton

New Zealand Police & Families Credit Union
Wellington

NELSON REGION

Nelson Building Society
Nelson
Motueka
Richmond
Takaka

NZCU South
Nelson
Motueka
Richmond
Takaka
Nelson Port

WEST COAST REGION

Nelson Building Society
Greymouth
Murchison
Westport

NZCU South
Greymouth

CANTERBURY REGION

Christchurch Emergency Services Credit Union
Christchurch

NZCU South
Hornby
Shirley
Timaru

OTAGO REGION

NZCU South
Dunedin
Oamaru

SOUTHLAND REGION

Alliance Group Credit Union
Invercargill

NZCU South
Invercargill
Gore

group profit for year

$1,509,000

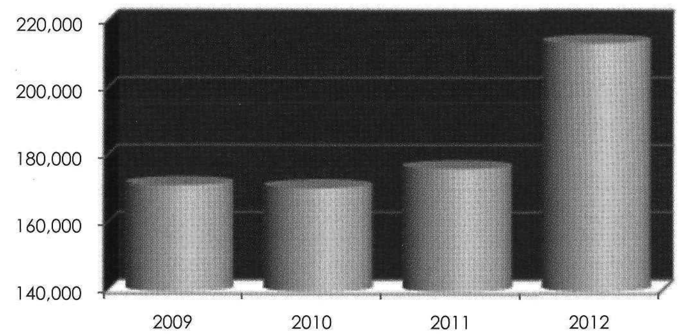
total annual dividend paid & declared

$984,705

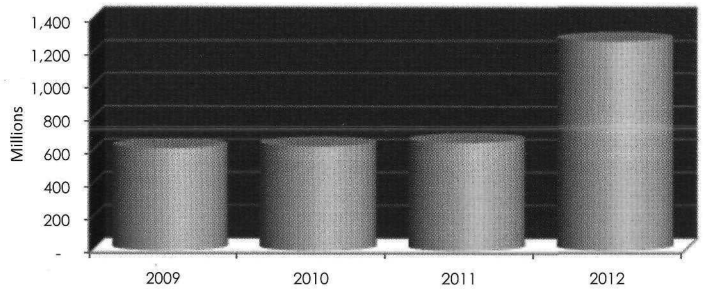
1-in-20

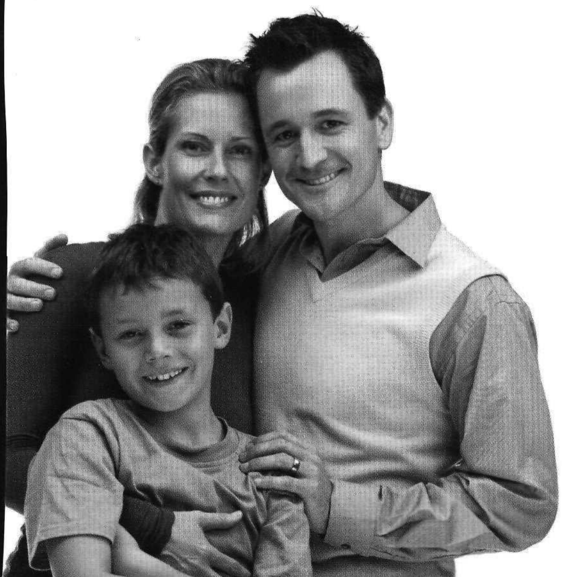
New Zealanders bank* with an NZACU Member

NEW ZEALANDERS BANKING* WITH OUR MEMBERS



NZACU MEMBER ASSETS AS AT 30 JUNE





NZACU OVERVIEW

OUR PROFILE

The New Zealand Association of Credit Unions (NZACU) is the industry association for credit unions and mutual building societies. Our Members provide an important option in the New Zealand financial services market and have more than 150 years' banking history in communities across the country.

OUR MISSION

The NZACU exists to represent, promote and support Members and provide cost effective business services.

OUR VISION

All Members and the NZACU cooperating together to grow.

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 20 Member credit unions and represent in total 21 credit unions and 4 mutual building societies, with total assets of $1.26 billion.

OUR MEMBERS

NZACU represents credit unions and building societies that meet the financial services needs of more than 210,000 New Zealanders. With a focus on members, not shareholder profits, customer satisfaction levels for our Members are among the highest in the market. They work hard to serve communities throughout New Zealand, both in main centres and in small towns.

OUR FUTURE

Credit unions and mutual building societies 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 our Members 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 and mutual building societies.

THE NZACU AND THE INTERNATIONAL CREDIT UNION MOVEMENT

The NZACU is committed to operating according to International Credit Union Operating Principles founded on the philosophy of cooperation and democracy. NZACU is a member of the World Council of Credit Unions (WOCCU) which ensures we have up-to-date information and cooperation from credit union organisations worldwide.

**Credit unions and building societies are not registered banks*

NZACU PRODUCTS & SERVICES

NZACU provides a focal point for Member credit unions and building societies in New Zealand. This allows the efficient dissemination of information to our Members and ensures that every Member organisation, regardless of size, is heard.

NZACU provides our Member organisations with a range of financial services, banking and insurance products . Products are tailored to meet the needs of members.

Our core products include:

- 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 – 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 90 ATMs
- AccessDebit MasterCard® - a Debit MasterCard card that can be used on-line, at ATM and EFTPOS terminals throughout New Zealand and at over 34 million locations overseas wherever MasterCard is accepted (due to be launched late 2012)

In addition to this, NZACU also provides the following services:

- Local help desk support
- Central Banking - central treasury system for managing credit union liquidity
- Learning and development opportunities for directors and managers in the prudent management of their organisations
- Technical assistance to help Members achieve their objectives, including:
  - regulatory requirements
  - product development
  - planning
  - public relations

17,182

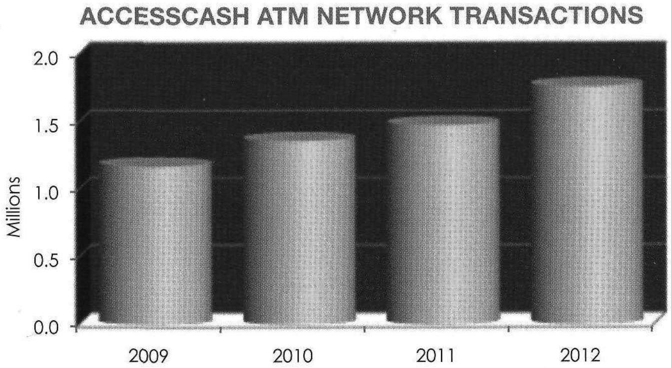
calls answered at the NZACU help desk

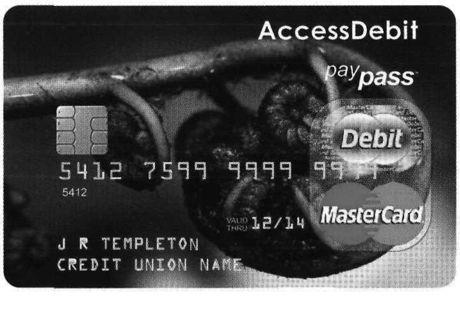
Information Service channels uptime was

99.9%

40%

increase in media reports on NZACU/Credit Unions



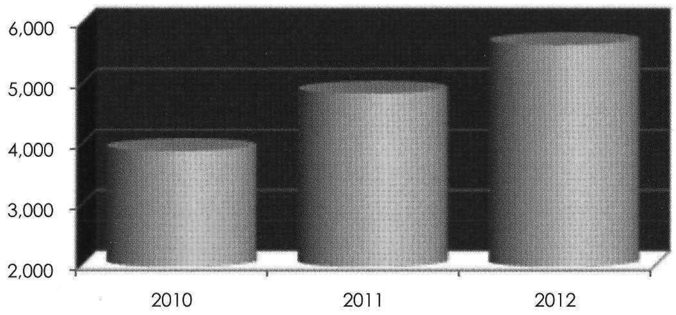


NZACU PRODUCTS & SERVICES

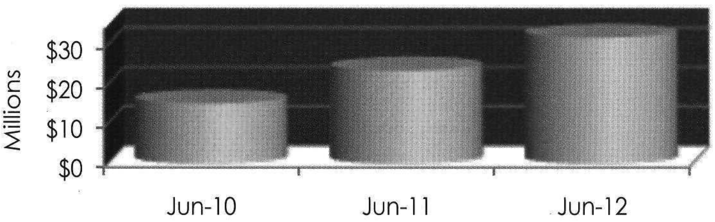
CREDIT UNION INSURANCE

NZACU provides Members with a range of very competitive insurance products such as funeral, loan protection and motor vehicle insurance under the Credit Union Insurance (CUI) brand. We are constantly reviewing our products and listening to Member feedback to ensure we are providing quality, market-leading insurance policies that reflect the needs of our members.

FUNERAL PLAN POLICIES AS AT 30 JUNE



KIWISAVER SCHEME
TOTAL VALUE OF FUNDS UNDER MANAGEMENT



$1.4m incl. GST

CUI rebate paid to credit unions

$429,000

contribution to Group Profit for Credit Union Insurance Ltd

17%

increase in funeral plan policies

23%

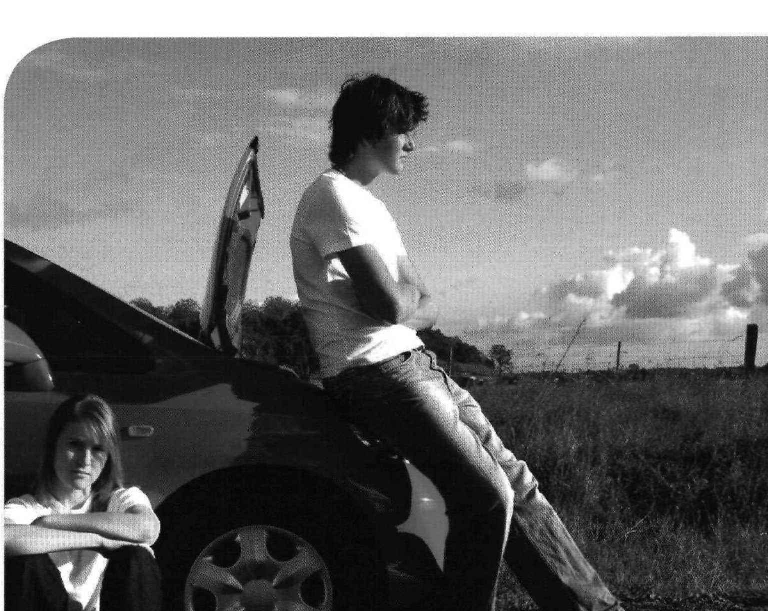
increase in KiwiSaver scheme members

10

submissions made to government departments on your behalf

47%

of carminder policyholders have added Roadside Assistance option



chairman's report

Simon Scott

OVERVIEW

This past year to 30 June 2012 has been particularly challenging for everyone in the financial services industry, with continuing uncertainty on the far reaching effects of the ongoing Euro crisis and a noticeable 'hunkering down' of the Kiwi consumer.

Credit unions have continued to work hard through these challenges to serve the best interests of their members, despite the increasing burden of regulatory compliance. The follow on effect of the Global Financial Crisis has seen a natural tightening of financial legislation worldwide, and a resulting increase in compliance costs, time and effort.

Despite the economic and regulatory challenges, the NZACU Group has continued to perform extremely well, with a group profit for the year to 30 June 2012 of $1,509,000 compared to the prior year profit of $881,000. This result is pleasing especially given the extensive savings passed on to credit unions since 1 July 2011.

I have no doubt this excellent performance is a direct result of the strength of focus that our Strategic Plan has brought to the NZACU Board, management and staff. Having a clear direction, mandated and supported by our Member credit unions, has helped in making the decisions and implementing the plans necessary to achieve our goals.

Maintaining NZACU's capital adequacy while returning value to our Members is the first goal of the Strategic Plan and this has continued in a very positive manner this year. As part of returning value to members, the board had set a target to achieve an annual dividend of BBMR plus 2% - 3%. The interim dividend paid for the six months to 31 December 2012 was BBMR + 3%, which is 5.77% for the period, or $395,091. Following balance date, the board declared a final dividend for the six months ended 30 June 2012 of BBMR + 3%. This is 5.69% for the period or $389,614. In addition, due to our excellent financial performance, the Board has declared a special dividend of $200,000 to Members.

A noteworthy feature of our results this year has been the performance of our NZACU and Credit Union Insurance Ltd insurance operations. More detail on this is given in the Report of the Chief Executive.

Our ongoing capital adequacy stability and overall strategic refocus in the past two years saw both NZACU and Credit Union Insurance Ltd achieve a second successive Standard & Poor's credit rating improvement in December 2012 - an outstanding result for all concerned, particularly given the downgrades being experienced by most other financial services providers.

In this UN International Year of Cooperatives, we have been especially delighted that five mutual colleagues – Heretaunga Building Society, Napier Building Society, Nelson Building Society, NZ Police and Families Credit Union and Wairarapa Building Society have joined the NZACU as Associate Members. Their membership has further enhanced the strength of our collective voice and we now represent 56% of the Non-bank Deposit Takers sector. Welcome aboard! We trust that we will also add value and networking opportunities to their businesses too.

REGULATORY & COMPLIANCE ISSUES

It's been over a year since the Financial Markets Authority began regulating New Zealand's financial services industry and credit unions have been coming to grips with the implications of the Financial Advisor regime.

The Association is continuing to put pressure on regulators around the cost of compliance of the Non-Bank Deposit Takers regime and the ludicrous nature of the 'Category 1' classification of credit union Christmas Club account. Wheels move slowly in regulatory reform as we know, but rest assured the team are exploring all avenues and will continue to push for change in these areas. The Regulatory Reform Bill recently passed into law following many years of lobbying by both NZACU and Members is evidence that change can be made for the benefit of the Movement.

A record number of submissions were made on behalf of Member credit unions this year, including on the Credit Contracts and Consumer Finance Amendment Bill, the Financial Markets Conduct Bill and the Non-Bank Deposit Takers Bill. The feedback received from Members in making these submissions has been invaluable, and it is only with your input that your Association can represent credit unions' interests to the fullest.

Executive Management have continued to undertake numerous meetings and direct communications with key influencers and ministers, and recent comments from legislators have been very positive in terms of both awareness and support for the issues being faced by the credit union Movement.

LOOKING AHEAD

As the International Year of Cooperatives draws to a close, it is opportune to reflect on the three words that will continue to drive Member credit unions and the NZACU forward in the coming year: Unity, Cooperation and Future.

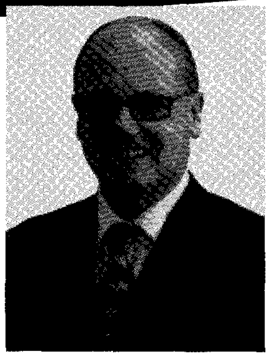
Whilst we all have our own strategic plans as individual credit unions, we all have a common goal of continuing to grow the Movement to help as many New Zealanders as possible improve their financial situations. To this end, the NZACU is dedicated to providing the best and most cost effective products, services and support that you and your members need – both today and into the future.

Once again, I would like to give my sincere thanks to the NZACU management, staff and our Members for their support of the Board, as well as my fellow Directors for their hard work and dedication during the past year.

Simon Scott
Chair

chief executive's report

Henry Lynch



Although it has been a tough year for credit unions, through the dedication of both boards and staff, our Members have continued to provide hard working New Zealanders with genuine, personal service and support to reach their financial goals. Not only have credit unions ridden through the Global Financial Crisis with their heads held high, but our Members have survived the many storms that have followed, and no doubt that will continue to appear on the horizon for some time yet. Perhaps the most important part of any credit union is its people - after all, they're ultimately the ones who help members and credit unions continue to excel in this area.

The financial year began with a big shift for the NZACU – literally, to our new premises in Teed Street, Newmarket. The move went very smoothly and has made a very positive impact on our team dynamics, not only due to a more open, modern work space, but as we are all now on the same floor with a common staffroom, it has given us far more opportunities to interact with each other on a daily basis. The combined official opening celebration and United Nations International Year of Cooperatives launch was also a big success, with Members, business partners and invited guests enjoying presentations from MP's on their party's view of the Movement and its place in the market.

At NZACU, we believe it's important to tell the credit union and mutual building society story often and well – not just to media, but to government and regulators. Building on our representation to Government officials, we have also been enhancing our relationship with key MP's and Government Ministers, and have had a number of fruitful meetings. We have also been building relationships with key media to help raise the profile of credit unions and mutual building societies, with some excellent articles in nationwide publications, as well as provincial newspapers. A noticeable result of this relationship building is the media contacting us for comments on relevant topics on a more regular basis.

REGULATORY REFORMS CONTINUE

A huge amount of work has gone on in the area of regulatory reforms this year, and we have made a significant number of submissions on your behalf. I have personally been involved in a number of major presentations to select committees and this has been invaluable in getting the message through to officials that we are an important part of the banking landscape. The old adage that the squeaky wheel gets the oil is starting to pay off with many in government and associated agency circles becoming more sympathetic to our cause.

The ever-growing burden of regulatory compliance is an ongoing frustration and rest assured we are working harder than ever to represent the interests of credit unions and mutual building societies in our submissions to government departments.

The AML legislation, due to be enforced from 30 June 2013, is one such law that has placed an increasingly time consuming layer of compliance, and we looked extensively at the turnkey options available in the market place for a collective AML transaction monitoring solution. As was announced at the June 2012 Forum, the NZACU board has elected to fund the Jade solution offered by the Wynyard Group, on behalf of all credit unions, to ensure that every Member regardless of size can participate giving the entire movement, their membership and the monitoring authorities, confidence that we will meet the exacting standards imposed in the legislation.

POSITIVE PRODUCT PERFORMANCE

Despite an overall tightening of belts by most New Zealanders, the number of transactions being made by members has actually increased, with a record year for both ATM and FACTS transactions. The introduction of the exciting new AccessDebit MasterCard® is a welcome advancement and will allow members to shop on-line and over the phone with ease, as well as utilise the new MasterCard® *PayPass*™ 'Tap & Go™' technology. This state of the art 'chip' enabled card will also position our members at the head of the queue when the new 'mobile wallet' technology makes it to New Zealand. The new card launch date is targeted for the end of September 2012.

Despite the challenges of a number of major operational and structural changes in the past year, the staff and management of Credit Union Insurance Limited have had a great year, with claims down and profitability significantly up. The introduction of the Roadside Assistance option has been well received by members, and further product enhancements will continue in coming months, including a third party only option which will open up a new market to credit unions who have sought this lower cost option on behalf of their members.

NEW RELATIONSHIPS

Changes in legislation required us to engage a new KiwiSaver scheme provider for our Members, and we found a positive philosophical fit with kiwi-owned and operated Fisher Funds. The transfer of members from Credit Union KiwiSaver to the Fisher Funds KiwiSaver scheme was a major undertaking and was successfully completed in May this year. Staff from participating credit unions have received extensive training from Fisher Funds on the benefits of this valuable government and employer-subsidised retirement savings scheme.

The NZ Bureau Ltd has been another major undertaking this year and it was very rewarding to see it up and operational ahead of schedule and budget – thanks to many hours of dedicated hard work (and late nights!) by staff. The joint venture will provide IT infrastructure services to NZACU and our joint venture partner Finzsoft Solutions Limited. The initial goal of the joint venture has been to merge the production and disaster recovery environments of both organisations. This was achieved by balance date and the company is now in 'business as usual' mode, having completed contractual arrangements.

chief executive's report

Henry Lynch

WORKING TOGETHER

Our forums, summits and conferences continue to be important opportunities to share ideas and network amongst members and the turnouts in the past year have been particularly pleasing considering the financial, staffing and time restraints we are all operating under these days. We continue to strive to provide speakers and topics that will add value to all of our Members, and value the input and feedback we receive on these events.

Your feedback is also invaluable in understanding how we are doing as your association, and the Member Survey is an important way for us to gauge our performance against the KPI's we all agreed to in the Strategic Plan. Whilst there is always room for improvement, we were delighted to note that in the Member Survey to June 2012, 100% of Members were either 'very satisfied' or 'satisfied' with NZACU's progress against the strategic plan. I would like to personally thank our staff in achieving this positive feedback as it is a reflection of their efforts and dedication to serving our Members.

FINANCIAL

The Chairman in his report has highlighted the NZACU's strong financial result and consequent lift in dividends, including the declaration of a special dividend of $200,000. A significant contributor to our financial performance has been the NZACU and CUIL insurance operations. The total CUI rebate payable to all credit unions is $1,418,704, compared to $938,894 for the year ended 30 June 2012. This is an increase of 51%. The increase is due to an improvement in the loss ratio on all products compared to the prior year and a significant reduction in claims management costs and overheads following the restructure that occurred.

Credit Union Insurance Limited also had a very good financial performance. The company's contribution to Group profit of $428,751 compared to prior year loss of $167,742 reflects an improved loss ratio and the integration of CUIL into the NZACU operations to generate cost savings from consolidating duplicated services including IT, management and claims.

NZACU TEAM

A considerable amount of work has been undertaken in the past year to streamline our internal systems and processes, and the positive Member feedback and excellent financial results have been a reflection of this dedicated effort by all of the NZACU team. My genuine thanks go to all staff and the board for their hard work and support in achieving a very positive result for the year, particularly in such a challenging financial environment. Thank you.

LOOKING TO THE FUTURE

Looking to the future is what we must continue to do if we are to see growth in our sector. All of the work we do at the Association is focused on serving our members needs and looking for opportunities to help you grow, and we always invite your suggestions and comments on ways that we can continue to support you.

Today's credit unions and mutual building societies are increasingly complex entities; no two are exactly the same. We value your differences, yet welcome your combined support in helping us all move forward to become an even more relevant and powerful part of the financial services industry.

Henry Lynch
CEO & Director

board & 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 ?? OF THIS REPORT.

At the 2012 AGM Graham Clouston, NZCU Baywide and Simon Scott, First Credit Union were re-elected to the NZACU Board. Immediately following the AGM, Simon Scott was elected Chair and Malcolm Blair was elected as Vice Chair. Bruce Ross and Malcolm Blair were elected Trustees and Rob Nicholls was re-elected Chair of the Audit & Risk Committee. Brian Hancock and Malcolm Blair were also re-elected as Audit & Risk Committee members. Due to heavy work commitments, Bruce Ross resigned from the Board from May 2012.

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 2011 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.

Committees of the Board

The only current committees of the board are the Audit and Risk *Committee and Director Nomination 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 an annual strategic planning process has taken place since 2011.

The Strategic Plan for 2012 to 2015 has been approved by Members and 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 MEMBERS

The Association seeks to ensure that its Members 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 from the Association.

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 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 2012 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. These are only paid if the meetings occur on a non-board meeting date.

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

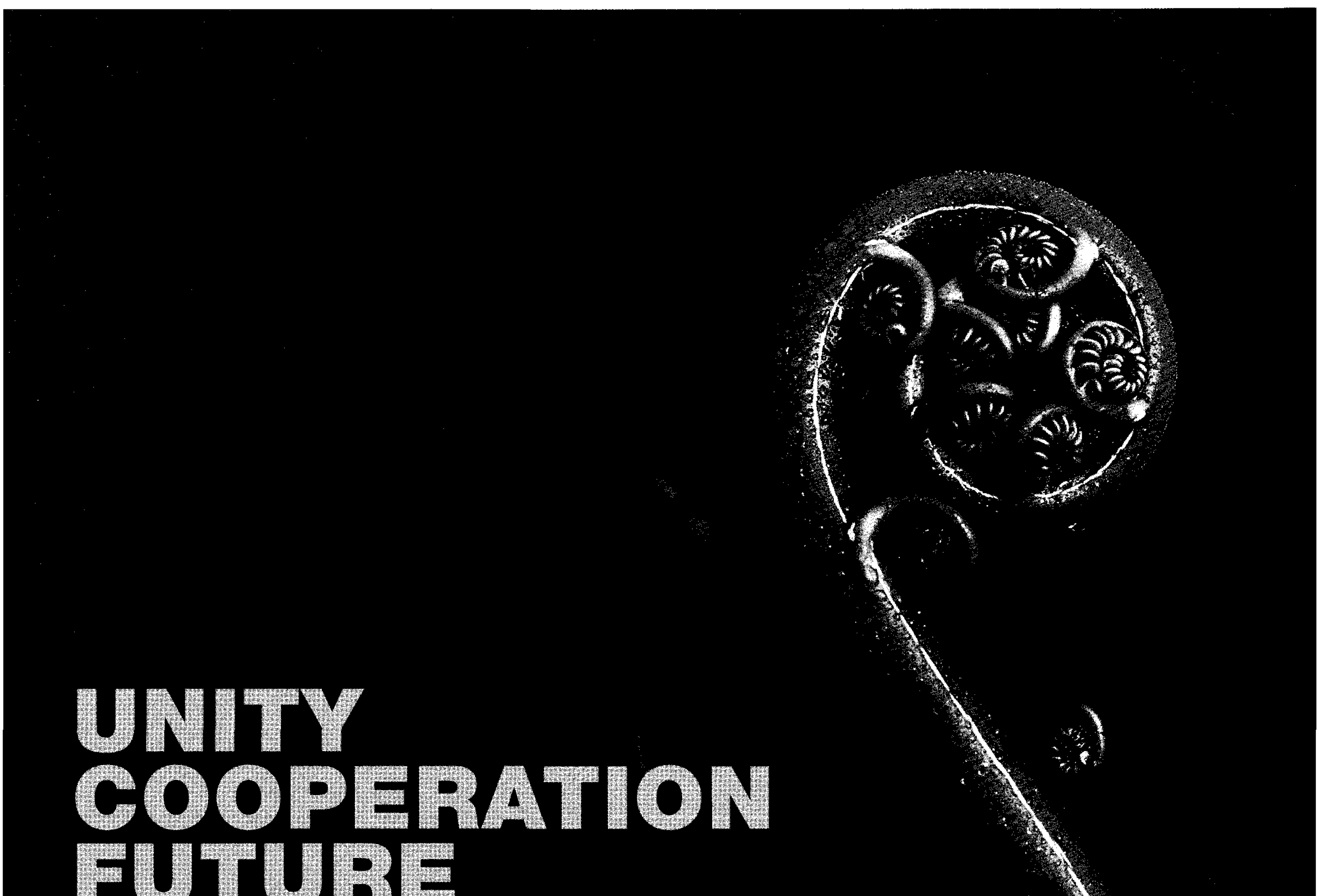
No director or executive of the Association holds any notes or any personal beneficial interest in the Association.

Other interests

No written or verbal contracts or arrangements involving directors' interests whether direct or indirect, were entered into during the year ended 30 June 2012 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 2012.

FOR AND ON BEHALF OF THE BOARD OF DIRECTORS.

Simon Scott
Chairman

Henry Lynch
CEO & 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 2012 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

pwc

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 12 to 54, which comprise the statements of financial position as at 30 June 2012, 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 2012 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, 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 12 to 54:

(i) comply with generally accepted accounting practice in New Zealand; and
(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 year end date, and their financial performance and cash flows for the year then ended.

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 2012:

(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.

PricewaterhouseCoopers

Chartered Accountants Auckland
30 August 2012

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

STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 30 June 2012

	NOTE	GROUP 2012 $000	GROUP 2011 $000	ASSOCIATION 2012 $000	ASSOCIATION 2011 $000
Interest Revenue	2	3,258	3,430	3,378	3,469
Interest Expense	3	2,484	2,379	2,549	2,459
NET INTEREST REVENUE		**774**	**1,051**	**829**	**1,010**
Banking Services Revenue		13,562	13,379	13,469	13,294
Insurance Premium Revenue	7	10,108	10,947	6,090	6,421
Other Revenue	4	2,491	1,732	2,435	1,717
TOTAL REVENUE NET OF INTEREST EXPENSE		**26,935**	**27,109**	**22,823**	**22,442**
Employee Costs	5	3,977	3,942	3,270	3,195
Insurance Claims and Rebates	7	7,690	7,824	5,210	4,956
Transaction Costs		8,253	8,074	8,253	8,074
Operating Expenses	6	5,525	6,008	5,038	4,692
TOTAL EXPENDITURE		**25,445**	**25,848**	**21,771**	**20,917**
NET PROFIT BEFORE IMPAIRMENT		**1,490**	**1,261**	**1,052**	**1,525**
Impairment Recoveries/(Expenses)	8	19	(380)	339	-
NET PROFIT BEFORE TAXATION		**1,509**	**881**	**1,391**	**1,525**
Taxation Expense	9	-	-	-	-
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,509**	**881**	**1,391**	**1,525**

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

STATEMENTS OF CHANGES IN EQUITY (Members' Funds)

For the year ended 30 June 2012

GROUP

	Base Capital Notes $000	Reserves $000	Accumulated Losses $000	Total $000
Balance at 1 July 2010	13,428	389	(3,813)	10,004
Notes issued for Capitalisation of Dividends and Rebates	267	-	-	267
Base Capital Notes Dividends paid	-	-	(1,121)	(1,121)
Transfer to/(from) Stabilisation Fund Reserve	-	(389)	389	-
Profit and Total Comprehensive Income for the Year	-	-	881	881
Balance at 30 June 2011	**13,695**	**-**	**(3,664)**	**10,031**
Balance at 1 July 2011	13,695	-	(3,664)	10,031
Base Capital Notes Dividends paid	-	-	(794)	(794)
Profit and Total Comprehensive Income for the Year	-	-	1,509	1,509
Balance at 30 June 2012	**13,695**	**-**	**(2,949)**	**10,746**

ASSOCIATION

	Base Capital Notes $000	Reserves $000	Accumulated Losses $000	Total $000
Balance at 1 July 2010	13,428	389	(4,525)	9,292
Notes issued for Capitalisation of Dividends and Rebates	267	-	-	267
Base Capital Notes Dividends paid	-	-	(1,121)	(1,121)
Transfer to/(from) Stabilisation Fund Reserve	-	(389)	389	-
Profit and Total Comprehensive Income for the Year	-	-	1,525	1,525
Balance at 30 June 2011	**13,695**	**-**	**(3,732)**	**9,963**
Balance at 1 July 2011	13,695	-	(3,732)	9,963
Base Capital Notes Dividends paid	-	-	(794)	(794)
Profit and Total Comprehensive Income for the Year	-	-	1,391	1,391
Balance at 30 June 2012	**13,695**	**-**	**(3,135)**	**10,560**

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

Statements of Financial Position

As at 30 June 2012

	NOTE	GROUP 2012 $000	GROUP 2011 $000	ASSOCIATION 2012 $000	ASSOCIATION 2011 $000
EQUITY (MEMBERS' FUNDS)					
Base Capital Notes	10	13,695	13,695	13,695	13,695
Reserves	11	-	-	-	-
Accumulated Losses	12	(2,949)	(3,664)	(3,135)	(3,732)
TOTAL EQUITY (MEMBERS' FUNDS)		**10,746**	**10,031**	**10,560**	**9,963**
ASSETS					
Cash and Cash Equivalents	13	8,835	9,516	8,835	9,516
Accounts Receivable	14	3,649	3,614	1,945	2,087
Investments	15	75,703	69,950	78,406	71,577
Loans Receivable	16	1,223	1,448	1,199	1,373
Prepayments	17	645	637	384	447
Inventory	18	115	347	115	347
Derivative Financial Assets	19	57	448	57	448
Property, Plant and Equipment	20	527	395	504	259
Other Intangible Assets	21	614	493	385	241
TOTAL ASSETS		**91,368**	**86,848**	**91,830**	**86,295**
LIABILITIES					
Deposits Received	22	72,362	68,459	75,536	71,065
Accounts Payable	23	3,534	3,176	3,386	2,545
Unearned Premium Liability	24	2,038	2,070	-	-
Provisions	25	347	357	301	306
Life Insurance Liability	7	70	98	70	98
Other Association Insurance Liability	7	1,921	1,880	1,921	1,880
Motor Vehicle Insurance Liability	7	294	339	-	-
Derivative Financial Liabilities	26	56	438	56	438
TOTAL LIABILITIES		**80,622**	**76,817**	**81,270**	**76,332**
NET ASSETS		**10,746**	**10,031**	**10,560**	**9,963**

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

These financial statements were authorised for issue by the Board of Directors on 30 August 2012 and were signed for on its behalf.

Simon Scott
Chairman

Henry Lynch
CEO & Director

Statements of Cash Flow

For the year ended 30 June 2012

	NOTE	GROUP 2012 $000	GROUP 2011 $000	ASSOCIATION 2012 $000	ASSOCIATION 2011 $000
Cash Flows from operating activities					
Cash was provided from					
Membership Contributions Received		738	759	738	759
Insurance Premiums Received		8,850	9,618	4,964	5,233
Other Receipts from Customers		15,573	14,304	15,632	14,165
Loan Repayments from Customers		404	1,524	309	92
Investment Interest Received		2,942	3,163	3,207	3,451
Motor Vehicle Claims Recoveries		527	692	-	-
Credit Union Foundation Grants and Donations		1	5	1	5
		29,035	**30,065**	**24,851**	**23,705**
Cash was applied to					
Payments to Suppliers and Employees		17,153	17,029	15,293	15,032
Insurance Claims and Rebates Paid		6,676	7,146	4,047	4,073
Loan Advances to Customers		-	1,373	-	1,373
Interest Paid		2,229	2,143	2,443	2,476
		26,058	**27,691**	**21,783**	**22,954**
NET CASH FLOWS FROM OPERATING ACTIVITIES	34	**2,977**	**2,374**	**3,068**	**751**
Cash Flows from investing activities					
Cash was provided from					
Sale of Fixed Assets and Intangibles		272	13	203	13
Proceeds from sales and maturities of Investment Securities		703,374	576,015	703,414	576,129
		703,646	**576,028**	**703,617**	**576,142**
Cash was applied to					
Purchase of Property, Plant and Equipment		621	169	607	86
Purchase of Intangible Assets		564	423	421	226
Purchase of Investment Securities		709,127	568,101	709,908	568,101
Investment in Subsidiary		-	300	-	-
		710,312	**568,993**	**710,936**	**568,413**
NET CASH FLOWS FROM INVESTING ACTIVITIES		**(6,666)**	**7,035**	**(7,319)**	**7,729**
Cash Flows from financing activities					
Cash was provided from					
Net increase/(decrease) in Deposits		3,802	(11,280)	4,364	(10,351)
		3,802	(11,280)	4,364	(10,351)
Cash was applied to					
Base Capital Note Dividend Paid		794	1,121	794	1,121
		794	1,121	794	1,121
NET CASH FLOWS FROM FINANCING ACTIVITIES		**3,008**	**(12,401)**	**3,570**	**(11,472)**
Net increase in Cash and Cash Equivalents		(681)	(2,992)	(681)	(2,992)
Cash and Cash Equivalents at the beginning of the year		9,516	12,508	9,516	12,508
Cash and Cash Equivalents at the End of the Year	13	**8,835**	**9,516**	**8,835**	**9,516**

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 2012

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 and its wholly owned subsidiary, Credit Union Insurance Limited, are, with effect from 1 July 2012, an issuer under the Financial Reporting Act 1993 under the terms of the provisional licence issued by the Reserve Bank of New Zealand under the Insurance (Prudential Supervision) Act 2010. The Financial Statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practise ("NZ GAAP") and comply with the Friendly Societies and Credit Unions Act 1992.

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

New Zealand Association of Credit Unions is domiciled in New Zealand and principal activities are to provide banking and insurance services for the credit unions.

GENERAL ACCOUNTING POLICIES

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

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

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

Foreign currency monetary assets and liabilities have been translated into the functional currency at the rate of foreign exchange ruling as at balance sheet date. Transactions denominated in a foreign currency are converted to New Zealand dollars at the exchange rates in effect at the date of the transaction. Foreign exchange differences relating to monetary items and gains and losses arising from foreign exchange dealings by the 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 judgements. Actual results may differ from these estimates.

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

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

• Allowance for Impairment Loss

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

• Estimation of Fair Value of Financial Instruments

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

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

• Estimation of Insurance Contract Liabilities

Insurance contract liabilities 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 includes 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 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 an allowance 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 Assets measured at fair value

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

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. Consolidation

(i) Subsidiaries

Susidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where the size of the Group's voting rights relative to the size and dispersion of holdings of other shareholders give the Group the power to govern the financial and operating policies.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition- by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date.

Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with NZ IAS 39 either in profit or loss or as a change to other comprehensive income.

Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration is lower than the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(ii) Joint Arrangements

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

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

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

i. Cash and Cash Equivalents

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

j. 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.

k. 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.

l. 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.

m. Property, Plant and Equipment

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

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

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

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

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.

n. 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.

o. Taxation

The Association has not provided for income tax on the basis it is exempt for tax under Section CW44 (a) of the Income Tax Act 2007. However other 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 Inland Revenue in which case the GST is recognised as part of the cost of the acquisition of the assets or as part of the expense item as applicable.

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

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

  Cash flows, with the exception of deposit cash flows, are included in the Statements of Cash Flow 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.

p. Insurance Liabilities

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

q. 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.

r. 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.

s. 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.

t. 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.

u. Statements of Cash Flow

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.

v. 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.

w. 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.

x. Accounting Standards adopted during the year

Revised NZ IFRS 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 IFRS 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 has not affected the measurement of any of the items recognised in the balance sheet or the profit or loss in the current period.

NZ IFRS 7 *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 had no impact on the Group's disclosures.

NZ IFRS 11 *Joint Arrangements* (effective 1 January 2013) 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. On 31 March 2012, the Association invested in a joint operation and this standard was early adopted.

NZ IFRS 24 *Related Party Disclosures*

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.

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

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

NZ IFRS 10 replaces all of the guidance on control and consolidation in NZ IFRS 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 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 IFRS 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 IFRS 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. An equivalent revised NZ IFRS 19 *Employee Benefits* is expected to be issued 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.

2. Interest Revenue

	GROUP		ASSOCIATION	
	2012 $000	2011 $000	2012 $000	2011 $000
Government and Other Bond Interest	44	57	171	247
Bank, Money Market Securities, Local Authority and Floating Rate Note Interest	2,819	2,847	2,819	2,847
Gains on Interest Rate Swaps	1	-	1	-
Loan Interest	142	244	135	92
Other Interest	252	282	252	283
TOTAL INTEREST REVENUE	**3,258**	**3,430**	**3,378**	**3,469**

3. Interest Expense

	GROUP		ASSOCIATION	
	2012 $000	2011 $000	2012 $000	2011 $000
Interest on Deposits	2,415	2,301	2,485	2,395
Bank Fees and Charges	64	64	64	64
Other Interest	5	14	-	-
TOTAL INTEREST EXPENSE	**2,484**	**2,379**	**2,549**	**2,459**

4. Other Revenue

	GROUP		ASSOCIATION	
	2012 $000	2011 $000	2012 $000	2011 $000
Membership Contributions	754	754	738	754
Other Revenue	1,737	978	1,697	963
TOTAL OTHER REVENUE	**2,491**	**1,732**	**2,435**	**1,717**

5. Employee Costs

	GROUP		ASSOCIATION	
	2012 $000	2011 $000	2012 $000	2011 $000
Salaries and Wages	3,882	3,735	3,192	3,004
Other Staff Costs	95	207	78	191
TOTAL EMPLOYEE COSTS	**3,977**	**3,942**	**3,270**	**3,195**

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

6. Operating Expenses

	GROUP		ASSOCIATION	
	2012	2011	2012	2011
	$000	$000	$000	$000
Auditors' Remuneration:				
Audit fees paid to PricewaterhouseCoopers	71	76	40	45
Other fees paid to PricewaterhouseCoopers	25	13	2	-
Audit fees paid to Deloitte	-	12	-	3
Other paid to Deloitte	50	52	50	16
Information System Review paid to PricewaterhouseCoopers	30	34	30	34
Information System Review paid to Deloitte	-	85	-	85
Internal Audit Fees paid to William Buck	42	40	27	31
Depreciation:				
Furniture, Fittings, Office Equipment & Vehicles	117	205	82	180
Computer Equipment	181	343	168	291
Amortisation of Intangible Assets	362	696	198	184
Directors' Fees	184	210	184	178
Directors' Expenses and Training	100	75	100	73
Leasing Charges	325	352	287	283
(Gain)/Loss on Disposal of Property, Plant & Equipment	(72)	13	(83)	7
Legal Settlement Expense	-	332	-	-
Other Operating Expenses	4,110	3,470	3,953	3,282
TOTAL OPERATING EXPENSES	**5,525**	**6,008**	**5,038**	**4,692**

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	
	2012	2011	2012	2011
	$000	$000	$000	$000
Underwriting Results				
Life Insurance				
Gross Earned Premium	1,706	1,695	1,706	1,695
Net Earned Premium	**1,706**	**1,695**	**1,706**	**1,695**
Gross Claims	711	736	711	736
Reinsurance Share	-	-	-	-
Net Claims	**711**	**736**	**711**	**736**
Commission	215	217	215	217
Underwriting Result	**780**	**742**	**780**	**742**
Credit Union Rebates	564	444	564	444
	216	**298**	**216**	**298**
Other Association Insurance				
Gross Earned Premium	4,384	4,726	4,384	4,726
Net Earned Premium	**4,384**	**4,726**	**4,384**	**4,726**
Gross Claims	2,042	2,119	2,042	2,119
Reinsurance Share	-	-	-	-
Net Claims	**2,042**	**2,119**	**2,042**	**2,119**
Commission	934	1,010	934	1,010
Underwriting Result	**1,408**	**1,597**	**1,408**	**1,597**
Credit Union Rebates	744	430	744	430
	664	**1,167**	**664**	**1,167**
Motor Vehicle Insurance				
Gross Earned Premium	4,211	4,590	-	-
Reinsurance Premiums	(193)	(64)	-	-
Net Earned Premium	**4,018**	**4,526**	-	-
Gross Claims	2,057	2,517	-	-
Reinsurance Share	-	-	-	-
Net Claims	**2,057**	**2,517**	-	-
Commission	423	351	-	-
Underwriting Result	**1,538**	**1,658**	-	-
Total Insurance				
Net Earned Premium	**10,108**	**10,947**	**6,090**	**6,421**
Net Claims	4,810	5,372	2,753	2,855
Commissions	1,572	1,578	1,149	1,227
Underwriting Result	**3,726**	**3,997**	**2,188**	**2,339**
Credit Union Rebates	1,308	874	1,308	874
Insurance Claims, Commission and Rebates	**7,690**	**7,824**	**5,210**	**4,956**
Total Underwriting Result after Commission and Rebates	**2,418**	**3,123**	**880**	**1,465**

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

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 2012. The actuary's report for Credit Union Insurance Limited is based on data as at 30 June 2012. The Actuary's report had no qualifications.

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.

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 2.24% per annum (2011: 3.24%).

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 average expected term to settlement of Other Association Insurance outstanding claims as at 30 June 2012 was approximately 6.0 months (2011 : 6.0 months).

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% (2011 : 8.5%), which provides a likelihood of sufficiency of 75% (2011 : 75%). The Board has elected to use a risk Margin of 17% (2011 : 18.5%) which gives a 90% likelihood of sufficiency.

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

Expected Recoveries Receivable is calculated by discounting the Recoveries 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.

The average expected term to settlement of Motor Vehicle Insurance outstanding claims was approximately 39 days (2011 : 43 days).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

	GROUP		ASSOCIATION	
	2012	2011	2012	2011
	$000	$000	$000	$000
Outstanding Claims Liability				
Life Insurance				
Opening Claims Liability	98	157	98	157
Claims Expense	711	735	711	735
Claims Paid	(739)	(794)	(739)	(794)
Closing Claims Liability	**70**	**98**	**70**	**98**
Other Association Insurance				
Opening Claims Liability	1,880	2,165	1,880	2,165
Claims Expense	2,042	2,119	2,042	2,119
Claims Paid	(2,001)	(2,404)	(2,001)	(2,404)
Closing Claims Liability	**1,921**	**1,880**	**1,921**	**1,880**
Motor Vehicle Insurance				
Opening Claims Liability	773	750	-	-
Claims Expense	2,480	3,096	-	-
Claims Paid	(2,629)	(3,073)	-	-
Closing Gross Claims Liability	**624**	**773**	**-**	**-**
Motor Vehicle Expected Recoveries Receivable				
Opening Expected Recoveries	434	548	-	-
Increase In Expected Recoveries	423	578	-	-
Actual Third Party Recoveries Received	(527)	(692)	-	-
Closing Expected Recoveries	**330**	**434**	**-**	**-**
Closing Claims Liability	**294**	**339**	**-**	**-**

Outstanding claims are reported in the Statement of Financial Position as Life Insurance Liability, Other Association Insurance Liability and Motor Vehicle Insurance Liability.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

	GROUP		ASSOCIATION	
	2012	2011	2012	2011
	$000	$000	$000	$000
Composition of Outstanding Claims Liability				
Life Insurance				
Outstanding claims	-	-	-	-
IBNR	70	98	70	98
Closing Claims Liability	**70**	**98**	**70**	**98**
Other Association Insurance				
Outstanding claims	1,599	1,553	1,599	1,553
IBNR	322	327	322	327
Closing Claims Liability	**1,921**	**1,880**	**1,921**	**1,880**
Motor Vehicle Insurance				
Outstanding claims	369	472	-	-
Risk Margin	62	87	-	-
Indirect Claims Management	93	104	-	-
IBNR	100	110	-	-
Closing Gross Claims Liability	624	773	-	-
Closing Expected Recoveries	(330)	(434)	-	-
Motor Vehicle Insurance	**294**	**339**	**-**	**-**

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.

Capital Management

The Association's policy is to manage its capital on a basis of 125% of the Reserve Bank of New Zealand's minimum solvency requirement for insurers. The Directors believe that the Association has complied with this policy. The Association has a policy to at least maintain its long term counterparty credit rating. On 11 December 2011 of "BB+ Stable" was achieved.

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 & Service Centre 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 on a monthly or annual payment basis. There are no special terms and conditions in any non standard contracts that would have a material impact on the financial report.

Credit Risk

Financial assets or liabilities arising from insurance contracts are presented on the Statement of Financial Position. These amounts best represent the maximum credit risk exposure at reporting date. The Association's credit risk exposure on its insurance contracts relates exclusively to credit unions. The credit risk relating to 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+ Stable' issued by Standard & Poor's on 12 December 2011. Credit Union Insurance Limited has a Financial Strength rating of 'BB Stable' issued by Standard & Poor's on 19 June 2012.

8. Impairment

	GROUP		ASSOCIATION	
	2012 $000	2011 $000	2012 $000	2011 $000
Movement in Provisions in respect of:				
Loans Receivable	19	(102)	-	-
Revaluation in Investments	-	-	339	-
	19	**(102)**	**339**	**-**
Amounts written off in respect of:				
Loans Receivable	-	(278)	-	-
IMPAIRMENT EXPENSES/(RECOVERIES)	**19**	**(380)**	**339**	**-**

Refer to notes 14 and 16 for further information.

9. Taxation

	GROUP		ASSOCIATION	
	2012	2011	2012	2011
	$000	$000	$000	$000
Profit / (Loss) before Taxation	**1,509**	**881**	**1,391**	**1,525**
Income Tax at current rate of 28%	423	264	389	458
Exempt Income	(295)	(458)	(389)	(458)
Non Deductible Expenses	(5)	45	-	-
Movement in Temporary Differences (not recognised)	42	(33)	-	-
Prior Period Adjustments	(50)	(80)	-	-
Utilisation of Tax Losses (not previously recognised)	(115)	262	-	-
TAXATION EXPENSE	**-**	**-**	**-**	**-**
Unrecognised Deferred Tax Balances				
The following net deferred tax assets have not been recognised:				
Tax Losses	1,293	1,408	-	-
Temporary Differences	197	155	-	-
	1,490	**1,563**	**-**	**-**

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.

Unrecognised deferred tax assets are comprised as follows:

GROUP **2012**	**Opening Balance $000**	**Charged to Income $000**	**Closing Balance $000**
Deferred Tax Assets:			
Tax Losses	1,408	(115)	1,293
Provisions	14	2	16
Impairment Losses	197	54	251
	1,619	**(59)**	**1,560**
Deferred Tax Liabilities:			
Property, Plant and Equipment	(1)	-	(1)
Intangible Assets	(9)	6	(3)
Deferred Acquisition Costs	(46)	(20)	(66)
	(56)	**(14)**	**(70)**
	1,563	**(73)**	**1,490**

2011			
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**

The tax rate used in the calculation of the above unrecognised deferred tax is the tax rate of 28% payable by New Zealand corporate entities on taxable profits under New Zealand tax law.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

10. Base Capital Notes

	GROUP & ASSOCIATION		GROUP & ASSOCIATION	
	2012	2011	2012	2011
	000	000	$000	$000
Issue I	20	21	200	210
Issue II	13,495	13,485	13,495	13,485
	13,515	**13,506**	**13,695**	**13,695**

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	
	2012	2011	2012	2011
	000	000	$000	$000
Issue I				
Balance at 1 July	21	22	210	220
Notes redeemed by transfer to Base Capital Notes II	(1)	(1)	(10)	(10)
Balance at 30 June	**20**	**21**	**200**	**210**

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	
	2012	2011	2012	2011
	000	000	$000	$000
Issue II				
Balance at 1 July	13,485	13,208	13,485	13,208
Notes issued:				
For capitalisation of Dividends and Rebates	-	37	-	37
For capitalisation of Stabilisation Fund	-	230	-	230
By transfer from Base Capital Notes I	10	10	10	10
Balance at 30 June	**13,495**	**13,485**	**13,495**	**13,485**

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 2012

11. Reserves

	GROUP		ASSOCIATION	
	2012 $000	2011 $000	2012 $000	2011 $000
Stabilisation Fund Reserve				
Balance at 1 July	-	389	-	389
Transferred from/(to) Retained Earnings	-	(389)	-	(389)
TOTAL RESERVES	**-**	**-**	**-**	**-**

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		ASSOCIATION	
	2012 $000	2011 $000	2012 $000	2011 $000
Balance at 1 July	(3,664)	(3,813)	(3,732)	(4,525)
Operating Profit	1,509	881	1,391	1,525
Transferred from Stabilisation Fund Reserve	-	389	-	389
	(2,155)	**(2,543)**	**(2,341)**	**(2,611)**
Base Capital Note Dividends	(794)	(1,121)	(794)	(1,121)
TOTAL ACCUMULATED LOSSES	**(2,949)**	**(3,664)**	**(3,135)**	**(3,732)**

The net profit for the years ended 30 June 2012 and 30 June 2011 have been transferred to Accumulated Losses.

In 2011 the remaining balance of the Stabilisation Fund was repaid to Members.

	GROUP		ASSOCIATION	
	2012 $000	2011 $000	2012 $000	2011 $000
Member Services Division	1,441	1,466	1,441	1,466
Business Services Division	(4,051)	(4,920)	(4,576)	(5,198)
	(2,610)	**(3,454)**	**(3,135)**	**(3,732)**

Member Services Division Retained Earnings at 30 June 2012 includes the Retained Earnings of the New Zealand Credit Union Foundation of $99,000 (30 June 2011 $98,000). Refer note 36.

13. Cash and Cash Equivalents

	GROUP		ASSOCIATION	
	2012 $000	2011 $000	2012 $000	2011 $000
Cash at Bank	834	1,516	834	1,516
Bank Call Deposits	8,001	8,000	8,001	8,000
	8,835	**9,516**	**8,835**	**9,516**

14. Accounts Receivable

	GROUP		ASSOCIATION	
	2012 $000	2011 $000	2012 $000	2011 $000
Trade Receivables	1,507	1,763	1,421	1,569
Receivable from Subsidiaries	-	-	125	96
Future Funded Premiums	1,603	1,311	-	-
	3,110	**3,074**	**1,546**	**1,665**
Insurance Premiums Due	546	546	399	422
Provision for Cancellation	(7)	(6)	-	-
	539	**540**	**399**	**422**
Total Carrying Amount	**3,649**	**3,614**	**1,945**	**2,087**
Provision for Cancellation				
Collective Provision Against Insurance Premiums Due				
Balance at Beginning of the Year	6	9	-	-
Movement in provision	1	(3)	-	-
Balance at End of the Year	**7**	**6**	**-**	**-**
Past Due Receivables Not Impaired				
Trade Receivables	214	182	66	12
Total Past Due Receivables Not Impaired	**214**	**182**	**66**	**12**
Aging of Past Due Receivables Not Impaired				
Past Due 1-30 days	157	182	10	12
Past Due 31-90 days	53	-	52	-
Past Due over 90 days	4	-	4	-
Balance at End of the Year	**214**	**182**	**66**	**12**

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 (2011: $Nil) and there has been no write off (2011: $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 $7,000 for outstanding insurance premiums relating to policies issued by Credit Union Insurance Limited (2011: $6,000)

Refer also to note 31 for Related Party Disclosures.

15. Investments

	GROUP 2012 $000	GROUP 2011 $000	ASSOCIATION 2012 $000	ASSOCIATION 2011 $000
Bank Deposits	40,948	38,340	40,948	38,340
Advances to Subsidiaries	-	-	89	83
Money Market Securities	25,912	27,906	25,912	27,906
Government Stock	1,568	1,531	1,045	1,020
Floating Rate Notes	7,031	2,173	7,031	2,173
	75,459	**69,950**	**75,025**	**69,522**
Investment Bonds	244	-	14,189	13,202
Provision for Credit Impairment	-	-	(10,808)	(11,147)
	244	-	3,381	2,055
Total Carrying Amount	**75,703**	**69,950**	**78,406**	**71,577**

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 $10,808,000 (2011: $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 2012. The provision in respect of NZCU Finance Limited of $3,808,000 covers the remaining investment.

The provision in respect of Credit Union Insurance Limited of $7,000,000 (2011 $7,339,000) was reviewed based on detailed cash flow forecasts for the four years to 30 June 2016. Key assumptions in this forecast were no sales growth , a loss ratio of 58.0% and a discount rate of 10%. The valuation indicated that the asset was undervalued and the Directors decided to write back $339,000 of the impairment to fairly value the investments. The remaining provision was deemed 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 2012

16. Loans Receivable

	GROUP		ASSOCIATION	
	2012 $000	2011 $000	2012 $000	2011 $000
Gross Loans Receivable	2,118	2,362	1,199	1,373
Provision for Credit Impairment	(895)	(914)	-	-
Total Carrying Amount	**1,223**	**1,448**	**1,199**	**1,373**
Provision for Credit Impairment				
Individually Impaired Loans				
Balance at Beginning of the Year	902	240	-	-
New Provisions during the Year	-	871	-	-
Amounts Released/Written Off	(19)	(209)	-	-
Balance at End of the Year	**883**	**902**	**-**	**-**
Collective Provision Against Loans				
Balance at Beginning of the Year	12	645	-	-
Amounts Released/Written Off	-	(633)	-	-
Balance at End of the Year	**12**	**12**	**-**	**-**
Total Provision for Credit Impairment	**895**	**914**	**-**	**-**
Aging of Individually Impaired Loans				
Past Due 0-30 days	-	-	-	-
Past Due 31-90 days	-	-	-	-
Past Due over 90 days	897	909	-	-
Balance at End of the Year	**897**	**909**	**-**	**-**
Aging of Past Due but not Individually Impaired Loans				
Past Due 0-30 days	3	80	-	-
Past Due 31-90 days	6	-	-	-
Past Due over 90 days	13	-	-	-
Balance at End of the Year	**22**	**80**	**-**	**-**

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 three other loans retained by NZCU Finance Limited at balance date. These loans were originally secured by caveats or second mortgages. But after sales by first mortgagees, two are now unsecured and fully provided. The third was fully settled after balance date.

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. These loans are fully provided pending recovery action.

At balance date there were no restructured loans (2011: no restructured loans), against which there is a collective provision of nil (2011: nil). There were no assets acquired through enforcement of security.

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**
Loans 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**

Interest Rate Swap Contracts

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

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

	Average Fixed Interest Rate		Notional Principal Amount		Fair Value	
	2012 %	2011 %	2012 $000	2011 $000	2012 $000	2011 $000
Outstanding 'Receive Floating Pay Fixed' Contracts						
Less than 1 year	7.95%	6.20%	2,075	9,241	(56)	(276)
1 to 2 years	N/A	7.50%	-	2,475	-	(162)
2 to 5 years	N/A	N/A	-	-	-	-
			2,075	**11,716**	**(56)**	**(438)**

	Average Fixed Interest Rate		Notional Principal Amount		Fair Value	
	2012 %	2011 %	2012 $000	2011 $000	2012 $000	2011 $000
Outstanding 'Receive Fixed Pay Floating' Contracts						
Less than 1 year	8.05%	6.29%	2,075	9,241	57	283
1 to 2 years	N/A	7.60%	-	2,475	-	165
2 to 5 years	N/A	N/A	-	-	-	-
			2,075	**11,716**	**57**	**448**

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's 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

2012	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		8,835	-	-	-	-	**8,835**
Accounts Receivable		2,046	-	-	-	-	**2,046**
Investments		59,069	9,603	2,023	5,008	-	**75,703**
Loans Receivable		51	148	194	720	110	**1,223**
Derivative Financial Assets		19	38	-	-	-	**57**
Future Interest Receivable		383	399	359	360	3	**1,504**
Total Financial Assets		**70,403**	**10,188**	**2,576**	**6,088**	**113**	**89,368**
Liabilities							
Deposits Received		72,056	306	-	-	-	**72,362**
Accounts Payable		3,534	-	-	-	-	**3,534**
Derivative Financial Liabilities		19	37	-	-	-	**56**
Future Interest Payable		232	6	-	-	-	**238**
Total Financial Liabilities		**75,841**	**349**	**-**	**-**	**-**	**76,190**
Net Financial Assets		**(5,438)**	**9,839**	**2,576**	**6,088**	**113**	**13,178**
Unrecognised Commitments	32	(8,476)	-	-	-	-	**(8,476)**
Net Liquidity Gap at 30 June 2012		**(13,914)**	**9,839**	**2,576**	**6,088**	**113**	**4,702**

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**

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

ASSOCIATION

2012	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		8,835	-	-	-	-	**8,835**
Accounts Receivable		1,945	-	-	-	-	**1,945**
Investments		62,295	9,080	2,023	5,008	-	**78,406**
Loans Receivable		42	133	194	720	110	**1,199**
Derivative Financial Assets		19	38	-	-	-	**57**
Future Interest Receivable		383	399	359	360	3	**1,504**
Total Financial Assets		**73,519**	**9,650**	**2,576**	**6,088**	**113**	**91,946**
Liabilities							
Deposits Received		75,230	306	-	-	-	**75,536**
Accounts Payable		3,386	-	-	-	-	**3,386**
Derivative Financial Liabilities		19	37	-	-	-	**56**
Future Interest Payable		232	6	-	-	-	**238**
Total Financial Liabilities		**78,867**	**349**	**-**	**-**	**-**	**79,216**
Net Financial Assets		**(5,348)**	**9,301**	**2,576**	**6,088**	**113**	**12,730**
Unrecognised Commitments	32	(8,506)	-	-	-	-	**(8,506)**
Net Liquidity Gap at 30 June 2012		**(13,854)**	**9,301**	**2,576**	**6,088**	**113**	**4,224**
2011							
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**

The Group and Association has access to financing facilities of $7,600,000 (2011: $7,600,000). The facilities are secured by charges over interest bearing Investments. Utilisation of credit facilities at 30 June 2012 was $1,147,000 (2011 $685,000). The Group expects to meet its obligations from operating cash flows and proceeds of maturing financial assets.

Fair Value of Financial Instruments

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

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

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

Fair Value Measurements Recognised in the Statement of Financial Position

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

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

As at 30 June 2012	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
GROUP				
Financial assets at Fair Value				
- Derivative financial assets	-	57	-	57
- Bond (Government)	1,568	-	-	1,568
	1,568	**57**	**-**	**1,625**
Financial liabilities at Fair Value				
- Derivative financial liabilities	-	56	-	56
	-	**56**	**-**	**56**
ASSOCIATION				
Financial assets at Fair Value				
- Derivative financial assets	-	57	-	57
- Bond (Government)	1,045	-	-	1,045
	1,045	**57**	**-**	**1,102**
Financial liabilities at Fair Value				
- Derivative financial liabilities	-	56	-	56
	-	**56**	**-**	**56**

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

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.

Financial Instruments by Category	GROUP 2012 $000	GROUP 2011 $000	ASSOCIATION 2012 $000	ASSOCIATION 2011 $000
Financial assets at fair value through the profit or loss				
Investments	1,568	1,531	1,045	1,020
Derivative financial assets	57	448	57	448
Total assets at fair value through the profit or loss	**1,625**	**1,979**	**1,102**	**1,468**
Loans and receivables				
Cash and cash equivalents	8,835	9,516	8,835	9,516
Accounts receivable	2,046	2,134	1,945	2,087
Loans receivable	1,223	1,448	1,199	1,373
Investments	74,135	68,419	77,361	70,557
Total loans and receivables	**86,239**	**81,517**	**89,340**	**83,533**
Total financial assets	**87,864**	**83,496**	**90,442**	**85,001**
Other financial liabilities at amortised cost				
Deposits received	72,362	68,459	75,536	71,065
Accounts payable	3,135	2,703	2,983	2,138
Total other financial liabilities at amortised cost	**75,497**	**71,162**	**78,519**	**73,203**
Financial liabilities at fair value through the profit or loss				
Derivative financial liabilities	56	438	56	438
Total liabilities at fair value through the profit or loss	**56**	**438**	**56**	**438**
Total financial liabilities	**75,553**	**71,600**	**78,575**	**73,641**

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

30. Investments in Subsidiaries

Subsidiaries controlled at 30 June:

Name	Percentage Holding at Balance Date 2012	Percentage Holding at Balance Date 2011	Principal Activities	Balance Date
Parent Entity				
Business Services Division				
Trust of the Association				
Subsidiaries				
CU Securities Limited as Trustee of the CU Group Trust	100%	100%	Corporate Trustee	30 June
FACTS Limited	100%	100%	Provision of services to non Members	30 June
NZCU Finance Limited	100%	100%	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
Joint Operation				
NZ Bureau Limited	50%	0%	Computer Bureau	31 March

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

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 and the joint operation are disclosed in note 30. The Association does not hold any other equity interests.

Transactions with Related Parties

The Association provides funding to subsidiaries and the joint operation 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 2012 the Association held investment bonds which are valued at $3,381,000 (2011: $2,055,000).

At 30 June 2012 interest of $102,000 (2011: $102,000) was payable to the Association in respect of these bonds.

The Association provides unsecured overdraft facilities to subsidiaries and the joint operation. At 30 June 2012 overdraft facilities available totalled $180,000 (2011: $120,000). The total drawn down under these facilities at 30 June 2012 was $89,000 (2011: $83,000). Interest was charged monthly on the outstanding balances during the year at rates of between 5.65% and 8.75% (2011: between 5.9% and 6.4%).

During the year the Association charged interest and facility fees on the investment bonds and overdraft facilities of $145,000 (2011: $216,000) to subsidiaries and the joint operation.

The Association maintains bank accounts and short term deposit facilities for subsidiaries and the joint operation. All deposits are unsecured. At 30 June 2012 funds placed with the Association by subsidiaries and the joint operation totalled $3,174,000 (2011: $2,689,000). Interest is credited monthly on the outstanding balances at commercial interest rates.

During the year the Association paid interest of $71,000 to subsidiaries and the joint operation (2011: $94,000).

During the year the Association charged fees to subsidiaries of $536,000 (2011: $267,000).

During the year the Association was charged fees by the subsidiaries of $284,000 (2011: $447,000).

During the year Fixed Assets valued at $70,160 were purchased by the Association from Credit Union Insurance Limited.

During the year Fixed Assets valued at $298,000 were sold to the joint operation in exchange for ordinary shares.

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	
	2012 $000	2011 $000	2012 $000	2011 $000
Short Term Employee Benefits	1,214	884	1,214	852

There were no other payments made to Key Management Personnel.

32. Commitments

	Group		Association	
	2012 $000	2011 $000	2012 $000	2011 $000
Undrawn advances under credit facilities	7,366	7,855	7,396	7,892
Capital expenditure	1,110	287	1,110	287
	8,476	**8,142**	**8,506**	**8,179**

33. Contingent Liabilities

There are no material contingent liabilities for year ended 30 June 2012 (2011: NIL).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

34. Notes to Statements of Cash Flow

a. Reconciliation of Net Result to Net Operating Cash Flows

	Group 2012 $000	2011 $000	Association 2012 $000	2011 $000
Profit	1,509	881	1,391	1,525
Adjustments to reconcile operating profit /(loss) to net cash flow from operating activities				
Add/(less) non cash items:				
Depreciation	298	548	250	471
Amortisation	362	696	198	183
Impairment Expense / (Recoveries)	-	380	(339)	-
Profit/(Loss) Loss on Disposal of Property, Plant & Equipment	(72)	13	(83)	7
Unrealised Loss on Bond Investments	43	18	34	18
	631	**1,655**	**60**	**679**
Add/(less) movement in Working Capital:				
(Increase)/Decrease in Inventory	232	(255)	232	(255)
(Increase)/Decrease in Accounts Receivable	(34)	295	142	404
(Increase)/Decrease in Loans Receivable	225	94	174	(1,373)
(Increase)/Decrease in Prepayments	(8)	(203)	63	(195)
(Increase)/Decrease in Derivative Financial Assets	391	451	391	451
Increase/(Decrease) in Accounts Payable	359	194	841	8
Increase/(Decrease) in Unearned Premium Liability	(32)	(294)	-	-
Increase/(Decrease) in Provisions	(10)	4	(5)	(5)
Increase/(Decrease) in Life Insurance Liability	(28)	(59)	(28)	(59)
Increase/(Decrease) in Other Association Insurance Liability	41	(285)	41	(285)
Increase/(Decrease) in Motor Vehicle Insurance Liability	(45)	137	-	-
Increase/(Decrease) in Derivative Financial Liabilities	(382)	(433)	(382)	(433)
	709	**(354)**	**1,469**	**(1,742)**
Add/(less) items classified as investing activities				
Non Cash movement in Investments	21	39	41	39
Add items included within Financing Activities:				
Non Cash movement in Deposits Received	107	(114)	107	(17)
Non Cash movement in Base Capital Notes	-	267	-	267
Net Cash Flow from Operating Activities	**2,977**	**2,374**	**3,068**	**751**

b. Treatment of Deposits Received

Cash receipts and payments from Deposits Received have been netted in the Statements of Cash Flow 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 2012

35. Stabilisation Fund Reserve

Expenses				
Operating Expenses	-	(389)	-	(389)
Operating Profit/(Loss)	**-**	**(389)**	**-**	**(389)**

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**	
	2012 $000	**2011 $000**	**2012 $000**	**2011 $000**
Current Assets				
Cash	99	98	99	98
NET ASSETS	**99**	**98**	**99**	**98**

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

Donations, Interest and Grants received	3	7	3	7
Grant paid	(2)	(2)	(2)	(2)
OPERATING SURPLUS	**1**	**5**	**1**	**5**

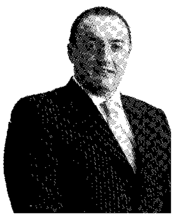
37. Member Services Division Operating Surplus

	2012 $000	**2011 $000**
Stabilisation	-	(389)
New Zealand Credit Union Foundation	1	5
MSD Operations	(26)	(65)
TOTAL	**(25)**	**(449)**

38. Events After the Balance Sheet Date

The Directors have declared a final dividend of $389,600 and a special dividend of $200,000 payable on 30 September 2012.

OUR BOARD OF DIRECTORS



SIMON SCOTT
Chair

Elected to the Board in September 2009
Director, Credit Union Insurance Limited

Other responsibilities:
Manager, NZACU Stabilisation Fund
Director, CU Securities Limited

ROB NICHOLLS
Independent Director

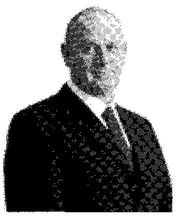
Director, Credit Union Insurance Limited

Other responsibilities:
Chair, NZACU Audit & Risk Committee
Manager, NZACU Stabilisation Fund
Director, CU Securities Limited

MALCOLM BLAIR
Vice Chair

Elected to the Board in September 2010
Director, Credit Union Insurance Limited

Other responsibilities:
Trustee, NZACU
Member, Audit and Risk Committee
Member, NZACU Stabilisation Fund



BRIAN HANCOCK
Director

Appointed to the Board in December 2009
Elected to the Board in September 2010
Director, Credit Union Insurance Limited

Other responsibilities:
Trustee, NZACU
Member, NZACU Audit and Risk Committee
Manager, NZACU Stabilisation Fund

GRAHAM CLOUSTON
Director

Elected to the Board in September 2009
Director, Credit Union Insurance Limited

Other responsibilities:
Trustee, NZACU
Manager, NZACU Stabilisation Fund

HENRY LYNCH
CEO & Director (ex-Officio)

Appointed to the CEO role and the Board in September 2010
Director, Credit Union Insurance Limited
Director, NZ Bureau Limited

Directors Fees – For Year Ending 2012

			ASSOCIATON		TOTAL ASSOCIATION FEES	CUIL	TOTAL GROUP
	ROLE	PERIOD	DIRECTOR FEES	AUDIT & RISK COMMITTEE		DIRECTOR FEES	
S SCOTT	DIRECTOR DEPUTY CHAIR CHAIR	1/7/2011-30/6/2012 1/7/2011-4/9/2011 4/9/2011-30/6/2012	$46,869	NIL	$46,869	NIL	$46,869
B ROSS	DIRECTOR	1/7/2011-26/4/2012	$20,830	NIL	$20,830	NIL	$20,830
M BLAIR	DIRECTOR DEPUTY CHAIR A & R COMM	1/7/2011-30/6/2012 4/9/2011-30/6/2012 1/7/2011-30/6/2012	$30,206	NIL	$30,206	NIL	$30,206
G CLOUSTON	DIRECTOR CHAIR	1/7/2011-3-/6/2012 1/7/2011-4/9/2011	$25,000	NIL	$25,000	NIL	$25,000
B HANCOCK	DIRECTOR A & R COMM	1/7/2011-30/6/2012 1/7/2011-30/6/2012	$24,997	 $250	$24,997 $250	NIL	$24,997 $250
R NICHOLLS	DIRECTOR AUDIT CHAIR	1/7/2011-30/6/2012 1/7/2011-30/6/2012	$31,248	 $750	$31,998	NIL	$31,998
TOTAL			**$179,150**	**$1,000**	**$180,150**		**$180,150**

Board of Directors/Audit & Risk Committee Meetings

	S Scott	B Ross	M Blair	G Clouston	B Hancock	R Nicholls	H Lynch
Formal Board Meetings	12/12	4/10	12/12	12/12	12/12	11/12	12/12
Audit & Risk Committee Meetings			6/6		6/6	6/6	

B Ross resigned on 26 April 2012

DIRECTORY

NEW ZEALAND ASSOCIATION OF CREDIT UNIONS

REGISTERED OFFICE
Level 3, 25 Teed Street
Newmarket, Auckland, 1149

POSTAL ADDRESS
PO Box 9582, Newmarket
Auckland 1149

TELEPHONE
+64 9 520 0451

EMAIL
enquiries@nzacu.org.nz

WEBSITE
www.nzacu.org.nz

SOLICITORS
Bell Gully

EXTERNAL AUDITORS
PriceWaterhouseCoopers

INTERNAL AUDITORS

William Buck	(to 30 June 2012)
Deloitte	(from 1 July 2012)

BANKERS
Westpac Institutional Bank

INSURERS
Crombie Lockwood Insurance Brokers

EXECUTIVE TEAM

Henry Lynch	Chief Executive Officer
David Smart	Chief Financial Officer
Jonathan Lee	General Manager Business Development
Deane Johns	Chief Information Officer

LEADERSHIP TEAM

Alison Buck	*Group Product Manager*
Diane Ellis	Executive Assistant
Glen Hill	Accounting Manager
Hugh Floyd	Manager Banking Services
John Lanyon	Credit Union Insurance Manager
Margaret Fleming	Learning & Development Manager
Mark Faulkner	Service Delivery Manager
Peter Miles	Central Banking Manager
Rodney Brown	Group Risk & Compliance Manager
Yvonne Tuionetoa	PR & Communications Manager