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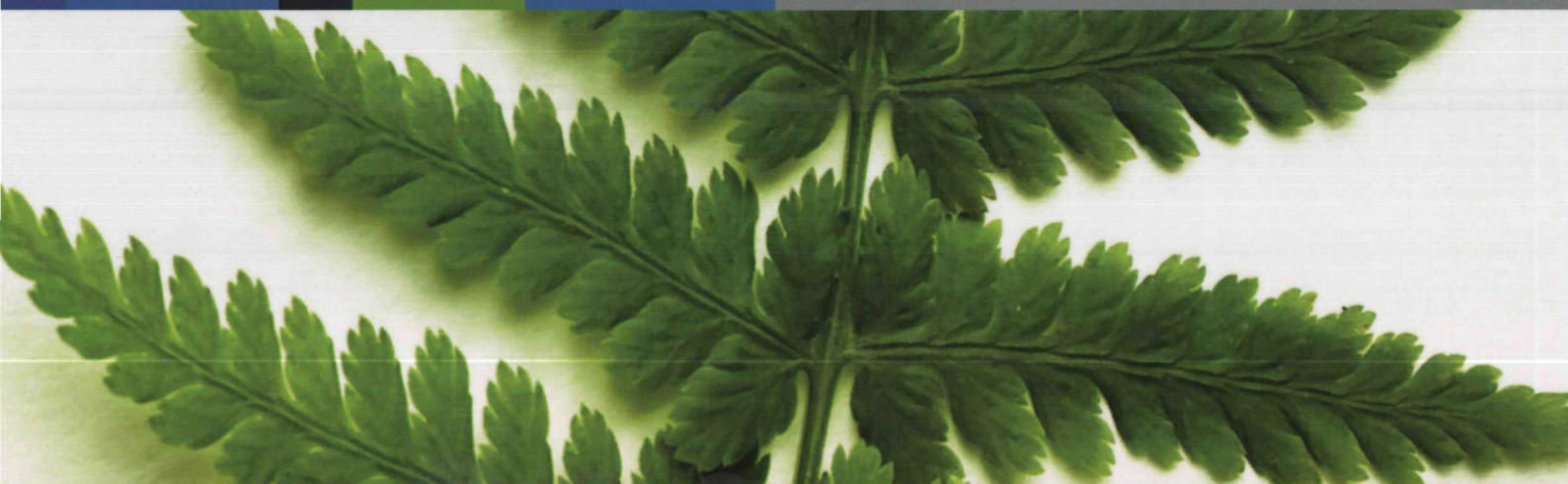
ATM
FUTURE UNITY
BUREAU
DEBIT CARD ADVOCACY
COOPERATION ACCESSCASH
COMPLIANCE CARD SERVICES
MEMBER-OWNED CAR INSURANCE
AML MONITORING FUNERAL INSURANCE
LOAN PROTECTION INSURANCE LEARNING & DEVELOPMENT
INTERNET BANKING PAYMENTS PROCESSING
ACCESSDEBIT MasterCard® IT INFRASTRUCTURE



NZACU

NEW ZEALAND ASSOCIATION OF CREDIT UNIONS

2013 Annual Report



NZACU Overview

\$1,270,000

group profit for year

\$407,000

contribution to group profit
by Credit Union Insurance Limited

\$908,000

total dividends
paid & declared

\$1,194,000

Credit Union Insurance rebate
earned by credit unions
in addition to dividends

100%

of Members satisfied with NZACU's
Overall Performance in April 2013
Member Satisfaction Survey

\$347,000

savings passed back
to members

Our Profile

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

Our Mission

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

Our Vision

All Members and 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 18 Member credit unions and represent in total 19 credit unions and 4 mutual building societies, with total assets of approximately \$1.3 billion, and 210,000 New Zealand member-owners.

Our Members

NZACU represents credit unions and mutual building societies that meet the financial services needs of 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 serve. Ongoing reviews of 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 our Members.

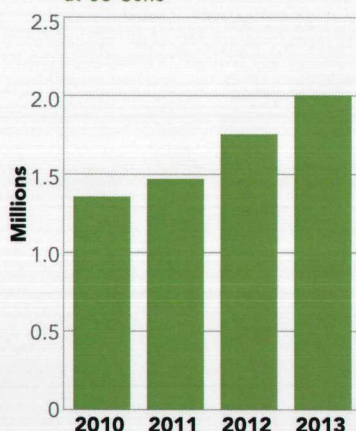
Cooperatives in New Zealand

Cooperatives in New Zealand play an important role in the national economy and collectively are responsible for 3 percent of GDP. They directly employ 43,000 people, and employment on farms and retailers that are co-op members is well into six figures. As credit unions and mutual building societies are also cooperatives, NZACU supports the wider cooperative sector through our membership of Cooperative Business New Zealand.

NZACU and the International Credit Union Movement

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.

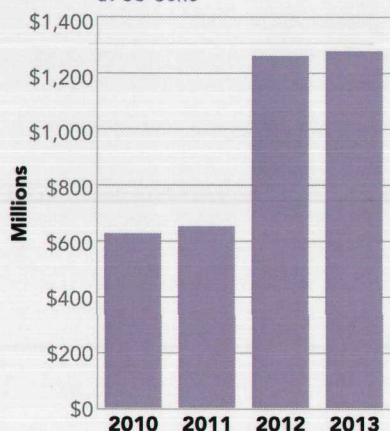
AccessCash ATM
Network Transactions
at 30 June



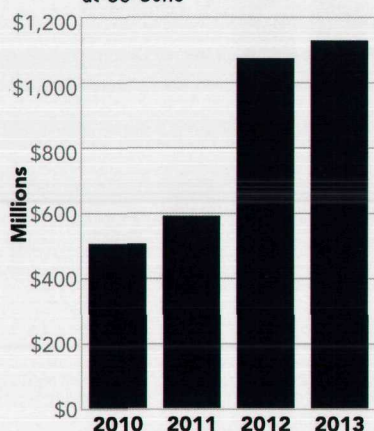
KiwiSaver Scheme:
Total Value of Units
Held By Members
at 30 June



Member Assets
at 30 June



Savings (Shares)
at 30 June



1-in-20

New Zealanders bank
with an NZACU Member

7

submissions made to
government on Members' behalf

Change in classification of credit union
simple savings products from Category 1 to
Category 2

16,890

calls answered at the NZACU help desk

85%

of which were resolved on first call

99.5%

Information Service channels uptime

over **25** key published media
reports generated by NZACU

Full Life and General Insurance Licenses
issued in April 2013 by the Reserve Bank
of New Zealand under the Insurance
(Prudential Supervision) Act 2010

Member of The Skills Organisation
(formerly ETITO) and actively involved in the
development of NZQA qualifications pathway
relating to the financial services industry.

Our Products and Services

In addition to providing representation and support to our Members, the New Zealand Association of Credit Unions (NZACU) is also a provider of quality products and services to financial institutions in New Zealand.

Our collaborative approach enables our customers to achieve economies of scale...



We work closely to provide our customers with the benefits from shared knowledge and back office scale to help drive down costs while maintaining a high degree of system robustness and security.

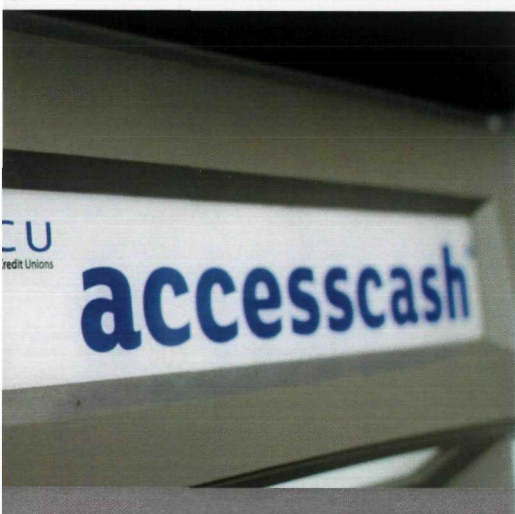
Through our joint venture with software specialist Finzsoft (publicly listed on the NZX), we manage the infrastructure for NZACU and Finzsoft's core banking system clients.

NZACU provides our Member organisations and other financial services institutions with a range of financial services, banking and insurance products. All products are tailored to meet the needs of our customers.

Our collaborative approach enables our customers to achieve economies of scale and provide the kind of operational efficiencies required to be successful in a highly competitive market.

With over 50 years' experience in financial IT and operational support services, we are well equipped to help financial institutions with their daily business and IT challenges:

- Established relationships with industry regulators.
- Agreements in place with all major banks for shared use of ATMs.
- Audits by PwC and Deloitte.
- Security audited annually by specialist external company.
- Robust security and compliance on all network services and entry points.
- Dual mirrored sites provide secure disaster recovery systems.



Core Products

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, giving even small financial institutions robust transactional banking and payment capabilities.

ATM machines and card services

- servicing, maintenance and settlement services for card transactions at ATMs for our customers, as well as own-branding options for standard Eftpos and MasterCard scheme debit cards.

AccessDebit MasterCard®

- a Debit MasterCard card that can be used on-line, at ATM and EFTPOS terminals throughout New Zealand and at over 35 million locations overseas wherever MasterCard is accepted.

Accesscash - nationwide network of over 90 ATMs.

Accesscard - which can be used at all ATM and EFTPOS terminals throughout New Zealand and overseas where the MAESTRO logo is displayed.

In addition to this, NZACU also provides the following services to our Members and customers:

- A range of compliance services to assist customers to understand and comply with existing and emerging legislation and regulations in a cost effective manner.
- Central Banking - a facility that enables our customers to benefit from a centralised Treasury operation to optimise their investment return and business liquidity.
- Local help desk support on all our products and services.
- A range of training and development opportunities for directors, managers and front line staff, including online and face to face.
- Technical assistance to help Members achieve their objectives, including: product development, planning and public relations.
- Infrastructure solutions - together with a number of key partners, our team of highly skilled IT professionals can provide total leading-edge technology solutions and services to effectively become the in-house 'IT department' for organisations.

47% increase in KiwiSaver scheme members

Collective AML Monitoring solution for Members and customers

68.8million transactions processed

AccessDebit MasterCard® featuring the latest *PayPass™* 'Tap & Go™' contactless technology introduced

59%

of Carminder policyholders have added Roadside Assistance option

Third Party Only policy option introduced to Carminder motor vehicle insurance.



CREDIT UNION INSURANCE
"covering you cooperatively"

Our subsidiary, Credit Union Insurance Limited, provides a range of very competitive, simple insurance products such as funeral plan, loan protection and motor vehicle insurance. Credit Union Insurance Limited is constantly reviewing its products and listening to feedback to ensure it is providing quality, market-leading insurance policies that reflect the needs of policy holders, and this year introduced a Third Party Only option to its vehicle insurance policy.

On 1 April 2013, Credit Union Insurance Limited was issued with a full Life and General Insurance License by the Reserve Bank of New Zealand under the Insurance (Prudential Supervision) Act 2010.

Chairman's Report

SIMON SCOTT



Overview

As the local economy continues a somewhat slow recovery, and consumer and business confidence appears to be edging slightly towards the more positive side of the ledger, the financial services industry remains in a state of cautious optimism. This optimism is naturally still tinged with some potential concerns, such as the lingering effects of the European financial meltdown, and the potential bursting of the Auckland housing market bubble.

Whilst credit unions are well capitalised and have very little, if any, direct exposure to either of these economic influences, the current marketplace continues to provide challenges in terms of maximising returns for members. The subdued demand for credit has seen little change, and Members are being continually challenged to generate more non-interest income. The time and effort credit unions are being required to put into regulatory compliance matters will always be constant in this environment created by the global financial crisis. Members can rest assured, NZACU will continue to lobby for the changes needed to our governing legislation to help reduce this burden, and my admiration goes out to all those responsible every day for ensuring their members interests are protected under the wide ranging legislation our sector is regulated by.

Despite these ongoing economic and regulatory challenges, the NZACU Group has once again performed extremely well, with a group profit for the year to 30 June 2013 of \$1,270,000 compared to the prior year profit of \$1,509,000. This result is in addition to the record level of CUI Rebates paid during the year (refer below), and excludes the substantial price reductions and rebates announced over the year. Price reductions in ACCESSTXT pricing, transactional savings and telecommunications savings and rebates expressed over a full 12 months were \$347,000. The vast majority of these savings were passed directly to Member credit unions.

The first goal of the strategic plan NZACU works continually towards is maintaining capital adequacy, while returning value to our Members. Once again, the final year's result is very impressive. Total dividends paid during the year were \$908,000. This sum included a special dividend of \$200,000 paid in September 2012. The dividend rate was 6.63%. In addition, following Balance Date, the Directors declared a final dividend of \$318,400 payable on 30 September 2013. This is 4.65% for the six month period ended 30 June 2013.

Credit Union Insurance

This year has been particularly significant for the insurance industry, with the implementation of the licensing regime as introduced by the Insurance (Prudential Supervision) Act 2010, requiring all insurance companies in New Zealand to obtain an Insurance License by 7 September 2013. Part of the process to enable the entire Credit Union Insurance (CUI) operation to obtain a license involved the combining of the motor vehicle insurance business and the life and other non-life business under one entity, a complex task in itself. We were delighted that Credit Union Insurance Limited was issued with a full Insurance License by the Reserve Bank of New Zealand (RBNZ) on 1 April 2013, a credit to all those involved in what was a particularly long and meticulous process.

Despite the relocation costs, CUI performed extremely well. We were delighted to be able to pay a record sum of \$1,418,704 in rebates for the year ended 30 June 2012. In addition the rebates declared for the year ended 30 June 2013 are \$1,193,676. Excluding the prior year's record rebate, this year's rebate is the highest since for the year ended 30 June 2008.

Regulatory Changes

As you will no doubt be aware, 2013 is particularly significant for our sector with the Non-Bank Deposit Takers Prudential

Supervision Regime currently under review, and the final report by the RBNZ being due with the Minister of Finance by September 2013. A number of meetings have been held with the RBNZ with regards to our submission on the regime, and we are extremely fortunate to be directly involved in the review process through our Chief Executive's role as an industry representative on the RBNZ's NBDT Review Advisory Group. Although it's too early to pre-empt the outcome of the review at the time of writing, we believe the official view is moving towards a more balanced approach to the future Prudential Supervision of our sector, and ultimately we hope there will be a reduction in a number of the unnecessary compliance layers currently hindering the everyday operations and growth of our Members.

A very pleasing achievement this year in terms of lobbying for regulatory change has been the re-categorisation of our low-risk savings products from Category 1 to Category 2 under the Financial Advisers Act 2008. This long awaited change has finally removed the ludicrous restriction this categorisation had imposed on those non-QFE (Qualifying Financial Entity) organisations, and has enabled particularly smaller credit unions to resume providing personal advice to members on how to best meet their savings goals with these simple products.

Unite For Good

The International Credit Union Day theme for 2013 is 'Unite for good: a better way', which emphasizes the benefits of cooperation among credit unions and mutual organisations worldwide. This fits perfectly with the NZACU's mantra of 'Unity, Cooperation, Future' and I trust that Members will embrace this philosophy even more as we look to ways we can leverage on the increased profile we've achieved in the past year. Establishing a working group to further investigate a 'common mutual identifier' is a step towards increasing the markets understanding of the benefits of belonging to a credit union or mutual building society. The NZACU's Australian counterparts Abacus recently repositioned their collective industry branding as 'Customer Owned Banking', a simple statement and concept that we will watch with interest.

Credit unions and mutual building societies uniting for the good of our members truly is a better way of doing business, and we all have a common goal of continuing to grow our sector to help as many New Zealanders as possible improve their financial situations. The staff and board of NZACU are dedicated to providing the best and most cost effective products, services and support for Members, so that they can in turn do the best for their members.

Before closing, I would like to acknowledge the sad passing last year of Brian Hancock, a valued member of the NZACU Board. A good friend and colleague, Brian was part of the credit union movement for over thirty years and during this time he worked tirelessly for the benefit of the credit unions he was involved with and the New Zealand Movement as a whole.

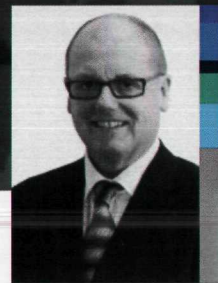
As always, I would like to thank my fellow Directors for their dedication, hard work and personal support over the past year. We are fortunate to be extremely well served by CEO Henry Lynch and the team he leads on our behalf.

Lastly, I would like to thank you, our Members, for continuing to 'co-operate' for good.

SIMON SCOTT
Chairman of the Board

Chief Executive's Report

HENRY LYNCH



This past year has been one about change: both getting to grips with the changes we all have to make to do business in a fast evolving and highly regulated environment, and lobbying for changes to our historic and archaic legislation that will enable us to compete in the marketplace on a more level playing field. Whilst change is always challenging, it is also exciting to know that with change ultimately comes opportunity and growth. In the words of John F. Kennedy: 'Change is the law of life, and those who look only to the past or present are certain to miss the future.'

Positive Engagement Increased

One of the most notable changes from an external perspective has been the significant increase in the positive engagement we have achieved with both regulators and government officials alike in the past 12 months. This is the result of our proactive public relations lobbying strategy and there has been a significant increase in the number of meetings, letters written and presentations undertaken by the Executive Team to a wide range of politicians and regulators in the last year. We believe this improved profile and relationship in the political and regulatory arena has resulted in a much clearer understanding and appreciation of the barriers the current legislation has been imposing on our sector's growth.

Evidence of this was seen recently at the June Chairs', Directors' & Managers' Forum in Auckland, which was opened by the Hon Craig Foss, Minister of Commerce, who announced his support for a Private Member's Bill to be put forward by Peseta Sam Lotu-liga, MP for Maungakiekie. The Private Member's Bill will include proposed changes to the Friendly Societies & Credit Unions Act 1982 something we have been lobbying to introduce for some time. Subsequent to this announcement, a lively political panel discussion took place that saw cross-party support for the need to reduce unnecessary regulatory and compliance restrictions within our sector (albeit from understandably different angles!). All major parties are supportive of enabling us to reach more New Zealanders who would benefit from a relationship with a credit union or mutual building society, and it's encouraging to see that a number of these politicians have backed up their rhetoric with some positive action to try and help progress our cause within the appropriate avenues.

Internally, our Forums, Summits and Annual Conference continue to provide a very positive environment for sharing of ideas, networking and learning. The feedback from the most recent June Forum was extremely pleasing, with over 95% of delegates rating it as very good or excellent—thank you to all of the chairs, directors and managers who take time out of their precious weekends to attend these events. Your input is vital to ensure we have effective, productive three-way communication: between NZACU and Members, and between our Member credit unions and mutual building societies.

Alliances and Partnerships

Our International WOCCU Partnership with Central 1, the NZACU counterpart for credit unions in British Columbia, Canada, has provided us with a fantastic sounding board in terms of ideas and strategies, and we have seen particular value from the relationship in the area of government, regulatory and media engagement. During a visit by delegates from Central 1 in December 2012, we were able to set up meetings with both

regulators and media to help highlight the disparity between the international norm and the legislation and governmental support for the credit union sector in New Zealand. This flowed on to produce three high profile articles in the media.

We have also strengthened our alliances with the national industry training body The Skills Organisation by participating in the NZQA initiative to redevelop qualifications in the financial services sector. I was also excited to be part of SKILLS Organisation team reviewing their constitution and subsequently elected to the Selection and Performance Committee for Directors of Skills Organisation. The Cooperative Business Association (CBA) is another organisation that we continue to work closely with, and is a logical alliance that we are keen to build on. Its members are mutually owned organisations that share a similar business philosophy to credit unions and building societies and our Chief Operating Officer is also currently an elected member of the CBA board.

Operational Changes

One of the most fundamental changes that I know has consumed a large amount of time for both NZACU staff and our Members' management teams this year has been the introduction of the transaction monitoring requirements brought in by the Anti-Money Laundering & Counter Financing of Terrorism Act 2009, which came into effect on 30 June 2013. The NZACU has worked extremely hard with software company Wynyard Group to be able to provide an efficient AML monitoring solution to our Members. This has been done as a collective to provide the kind of effective scale that has enabled NZACU to absorb the cost of the product, allowing even the smallest Member to participate in the solution. Whilst it will no doubt take some time to get familiar with the processes and reporting involved, once this system is embedded into the daily workflow for everyone, we are confident that it will stand our Members in excellent stead with the regulators concerned when undertaking their monitoring of compliance with this new act.

Changing of the external commercial Trustee for most of our credit union Members was a major undertaking and it was achieved with minimum disruption to our normal regulatory reporting obligations. There were some very complex statutory and legal issues that needed to be worked through, along with a number of multifaceted documentation changes required, and I commend both the Group Risk & Compliance team from NZACU and the credit unions involved for their efforts in getting this change through the necessary hoops!

Credit Union Insurance has also had a big year of change, with the entire office moving from Napier into the NZACU offices in Auckland in May 2013. The move went very smoothly, and having the CUI team working so closely within the greater NZACU environment has been extremely positive. Along with a number of new and enthusiastic team members, a new product enhancement was also successfully introduced this year in response to member demand, with the Third Party Only option now providing even more choice in terms of vehicle insurance solutions.

New Products & Enhancements

The past year also saw one of the biggest projects in recent times undertaken by the team at NZACU come to fruition, with the new AccessDebit MasterCard® successfully launching at the

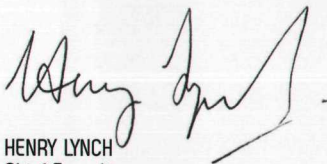
Chief Executive's Report

end of 2012. The launch was the culmination of many long hours of behind the scenes work so that our Members can now offer a state of the art 'chip' card, with the latest contactless technology. MasterCard have been supporting the new *PayPass™* 'Tap & Go™' facility with a very high profile advertising campaign that is increasing understanding and acceptance of this new technology amongst consumers everywhere, and we are already seeing a significant growth in the uptake of the product as people feel more comfortable with the concept of not having to enter a 'PIN' for smaller transactions.

I am sure we wouldn't have been able to achieve this significant milestone and still provide 'business as usual' operations for our Members without our very robust Information Systems Steering Committee (ISSC) Roadmap that guides all our technology related product and service developments. The next major product enhancements that are currently being worked on are the upgraded internet banking website and IVR system, and a new mobile banking 'app' for Smartphones that will enable members to be even more in control of their finances, allowing them to access their account information anywhere, any time.

Unity, Cooperation, Future.

Every year we strive to improve on the last, and working together in a spirit of unity and cooperation is the key to growing our sector in the future. I'd like to think that the relationship between NZACU and our Members is continuing to grow stronger as we work side by side to implement the strategic plan we formulated together. I would like to thank all the NZACU staff and board for their dedication to continuous improvement in the level of service we provide to our Members, and for our Members for their ongoing support and collaboration. I look forward to the next 12 months and am excited about what we can achieve together.



HENRY LYNCH
Chief Executive

Board & Governance

The New Zealand Association of Credit Unions (NZACU) 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 58 of this report.

At the 2012 AGM Malcolm Blair, United Credit Union, and Brian Hancock, NZCU North, were re-elected to the NZACU Board, and Robert Anderson, Aotearoa Credit Union was also elected. Immediately following the AGM, Simon Scott was re-elected as Chair and Malcolm Blair was re-elected as Deputy Chair. Malcolm Blair was re-elected as Trustee, and Graham Clouston and Robert Anderson were also elected as Trustees. 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. Sadly, Brian Hancock passed away in November 2012. Graham Clouston was appointed to fill the vacant Audit & Risk Committee membership position.

1. Ensuring solid foundations for management and oversight.

NZACU 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 NZACU 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 NZACU'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.

NZACU 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 NZACU.

The Board appointed Rob Nicholls as Independent Director in November 2009.

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 NZACU. 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

NZACU's constitution (its Rules) provides for a maximum of seven directors one of whom may be appointed by the Board as an Independent Director for one or more fixed terms not exceeding three years each.

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 NZACU.

The Directors receive comprehensive information on NZACU'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 NZACU 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 occurs.

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

NZACU 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.

NZACU 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 NZACU's financial reporting rests with the Board, NZACU 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 NZACU's external auditors.
- responsibility for appointment of the external auditors resides with the Audit & Risk Committee subject to approval by the Board.
- appointment 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 NZACU'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

NZACU 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 NZACU and any key organisational proposals.

- making it easy for Members to participate in general meetings and forums.

To assist with this, NZACU's 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 NZACU.

7. Recognising and managing risk

NZACU has a formalised system for identifying, overseeing, managing and controlling risk. The Board is ultimately responsible for the oversight of risk management and setting NZACU'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 NZACU's credit, liquidity, market and operational 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 NZACU 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

NZACU'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 NZACU during the year ended 30 June 2013 are as per the table on page 58. NZACU's policy is to align directors' remuneration to the market measured against organisations of similar total asset value and similar annual revenues. Directors' fees are normally reviewed annually by the Board and any changes recommended to Members biennially, unless a significant market movement has occurred. The last review was in 2012 and at that AGM the pool of directors' fees payable in any one year was increased to \$229,500.

In acknowledgement of the varying workloads of the Board's Audit & Risk Committee \$6,750 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 expenses

The directors receive reimbursement for their travel, accommodation and out of pocket expenses whilst attending Board meetings. Apart from travel and costs to attend NZACU's Annual General Meeting and forum, NZACU 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 representatives of NZACU attending such international meetings.

Directors' development allowance

Directors are allocated \$6,000 development allowance per three year term to be used with Board approval to gain personal development relevant to the Director's identified needs to enhance their performance as an NZACU Director.

Directors' insurance protection

NZACU maintains appropriate Personal Accident cover as well as Directors' Liability Insurance for its directors. The Personal Accident cover for directors 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.

Chief Executive Officer's remuneration

In accordance with the revised NZACU's Rules approved at the September 2012 AGM, the Chief Executive has ceased to be a director, ex officio of NZACU. Executive managers do not receive any further remuneration in their capacity where they are appointed as a director of NZACU or its subsidiaries.

10. Recognising the legitimate interest of stakeholders

NZACU 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 NZACU holds any notes or any personal beneficial interest in NZACU.

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 2013 or existed at that date.

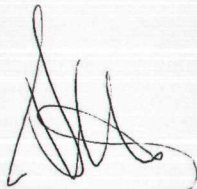
Compliance with corporate governance best practice

NZACU 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.

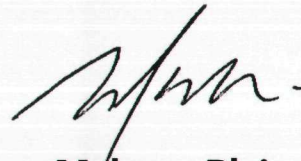
Financial Statements

The directors are pleased to present the financial statements of the New Zealand Association of Credit Unions for the year ended 30 June 2013.

For and on behalf of the board of directors.



Simon Scott
Chairman



Malcom Blair
Deputy Chairman

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 2013 and determined that actions taken are in accordance with the Friendly Societies and Credit Unions Act 1982, Association Policy and the Rules.



Rob Nicholls
Chairman of the Audit & Risk Committee



Independent Auditors' Report

to the members of New Zealand Association of Credit Unions

Report on the Financial Statements

We have audited the financial statements of New Zealand Association of Credit Unions (the "Association") on pages 14 to 57, which comprise the statements of financial position as at 30 June 2013, 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 2013 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 14 to 57:

- (i) comply with generally accepted accounting practice in New Zealand;
- (ii) comply with International Financial Reporting Standards; and
- (iii) give a true and fair view of the financial position of the Association and the Group as at 30 June 2013, 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 2013:

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

Chartered Accountants
29 August 2013

Auckland

Statements of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2013

| | NOTE | GROUP | | ASSOCIATION | |
|--|------|---------------|---------------|---------------|---------------|
| | | 2013 \$000 | 2012 \$000 | 2013 \$000 | 2012 \$000 |
| Interest Revenue | 2 | 3,588 | 3,258 | 3,614 | 3,378 |
| Interest Expense | 3 | 2,961 | 2,484 | 3,042 | 2,549 |
| NET INTEREST REVENUE | | 627 | 774 | 572 | 829 |
| Banking Services Revenue | | 13,277 | 13,562 | 13,272 | 13,469 |
| Insurance Premium Revenue | 7 | 9,717 | 10,108 | - | - |
| Other Revenue | 4 | 1,653 | 2,475 | 1,955 | 2,435 |
| TOTAL REVENUE NET OF INTEREST EXPENSE | | 25,274 | 26,919 | 15,799 | 16,733 |
| Employee Costs | 5 | 3,912 | 3,977 | 3,195 | 3,270 |
| Insurance Claims, Commissions and Rebates | 7 | 6,969 | 7,690 | - | - |
| Transaction Costs | | 7,550 | 8,253 | 7,550 | 8,253 |
| Operating Expenses | 6 | 5,157 | 5,525 | 4,622 | 5,038 |
| TOTAL EXPENDITURE | | 23,588 | 25,445 | 15,367 | 16,561 |
| Share of (Loss)/Profit of Associate accounted for using the equity method | | (14) | 16 | - | - |
| NET PROFIT BEFORE IMPAIRMENT | | 1,672 | 1,490 | 432 | 172 |
| Impairment (Expense)/Recoveries | 8 | (402) | 19 | 104 | 339 |
| NET PROFIT BEFORE TAXATION | | 1,270 | 1,509 | 536 | 511 |
| Taxation Expense | 9 | - | - | - | - |
| Profit and Total Comprehensive Income for the Year from Continuing Operations | | 1,270 | 1,509 | 536 | 511 |
| Profit and Total Comprehensive Income for the Year from Discounted Operations | | | | | |
| Insurance Premium Revenue | 7 | - | - | 4,351 | 6,090 |
| Insurance Claims and Rebates | 7 | - | - | (3,480) | (5,210) |
| Profit after income tax expense from Discounted Operations | 37 | - | - | 871 | 880 |
| PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | 1,270 | 1,509 | 1,407 | 1,391 |

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

Statements of Changes in Equity (Members' Funds)

FOR THE YEAR ENDED 30 JUNE 2013

GROUP

| | Base Capital Notes \$000 | Accumulated Losses \$000 | Total \$000 |
|--|-----------------------------------|--------------------------------|----------------|
| 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 |
| Balance at 1 July 2012 | 13,695 | (2,949) | 10,746 |
| Base Capital Notes Dividends paid | - | (908) | (908) |
| Profit and Total Comprehensive Income for the Year | - | 1,270 | 1,270 |
| Balance at 30 June 2013 | 13,695 | (2,587) | 11,108 |

ASSOCIATION

| | Base Capital Notes \$000 | Accumulated Losses \$000 | Total \$000 |
|--|-----------------------------------|--------------------------------|----------------|
| 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 |
| Balance at 1 July 2012 | 13,695 | (3,135) | 10,560 |
| Base Capital Notes Dividends paid | - | (908) | (908) |
| Profit and Total Comprehensive Income for the Year | - | 1,407 | 1,407 |
| Balance at 30 June 2013 | 13,695 | (2,636) | 11,059 |

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


Statements of Financial Position

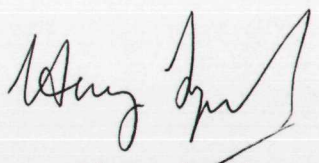
AS AT 30 JUNE 2013

| | NOTE | GROUP | | ASSOCIATION | |
|------------------------------------|------|---------|---------|-------------|---------|
| | | 2013 | 2012 | 2013 | 2012 |
| | | \$000 | \$000 | \$000 | \$000 |
| EQUITY (MEMBERS' FUNDS) | | | | | |
| Base Capital Notes | 10 | 13,695 | 13,695 | 13,695 | 13,695 |
| Accumulated Losses | 11 | (2,587) | (2,949) | (2,636) | (3,135) |
| TOTAL EQUITY (MEMBERS' FUNDS) | | 11,108 | 10,746 | 11,059 | 10,560 |
| ASSETS | | | | | |
| Cash and Cash Equivalents | 12 | 8,144 | 8,835 | 8,144 | 8,835 |
| Accounts Receivable | 13 | 3,501 | 3,649 | 1,655 | 1,945 |
| Investments | 14 | 102,432 | 75,703 | 103,616 | 78,406 |
| Loans Receivable | 15 | 477 | 1,223 | 477 | 1,199 |
| Prepayments | 16 | 645 | 645 | 393 | 384 |
| Inventory | 17 | 102 | 115 | 102 | 115 |
| Derivative Financial Assets | 18 | - | 57 | - | 57 |
| Property, Plant and Equipment | 19 | 836 | 527 | 813 | 504 |
| Other Intangible Assets | 20 | 948 | 614 | 710 | 385 |
| TOTAL ASSETS | | 117,085 | 91,368 | 115,910 | 91,830 |
| LIABILITIES | | | | | |
| Deposits Received | 21 | 98,101 | 72,362 | 101,409 | 75,536 |
| Accounts Payable | 22 | 3,568 | 3,534 | 3,133 | 3,386 |
| Unearned Premium Liability | 23 | 1,928 | 2,038 | - | - |
| Provisions | 24 | 357 | 347 | 309 | 301 |
| Life Insurance Liability | 7 | 86 | 70 | - | 70 |
| Other Non-Life Insurance Liability | 7 | 1,666 | 1,921 | - | 1,921 |
| Motor Vehicle Insurance Liability | 7 | 271 | 294 | - | - |
| Derivative Financial Liabilities | 25 | - | 56 | - | 56 |
| TOTAL LIABILITIES | | 105,977 | 80,622 | 104,851 | 81,270 |
| NET ASSETS | | 11,108 | 10,746 | 11,059 | 10,560 |

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

These financial statements were authorised for issue by the Board of Directors on 29 August 2013 and were signed for on its behalf.


Simon Scott
 Chairman


Henry Lynch
 Chief Executive Officer

Statements of Cash Flow

FOR THE YEAR ENDED 30 JUNE 2013

| | NOTE | GROUP | | ASSOCIATION | |
|---|------|-----------------|----------------|-----------------|----------------|
| | | 2013 | 2012 | 2013 | 2012 |
| | | \$000 | \$000 | \$000 | \$000 |
| Cash Flows from operating activities | | | | | |
| Cash was provided from: | | | | | |
| Membership Contributions Received | | 764 | 738 | 764 | 738 |
| Insurance Premiums Received | | 8,892 | 8,850 | 3,937 | 4,964 |
| Other Receipts from Customers | | 14,316 | 15,573 | 14,340 | 15,632 |
| Loan Repayments from Customers | | 735 | 404 | 709 | 309 |
| Investment Interest Received | | 3,034 | 2,942 | 3,313 | 3,207 |
| Motor Vehicle Claims Recoveries | | 555 | 527 | - | - |
| Credit Union Foundation Grants and Donations | | 5 | 1 | 5 | 1 |
| | | 28,301 | 29,035 | 23,068 | 24,851 |
| Cash was applied to: | | | | | |
| Payments to Suppliers and Employees | | 17,330 | 17,153 | 15,520 | 15,293 |
| Insurance Claims and Rebates Paid | | 6,088 | 6,676 | 2,980 | 4,047 |
| Interest Paid | | 2,637 | 2,229 | 2,982 | 2,443 |
| | | 26,055 | 26,058 | 21,482 | 21,783 |
| NET CASH FLOWS FROM OPERATING ACTIVITIES | 33 | 2,246 | 2,977 | 1,586 | 3,068 |
| Cash Flows from investing activities | | | | | |
| Cash was provided from: | | | | | |
| Sale of Fixed Assets and Intangibles | | 72 | 272 | 72 | 203 |
| Proceeds from Sales and Maturities of Investment Securities | | 586,148 | 703,374 | 586,169 | 703,414 |
| | | 586,220 | 703,646 | 586,241 | 703,617 |
| Cash was applied to: | | | | | |
| Purchase of Property, Plant and Equipment | | 616 | 621 | 595 | 607 |
| Purchase of Intangible Assets | | 679 | 564 | 528 | 421 |
| Payment for Insurance Claims Liability transferred | | - | - | 1,678 | - |
| Purchase of Investment Securities | | 610,622 | 709,127 | 610,622 | 709,908 |
| | | 611,917 | 710,312 | 613,423 | 710,936 |
| NET CASH FLOWS FROM INVESTING ACTIVITIES | | (25,697) | (6,666) | (27,182) | (7,319) |
| Cash Flows from financing activities | | | | | |
| Cash was provided from: | | | | | |
| Net increase in Deposits | | 23,668 | 3,802 | 25,813 | 4,364 |
| | | 23,668 | 3,802 | 25,813 | 4,364 |
| Cash was applied to: | | | | | |
| Base Capital Note Dividend Paid | | 908 | 794 | 908 | 794 |
| | | 908 | 794 | 908 | 794 |
| NET CASH FLOWS FROM FINANCING ACTIVITIES | | 22,760 | 3,008 | 24,905 | 3,570 |
| Net decrease in Cash and Cash Equivalents | | (691) | (681) | (691) | (681) |
| Cash and Cash Equivalents at the Beginning of the year | | 8,835 | 9,516 | 8,835 | 9,516 |
| Cash and Cash Equivalents at the End of the Year | 12 | 8,144 | 8,835 | 8,144 | 8,835 |

These statements should be read in conjunction with the accompanying notes.

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2013

1. Summary of Accounting Policies

REPORTING ENTITY

The New Zealand Association of Credit Unions (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's owned subsidiary, Credit Union Insurance Limited is an issuer under the Financial Reporting Act 1993 by the terms of the Insurance Licence issued by the Reserve Bank of New Zealand on 1 April 2013 under the Insurance (Prudential Supervision) Act 2010.

The Financial Statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("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 its principal activities are to provide banking and other 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 functional currency). The financial statements are presented in New Zealand Dollars, which is the Groups functional and presentation currency. All values have been rounded off to the nearest 1,000 dollars (\$'000) unless otherwise stated.

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

Significant Judgements, Estimates and Assumptions

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

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

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

- **Allowance for Impairment Loss**

Where Loans Receivable are outstanding beyond the normal contractual terms, or where uncertainty exists over the recoverability of 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

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2013

- 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

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2013

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

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2013

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 at amortised cost

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.

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2013

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 assesses 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 a "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 Group's 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

Subsidiaries 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 on the Statement of Comprehensive Income.

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.

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2013

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 transferred and 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 on the Statement of Comprehensive Income.

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 and 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 Intangible Assets

Finite 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

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2013

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

(p) Insurance Liabilities

The policy liabilities of Credit Union Insurance Limited, a subsidiary of the Group, have been determined in accordance with Professional Standard No. 3 & 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

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2013

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) Statement of Cash Flows

The Statement of Cash Flows is prepared exclusive of GST.

The following are definitions of the terms used in the Statement of Cash Flows:

- Cash and Cash Equivalents are considered to be cash on hand and call deposits.
- Investing activities are those relating to the acquisition, holding and disposal of property, plant and equipment and investments. Investments can include movements in related party balances and securities not falling within the definition of cash and cash equivalents.
- Financing activities are those activities which result in changes in the size, composition and the capital structure of the Group. This includes both equity and debt not falling within the definition of cash and cash equivalents.
- Operating activities include all transactions and other events that are not investing or financing activities.

(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

FRS 44 'New Zealand Additional Disclosures and Harmonisation Amendments' – effective for periods beginning on or after 1 July 2012. FRS 44 sets out New Zealand specific disclosures for entities that apply NZ IFRSs. These disclosures have been relocated from NZ IFRSs to clarify that these disclosures are additional to those required by IFRSs. Adoption of the new rules has not affected any of the amounts recognised in the financial statements, but has simplified some of the Group's current disclosures.

The Harmonisation Amendments amends various NZ IFRSs for the purpose of harmonising with the source IFRSs and Australian Accounting Standards. In addition, various disclosure requirements have been deleted. The Group has adopted FRS 44 and the Harmonisation Amendments for the year ended 30 June 2013.

No other new standards, amendments and interpretations to existing standards have been published and adopted by the Group for this financial year.

(y) New accounting standards and interpretations issued not yet effective and have not been early adopted by the Group

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2013

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting period's beginning on or after 1 July 2012 or later periods, but the Group has not early adopted them.

NZ IFRS 9 Financial Instruments (effective for periods commencing 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. It is intended to adopt the standard in the year ending 30 June 2016.

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 periods commencing on or after 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 periods commencing on or after 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 for periods commencing on or after 1 January 2013)

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. Although the disclosures required are under consideration, the policy should have little effect on the results of the Group as there are no defined benefit liabilities owing to employees and no intention to terminate employees. 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.

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2013

2. Interest Revenue

| | GROUP | | ASSOCIATION | |
|--|---------------|---------------|---------------|---------------|
| | 2013 \$000 | 2012 \$000 | 2013 \$000 | 2012 \$000 |
| Government and Other Bond Interest | 12 | 44 | 30 | 171 |
| Bank, Money Market Securities, Local Authority and Floating Rate Note Interest | 3,234 | 2,819 | 3,244 | 2,819 |
| Gains on Interest Rate Swaps | - | 1 | - | 1 |
| Loan Interest | 89 | 142 | 87 | 135 |
| Other Interest | 253 | 252 | 253 | 252 |
| TOTAL INTEREST REVENUE | 3,588 | 3,258 | 3,614 | 3,378 |

3. Interest Expense

| | GROUP | | ASSOCIATION | |
|-------------------------------|---------------|---------------|---------------|---------------|
| | 2013 \$000 | 2012 \$000 | 2013 \$000 | 2012 \$000 |
| Interest on Deposits | 2,891 | 2,415 | 2,978 | 2,485 |
| Bank Fees and Charges | 64 | 64 | 64 | 64 |
| Other Interest | 6 | 5 | - | - |
| TOTAL INTEREST EXPENSE | 2,961 | 2,484 | 3,042 | 2,549 |
| NET INTEREST REVENUE | 627 | 774 | 572 | 829 |

4. Other Revenue

| | GROUP | | ASSOCIATION | |
|----------------------------|---------------|---------------|---------------|---------------|
| | 2013 \$000 | 2012 \$000 | 2013 \$000 | 2012 \$000 |
| Membership Contributions | 753 | 754 | 753 | 738 |
| Other Revenue | 900 | 1,721 | 1,202 | 1,697 |
| TOTAL OTHER REVENUE | 1,653 | 2,475 | 1,955 | 2,435 |

5. Employee Costs

| | GROUP | | ASSOCIATION | |
|-----------------------------|---------------|---------------|---------------|---------------|
| | 2013 \$000 | 2012 \$000 | 2013 \$000 | 2012 \$000 |
| Salaries and Wages | 3,871 | 3,882 | 3,173 | 3,192 |
| Other Staff Costs | 41 | 95 | 22 | 78 |
| TOTAL EMPLOYEE COSTS | 3,912 | 3,977 | 3,195 | 3,270 |

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2013

6. Operating Expenses

| | GROUP | | ASSOCIATION | |
|--|---------------|---------------|---------------|---------------|
| | 2013 \$000 | 2012 \$000 | 2013 \$000 | 2012 \$000 |
| Auditors' Remuneration: | | | | |
| Audit fees paid to PricewaterhouseCoopers | 89 | 71 | 50 | 40 |
| Other fees paid to PricewaterhouseCoopers | | | | |
| Information System Review | 24 | 30 | 24 | 30 |
| Taxation | 22 | 13 | - | - |
| Other Statutory Returns | 9 | - | 5 | - |
| Corporate Finance | 63 | 12 | 60 | 2 |
| | 207 | 126 | 139 | 72 |
| Fees paid to other Auditing firms | | | | |
| Internal Audit Fees to Deloitte | 57 | - | 42 | - |
| Internal Audit Fees to William Buck | - | 42 | - | 27 |
| Other fees paid to Deloitte | 76 | 50 | 76 | 50 |
| Total Auditors' Remuneration | 340 | 218 | 257 | 149 |
| Depreciation: | | | | |
| Furniture, Fittings, Office Equipment and Vehicles | 57 | 117 | 55 | 82 |
| Computer Equipment | 170 | 181 | 159 | 168 |
| Amortisation of Intangible Assets | 344 | 362 | 203 | 198 |
| Directors' Fees | 177 | 184 | 177 | 184 |
| Directors' and Governance Expenses | 174 | 100 | 174 | 100 |
| Leasing Charges | 313 | 325 | 270 | 287 |
| Loss/(Gain) on Disposal of Property, Plant and Equipment | 9 | (72) | - | (83) |
| Other Operating Expenses | 3,573 | 4,110 | 3,327 | 3,953 |
| TOTAL OPERATING EXPENSES | 5,157 | 5,525 | 4,622 | 5,038 |

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2013

7. Insurance Products

Included in the income and expenditure for the Association and the Group are the following underwriting results:

The Reserve Bank of New Zealand issued an Insurance Licence to Credit Union Insurance Limited on 1 April 2013 and approved the transfer of the Association's insurance business to Credit Union Insurance Limited with effect from on 1 April 2013.

Refer Related Party Note 30 and Discontinued Operations Note 37 for further details.

| | GROUP | | ASSOCIATION | |
|---|--------------|---------------|--------------|--------------|
| | 2013 | 2012 | 2013 | 2012 |
| | \$000 | \$000 | \$000 | \$000 |
| Underwriting Results | | | | |
| Life Insurance | | | | |
| Gross Earned Premium | 1,707 | 1,706 | 1,279 | 1,706 |
| Reinsurance Premiums | - | - | - | - |
| Net Earned Premium | 1,707 | 1,706 | 1,279 | 1,706 |
| Gross Claims | 817 | 711 | 649 | 711 |
| Reinsurance Received | - | - | - | - |
| Net Claims | 817 | 711 | 649 | 711 |
| Commission | 212 | 215 | 159 | 215 |
| Underwriting Result | 678 | 780 | 471 | 780 |
| Credit Union Rebates | 417 | 564 | 316 | 564 |
| | 261 | 216 | 155 | 216 |
| Other Non-Life Insurance | | | | |
| Gross Earned Premium | 4,081 | 4,384 | 3,072 | 4,384 |
| Reinsurance Premiums | - | - | - | - |
| Net Earned Premium | 4,081 | 4,384 | 3,072 | 4,384 |
| Gross Claims | 1,570 | 2,042 | 1,078 | 2,042 |
| Reinsurance Received | - | - | - | - |
| Net Claims | 1,570 | 2,042 | 1,078 | 2,042 |
| Commission | 868 | 934 | 654 | 934 |
| Underwriting Result | 1,643 | 1,408 | 1,340 | 1,408 |
| Credit Union Rebates | 675 | 744 | 624 | 744 |
| | 968 | 664 | 716 | 664 |
| Motor Vehicle Insurance | | | | |
| Gross Earned Premium | 4,156 | 4,211 | - | - |
| Reinsurance Premiums | (227) | (193) | - | - |
| Net Earned Premium | 3,929 | 4,018 | - | - |
| Gross Claims | 1,967 | 2,057 | - | - |
| Reinsurance Received | - | - | - | - |
| Net Claims | 1,967 | 2,057 | - | - |
| Commission | 443 | 423 | - | - |
| Underwriting Result | 1,519 | 1,538 | - | - |
| Total Insurance | | | | |
| Net Earned Premium | 9,717 | 10,108 | 4,351 | 6,090 |
| Net Claims | 4,354 | 4,810 | 1,727 | 2,753 |
| Commissions | 1,523 | 1,572 | 813 | 1,149 |
| Underwriting Result | 3,840 | 3,726 | 1,811 | 2,188 |
| Credit Union Rebates | 1,092 | 1,308 | 940 | 1,308 |
| Insurance Claims, Commission and Rebates | 6,969 | 7,690 | 3,480 | 5,210 |
| Total Underwriting Result after Commission and Rebates | 2,748 | 2,418 | 871 | 880 |

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2013

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 is based on data as at 31 May 2013. The Actuary's valuation was carried out in accordance with Professional Standards no. 3 and 4 of the New Zealand Society of Actuaries report and had no qualifications.

Life and Other

Life and Other Non-Life 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 provision for the remaining payments expected to be made on disability, redundancy, and bankruptcy claims that have been notified and remain open.

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 10% (2012: 10%), which provides a likelihood of sufficiency of 75% (2012: 75%) with respect to the Other Non-Life Insurance.

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 2.85% per annum (2012: 2.24%).

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

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, claims incurred but not yet reported (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% (2012 : 8.5%), which provides a likelihood of sufficiency of 75% (2012 : 75%). The Board has elected to use a risk margin of 17% (2012 : 17%) 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 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 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.

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2013

| | GROUP | | ASSOCIATION | |
|--|---------------|---------------|---------------|---------------|
| | 2013 \$000 | 2012 \$000 | 2013 \$000 | 2012 \$000 |
| Outstanding Claims Liability | | | | |
| Life Insurance | | | | |
| Opening Claims Liability | 70 | 98 | 70 | 98 |
| Claims Expense | 810 | 711 | 649 | 711 |
| Claims Paid | (794) | (739) | (649) | (739) |
| Claims Liability transferred to Credit Union Insurance Limited | - | - | (70) | - |
| Closing Claims Liability | 86 | 70 | - | 70 |
| Other Non-Life Insurance | | | | |
| Opening Claims Liability | 1,921 | 1,880 | 1,921 | 1,880 |
| Claims Expense | 1,554 | 2,042 | 1,078 | 2,042 |
| Claims Paid | (1,809) | (2,001) | (1,391) | (2,001) |
| Claims Liability transferred to Credit Union Insurance Limited | - | - | (1,608) | - |
| Closing Claims Liability | 1,666 | 1,921 | - | 1,921 |
| Motor Vehicle Insurance | | | | |
| Opening Claims Liability | 624 | 773 | - | - |
| Claims Expense | 2,425 | 2,480 | - | - |
| Claims Paid | (2,544) | (2,629) | - | - |
| Closing Gross Claims Liability | 505 | 624 | - | - |
| Total Gross Outstanding Claims Liability | 2,257 | 2,615 | - | 1,991 |
| Motor Vehicle Expected Recoveries Receivable | | | | |
| Opening Expected Recoveries | 330 | 434 | - | - |
| Increase In Expected Recoveries | 458 | 423 | - | - |
| Actual Third Party Recoveries Received | (554) | (527) | - | - |
| Closing Expected Recoveries | 234 | 330 | - | - |
| Closing Claims Liability | 271 | 294 | - | - |
| Total Net Outstanding Claims Liability | 2,023 | 2,285 | - | 1,991 |

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

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2013

| | GROUP | | ASSOCIATION | |
|--|---------------|---------------|---------------|---------------|
| | 2013 \$000 | 2012 \$000 | 2013 \$000 | 2012 \$000 |
| Composition of Outstanding Claims Liability | | | | |
| Life Insurance | | | | |
| Outstanding claims | 16 | - | - | - |
| IBNR | 70 | 70 | - | 70 |
| Closing Claims Liability | 86 | 70 | - | 70 |
| Other Non-Life Insurance | | | | |
| Outstanding claims | 1,254 | 1,551 | - | 1,551 |
| Management Allowance - 8.5% | 106 | 132 | - | 132 |
| Risk Margin - 10% | 136 | 168 | - | 168 |
| IBNR | 170 | 70 | - | 70 |
| Closing Claims Liability | 1,666 | 1,921 | - | 1,921 |
| Motor Vehicle Insurance | | | | |
| Outstanding claims | 285 | 369 | - | - |
| Risk Margin - 17% | 48 | 62 | - | - |
| Indirect Claims Management - 21% | 72 | 93 | - | - |
| IBNR | 100 | 100 | - | - |
| Closing Gross Claims Liability | 505 | 624 | - | - |
| Closing Expected Recoveries | (234) | (330) | - | - |
| Closing Claims Liability | 271 | 294 | - | - |
| Total Outstanding Claims Liability | 2,023 | 2,285 | - | 1,991 |

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 effects 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 insurance products of Credit Union Insurance Limited 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.

Insurance Solvency Requirements

(a) Capital Management Policies and Objectives

From the issuance of the Insurance Licence by the Reserve Bank of New Zealand ("RBNZ") on 1 April 2013, the Group is required within its subsidiary, Credit Union Insurance Limited (CUIL), to maintain an Actual Solvency Capital as determined under the Solvency Standards for Life and Non-life Insurance Business (the solvency standard) issued by the RBNZ. From the same date CUIL is required to retain a minimum fixed capital of \$5,000,000 and this is the minimum amount of Actual Solvency Capital that CUIL is required to hold at all times.

The internal minimum solvency level for CUIL is calculated as the higher of \$5.5 million of actual capital and the amount prescribed by the following ratio calculated using the RBNZ's life and non-life standards:

- Regulatory minimum solvency requirement;
- a 25% safety margin which reflects CUIL's overall risk profile.

Based on this formula, the CUIL's internal minimum solvency level is the higher of \$5.5 million of actual capital and 125% of the minimum solvency capital amount as measured using the RBNZ's life and non-life solvency standards. The Directors believe that this standard has been achieved.

The Group has embedded in its capital management framework the necessary tests to ensure continuous and full compliance with the solvency standard.

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2013

(b) Capital Composition

CUIL manages its capital by considering both regulatory and economic capital. The primary source of capital used by CUIL is total equity attributable to the Group. Total equity attributable to the Group equates to "capital" as defined in the solvency standard.

The Solvency Margin is calculated as actual solvency capital less minimum solvency capital and is as follows:

| | Combined \$ |
|--------------------------|----------------|
| 30 June 2013 | |
| Actual Solvency Capital | 5,493,863 |
| Minimum Solvency Capital | 5,000,000 |
| Solvency Margin | 493,863 |

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), funeral plan 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 Group's subsidiary, Credit Union Insurance Limited does not maintain reinsurance cover on the Life and Other Non-life Insurance business 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. Reinsurance cover is held that is structured to adequately protect the Credit Union Insurance Limited from risk on the Motor Vehicle Insurance policies on solvency and capital position. It covers third party property damage and own damage catastrophe single event protection. Through reinsurance the Credit Union Insurance Limited 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 is provided by the Credit Union Insurance Limited Insurance Manager who has over twenty years experience in the industry. Claims files are regularly audited on a random basis by independent staff members.

Investment Management - all premium income is held in bank accounts and short term deposits with the Association and Registered Banks.

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 Group's credit risk exposure on Life and Other Non-Life Insurance contracts relates exclusively to credit unions. The credit risk relating to Motor Vehicle Insurance contracts relates primarily to premium receivable which is due from credit union intermediaries.

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2013

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.

Sensitivity Analysis

Sensitivity of risks relates primarily to the risk margin assessments which are set out above. These are reviewed annually and change in accordance with current best estimates using advice of the Company's Actuary. The financial impact of these sensitivity changes are:

| | 2013 | | 2012 | |
|---------------------------------|----------------|--------------------|----------------|--------------------|
| | \$000 | \$000 | \$000 | \$000 |
| Sensitivity Calculations | Balance | Sensitivity | Balance | Sensitivity |
| Outstanding Claims Liability | 1,917 | | 524 | |
| Reopening allowance 10% higher | | 3 | | 5 |
| Reopening allowance 10% lower | | (3) | | (5) |
| Claim estimates 10% higher | | 192 | | 52 |
| Claim estimates 10% lower | | (192) | | (52) |
| Administration costs 10% higher | | 20 | | 8 |
| Administration costs 10% lower | | (20) | | (8) |
| IBNR | 340 | | 100 | |
| Claim reporting 10% longer | | 119 | | 24 |
| Claim reporting 10% quicker | | (109) | | (24) |

Insurance Rating

Credit Union Insurance Limited has a Financial Strength rating of 'BB' issued by Standard & Poors' on 23 February 2013.

8. Impairment

| | GROUP | | ASSOCIATION | |
|--|---------------|---------------|---------------|---------------|
| | 2013 \$000 | 2012 \$000 | 2013 \$000 | 2012 \$000 |
| Movement in Provisions in respect of: | | | | |
| Loans Receivable | 330 | (19) | 330 | - |
| Investments | - | - | (578) | (339) |
| | 330 | (19) | (248) | (339) |
| Amounts written off in respect of: | | | | |
| Loans Receivable | 72 | - | 144 | - |
| IMPAIRMENT EXPENSES / (RECOVERIES) | 402 | (19) | (104) | (339) |

Refer to notes 14 and 15 for further information.

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2013

9. Taxation

| | GROUP | | ASSOCIATION | |
|---|---------------|---------------|---------------|---------------|
| | 2013 \$000 | 2012 \$000 | 2013 \$000 | 2012 \$000 |
| Profit before Taxation | 1,270 | 1,509 | 1,407 | 1,391 |
| Income Tax at current rate of 28% | 356 | 423 | 394 | 389 |
| Exempt Income | (197) | (295) | (394) | (389) |
| Non Deductible Expenses | 108 | (5) | - | - |
| Movement in Temporary Differences (not recognised) | (197) | 42 | - | - |
| Prior Period Adjustments | - | (50) | - | - |
| Utilisation of Tax Losses (not previously recognised) | (70) | (115) | - | - |
| TAXATION EXPENSE | - | - | - | - |
| Unrecognised Deferred Tax Balances | | | | |
| The following net deferred tax assets have not been recognised: | | | | |
| Tax Losses | 1,223 | 1,293 | - | - |
| Temporary Differences | - | 197 | - | - |
| | 1,223 | 1,490 | - | - |

Taxation losses incurred in subsidiary entities have not been recognised because there is not sufficient probability of taxation profits in the proceeding year to offset such losses. Tax losses are subject to Inland Revenue assessment in the next tax return.

Unrecognised deferred tax assets are comprised as follows:

GROUP

| | Opening Balance \$000 | Charged to Income \$000 | Closing Balance \$000 |
|----------------------------------|--------------------------|----------------------------|--------------------------|
| 2013 | | | |
| Deferred Tax Assets: | | | |
| Tax Losses recognised | - | 59 | 59 |
| Property, Plant and Equipment | - | 2 | 2 |
| Tax Losses | 1,293 | (70) | 1,223 |
| Provisions | 16 | (13) | 3 |
| Impairment Losses | 251 | (251) | - |
| | 1,560 | (273) | 1,287 |
| Deferred Tax Liabilities: | | | |
| Property, Plant and Equipment | (1) | 1 | - |
| Intangible Assets | (3) | 3 | - |
| Deferred Acquisition Costs | (66) | 2 | (64) |
| | (70) | 6 | (64) |
| | 1,490 | (267) | 1,223 |

2012

| | | | |
|----------------------------------|--------------|-------------|--------------|
| 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 |

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2013

10. Base Capital Notes

| | GROUP & ASSOCIATION | | GROUP & ASSOCIATION | |
|----------|---------------------|---------------|---------------------|---------------|
| | 2013 | 2012 | 2013 | 2012 |
| | '000 Units | '000 Units | \$000 | \$000 |
| Issue I | 18 | 20 | 180 | 200 |
| Issue II | 13,515 | 13,495 | 13,515 | 13,495 |
| | 13,533 | 13,515 | 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 | |
|---|---------------------|------------|---------------------|------------|
| | 2013 | 2012 | 2013 | 2012 |
| | '000 Units | '000 Units | \$000 | \$000 |
| Issue I | | | | |
| Balance at 1 July | 20 | 21 | 200 | 210 |
| Notes redeemed by transfer to Base Capital Notes II | (2) | (1) | (20) | (10) |
| Balance at 30 June | 18 | 20 | 180 | 200 |

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 I.

| | GROUP & ASSOCIATION | | GROUP & ASSOCIATION | |
|---------------------------------------|---------------------|---------------|---------------------|---------------|
| | 2013 | 2012 | 2013 | 2012 |
| | '000 Units | '000 Units | \$000 | \$000 |
| Issue II | | | | |
| Balance at 1 July | 13,495 | 13,485 | 13,495 | 13,485 |
| Notes issued: | | | | |
| By transfer from Base Capital Notes I | 20 | 10 | 20 | 10 |
| Balance at 30 June | 13,515 | 13,495 | 13,515 | 13,495 |

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.

11. Accumulated Losses

| | GROUP & ASSOCIATION | | GROUP & ASSOCIATION | |
|---------------------------------|---------------------|----------------|---------------------|----------------|
| | 2013 | 2012 | 2013 | 2012 |
| | \$000 | \$000 | \$000 | \$000 |
| Balance at 1 July | (2,949) | (3,664) | (3,135) | (3,732) |
| Operating Profit | 1,270 | 1,509 | 1,407 | 1,391 |
| | (1,679) | (2,155) | (1,728) | (2,341) |
| Base Capital Note Dividends | (908) | (794) | (908) | (794) |
| Balance at 30 June | (2,587) | (2,949) | (2,636) | (3,135) |
| TOTAL ACCUMULATED LOSSES | (2,587) | (2,949) | (2,636) | (3,135) |

The net profit for the years ended 30 June 2013 and 30 June 2012 have been transferred to Accumulated Losses.

| | GROUP | | ASSOCIATION | |
|----------------------------|----------------|----------------|----------------|----------------|
| | 2013 | 2012 | 2013 | 2012 |
| | \$000 | \$000 | \$000 | \$000 |
| Member Services Division | 1,361 | 1,441 | 1,361 | 1,441 |
| Business Services Division | (3,948) | (4,390) | (3,997) | (4,576) |
| | (2,587) | (2,949) | (2,636) | (3,135) |

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2013

12. Cash and Cash Equivalents

| | GROUP | | ASSOCIATION | |
|--------------------|---------------|---------------|---------------|---------------|
| | 2013 \$000 | 2012 \$000 | 2013 \$000 | 2012 \$000 |
| Cash at Bank | 2,144 | 835 | 2,144 | 835 |
| Bank Call Deposits | 6,000 | 8,000 | 6,000 | 8,000 |
| | 8,144 | 8,835 | 8,144 | 8,835 |

13. Accounts Receivable

| | GROUP | | ASSOCIATION | |
|--|---------------|---------------|---------------|---------------|
| | 2013 \$000 | 2012 \$000 | 2013 \$000 | 2012 \$000 |
| Trade Receivables | 1,545 | 1,507 | 1,475 | 1,421 |
| Receivable from Subsidiaries | - | - | 180 | 125 |
| Future Funded Premiums | 1,539 | 1,603 | - | - |
| | 3,084 | 3,110 | 1,655 | 1,546 |
| Insurance Premiums Due | 417 | 546 | - | 399 |
| Provision for Cancellation | - | (7) | - | - |
| | 417 | 539 | - | 399 |
| Total Carrying Amount | 3,501 | 3,649 | 1,655 | 1,945 |
| Provision for Cancellation | | | | |
| Collective Provision Against Insurance Premiums Due | | | | |
| Balance at Beginning of the Year | 7 | 6 | - | - |
| Movement in provision | (7) | 1 | - | - |
| Balance at End of the Year | - | 7 | - | - |
| Past Due Receivables Not Impaired | | | | |
| Trade Receivables | 152 | 214 | 105 | 66 |
| Total Past Due Receivables Not Impaired | 152 | 214 | 105 | 66 |
| Aging of Past Due Receivables Not Impaired | | | | |
| Past Due 1-30 days | 118 | 157 | 93 | 10 |
| Past Due 31-90 days | 12 | 53 | 4 | 52 |
| Past Due over 90 days | 22 | 4 | 8 | 4 |
| Balance at End of the Year | 152 | 214 | 105 | 66 |

In respect of the Association, Trade Receivables are due mainly from Member Credit Unions. There is no Provision for Bad Debts (2012: \$Nil) and there has been no write off (2012: \$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 \$Nil for outstanding insurance premiums relating to policies issued by Credit Union Insurance Limited (2012: \$7,000).

Refer also to note 30 for Related Party Disclosures.

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2013

14. Investments

| | GROUP | | ASSOCIATION | |
|--|----------------|---------------|----------------|---------------|
| | 2013 \$000 | 2012 \$000 | 2013 \$000 | 2012 \$000 |
| Bank Deposits | 67,733 | 40,948 | 63,210 | 40,948 |
| Advances to Subsidiaries | - | - | 100 | 89 |
| Money Market Securities | 27,437 | 25,912 | 27,437 | 25,912 |
| Government Stock | - | 1,568 | - | 1,045 |
| Floating Rate Notes | 7,032 | 7,031 | 7,032 | 7,031 |
| | 102,202 | 75,459 | 97,779 | 75,025 |
| Investment Bonds | - | - | 12,337 | 14,189 |
| Investment in Joint Venture accounted for by the equity method | 230 | 244 | - | - |
| Provision for Credit Impairment | - | - | (6,500) | (10,808) |
| | 230 | 244 | 5,837 | 3,381 |
| Total Carrying Amount | 102,432 | 75,703 | 103,616 | 78,406 |

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 impairment of \$6,500,000 (2012: \$10,808,000) is held.

The provision in respect of Credit Union Insurance Limited of \$6,500,000 (2012: \$7,000,000) was reviewed based on detailed cash flow forecasts for the five years to 30 June 2018. Key assumptions in this forecast were a low sales growth, a loss ratio based on experience and a range of discount rates up to 15%. The valuation indicated that the asset was undervalued and the Directors decided to write back \$500,000 of the previous impairment to fairly value the investments.

The provision held at 30 June 2012 in respect of NZCU Finance Limited of \$3,808,000 was utilised during the year as the subsidiary was made dormant.

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 30 for Related Party Disclosures.

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2013

15. Loans Receivable

| | GROUP | | ASSOCIATION | |
|--|---------------|---------------|---------------|---------------|
| | 2013 \$000 | 2012 \$000 | 2013 \$000 | 2012 \$000 |
| Gross Loans Receivable | 807 | 2,118 | 807 | 1,199 |
| Provision for Credit Impairment | (330) | (895) | (330) | - |
| Total Carrying Amount | 477 | 1,223 | 477 | 1,199 |
| Provision for Credit Impairment | | | | |
| Individually Impaired Loans | | | | |
| Balance at Beginning of the Year | 883 | 902 | - | - |
| New Provisions during the Year | - | - | - | - |
| Amounts Released/Written Off | (883) | (19) | - | - |
| Balance at End of the Year | - | 883 | - | - |
| Collective Provision Against Loans | | | | |
| Balance at Beginning of the Year | 12 | 12 | 12 | - |
| New Provisions during the Year | 330 | - | 330 | - |
| Amounts Released/Written Off | (12) | - | (12) | - |
| Balance at End of the Year | 330 | 12 | 330 | - |
| Total Provision for Credit Impairment | 330 | 895 | 330 | - |
| Aging of Individually Impaired Loans | | | | |
| Past Due 0-30 days | - | - | - | - |
| Past Due 31-90 days | - | - | - | - |
| Past Due over 90 days | - | 897 | - | - |
| Balance at End of the Year | - | 897 | - | - |
| Aging of Past Due but not Individually Impaired Loans | | | | |
| Past Due 0-30 days | - | 3 | - | - |
| Past Due 31-90 days | - | 6 | - | - |
| Past Due over 90 days | 491 | 13 | 491 | - |
| Balance at End of the Year | 491 | 22 | 491 | - |

The Gross Loans Receivables held at 30 June 2012 by the subsidiary NZCU Finance Limited amounting to \$919,000 were after collections of \$18,000 recognised as unrecoverable and have been fully written off using the impairment provisions held at 30 June 2012.

The Loan held by the Association at 30 June 2012 amounting to \$1,199,000 was, after collections during the year, restructured into a new agreement with the debtor. As a result of the restructuring, it was recognised that \$139,000 was unrecoverable and this was written off. \$600,000 of loans were taken back from the debtor in part settlement of the debt at estimated recoverable value and a new loan of \$355,000 advanced for the balance owing. Of the \$955,000 refinanced, \$148,000 was collected by 30 June 2013.

The Directors have assessed the loans owing and have assessed the discounted value of the expected cash flow at 12.5% and provided a further impairment of \$330,000.

There were no assets acquired through enforcement of security.

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2013

16. Prepayments

| | GROUP | | ASSOCIATION | |
|--|---------------|---------------|---------------|---------------|
| | 2013 \$000 | 2012 \$000 | 2013 \$000 | 2012 \$000 |
| Deferred Commission | | | | |
| Deferred Commission Costs | 236 | 164 | - | - |
| Commission Costs Paid | 721 | 483 | - | - |
| Commission Costs Released | (729) | (411) | - | - |
| Closing Deferred Commission Costs | 228 | 236 | - | - |
| Other Prepayments | 417 | 409 | 393 | 384 |
| | 645 | 645 | 393 | 384 |

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

17. Inventory

| | GROUP | | ASSOCIATION | |
|-----------------------------|---------------|---------------|---------------|---------------|
| | 2013 \$000 | 2012 \$000 | 2013 \$000 | 2012 \$000 |
| ATM Machines and Parts | 81 | 101 | 81 | 101 |
| Promotional and Other Items | 21 | 14 | 21 | 14 |
| | 102 | 115 | 102 | 115 |

The cost of inventories recognised as an expense during the year was \$546,000 (2012: \$794,000).

18. Derivative Financial Assets

| | GROUP | | ASSOCIATION | |
|---|---------------|---------------|---------------|---------------|
| | 2013 \$000 | 2012 \$000 | 2013 \$000 | 2012 \$000 |
| Interest Rate Swaps - Credit Union Counterparties | - | 57 | - | 57 |

Interest rate swaps are held for trading and are accordingly valued at fair value with any gains or losses flowing through the Statement of Comprehensive Income.

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2013

19. Property, Plant & Equipment

| | GROUP | | ASSOCIATION | |
|--|---------------|---------------|---------------|---------------|
| | 2013 \$000 | 2012 \$000 | 2013 \$000 | 2012 \$000 |
| Furniture and Fittings, Office Equipment and Vehicles | | | | |
| Opening Cost at 1 July | 759 | 1,347 | 670 | 1,164 |
| Additions | 58 | 317 | 47 | 313 |
| Disposals | (135) | (905) | (82) | (807) |
| Closing Cost at 30 June | 682 | 759 | 635 | 670 |
| Opening Accumulated Depreciation at 1 July | 425 | 1,172 | 346 | 1,033 |
| Depreciation Expense | 57 | 117 | 55 | 82 |
| Disposals | (127) | (864) | (82) | (769) |
| Closing Accumulated Depreciation at 30 June | 355 | 425 | 319 | 346 |
| Net Book Value at 30 June | 327 | 334 | 316 | 324 |
| Computer Equipment | | | | |
| Opening Cost at 1 July | 1,066 | 2,325 | 958 | 1,573 |
| Additions | 558 | 304 | 548 | 294 |
| Disposals | (262) | (1,563) | (183) | (909) |
| Closing Cost at 30 June | 1,362 | 1,066 | 1,323 | 958 |
| Opening Accumulated Depreciation at 1 July | 873 | 2,105 | 778 | 1,445 |
| Depreciation Expense | 170 | 181 | 159 | 168 |
| Disposals | (190) | (1,413) | (111) | (835) |
| Closing Accumulated Depreciation at 30 June | 853 | 873 | 826 | 778 |
| Net Book Value at 30 June | 509 | 193 | 497 | 180 |
| Carrying Amount at 30 June | 836 | 527 | 813 | 504 |

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

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2013

20. Other Intangible Assets

| | GROUP | | ASSOCIATION | |
|--|---------------|---------------|---------------|---------------|
| | 2013 \$000 | 2012 \$000 | 2013 \$000 | 2012 \$000 |
| Computer Software | | | | |
| Opening Cost at 1 July | 4,177 | 6,654 | 3,370 | 3,580 |
| Additions | 679 | 564 | 528 | 421 |
| Disposals | (227) | (3,041) | (2) | (631) |
| Closing Cost at 30 June | 4,629 | 4,177 | 3,896 | 3,370 |
| Opening Accumulated Amortisation at 1 July | 3,563 | 6,161 | 2,985 | 3,339 |
| Amortisation expense | 344 | 362 | 203 | 198 |
| Disposals | (226) | (2,960) | (2) | (552) |
| Closing Accumulated Amortisation at 30 June | 3,681 | 3,563 | 3,186 | 2,985 |
| Net Book Value at 30 June | 948 | 614 | 710 | 385 |

21. Deposits Received

| | GROUP | | ASSOCIATION | |
|-----------------------------|---------------|---------------|----------------|---------------|
| | 2013 \$000 | 2012 \$000 | 2013 \$000 | 2012 \$000 |
| Deposits from Credit Unions | 97,303 | 71,627 | 97,303 | 71,627 |
| Deposits from Subsidiaries | - | - | 3,308 | 3,174 |
| Deposits from Other Parties | 798 | 735 | 798 | 735 |
| | 98,101 | 72,362 | 101,409 | 75,536 |

Deposits are accepted on an unsecured basis. Average interest rates, repricing terms and duration are as shown in note 28.

22. Accounts Payable

| | GROUP | | ASSOCIATION | |
|----------------------|---------------|---------------|---------------|---------------|
| | 2013 \$000 | 2012 \$000 | 2013 \$000 | 2012 \$000 |
| Trade Payables | 1,236 | 1,371 | 1,116 | 1,309 |
| Credit Union Rebates | 1,092 | 1,307 | 940 | 1,307 |
| Accrued Expenses | 1,032 | 740 | 962 | 668 |
| Reinsurance Accruals | 69 | 14 | - | - |
| GST Payable | 139 | 102 | 115 | 102 |
| | 3,568 | 3,534 | 3,133 | 3,386 |

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2013

23. Unearned Premium Liability

| | GROUP | | ASSOCIATION | |
|---|---------------|---------------|---------------|---------------|
| | 2013 \$000 | 2012 \$000 | 2013 \$000 | 2012 \$000 |
| Opening Balance | 2,038 | 2,070 | - | - |
| Gross Written Premium | 5,928 | 4,873 | - | - |
| Premium Cancelled | (599) | (723) | - | - |
| Earnings Released | (5,439) | (4,182) | - | - |
| Closing Unearned Premium Liability | 1,928 | 2,038 | - | - |

The Group's actuary has assessed the unexpired risk reserve in respect of in-force policies, comprising the expected claim cost for the period up to the next renewal date, and the cost of managing those claims and providing other administration services required to manage the policies over that time. The actuary's view is that the unexpired risk reserve in respect of in-force policies is approximately 17.0% (2012: 4.0%) lower than the unearned premium provision. The conduct of the liability adequacy test identified a surplus at the level of 75% likelihood of sufficiency (2012: 75%). Accordingly there is no need to recognise any deficiency in the unearned premium provision.

24. Provisions

| | GROUP | | ASSOCIATION | |
|-----------------------|---------------|---------------|---------------|---------------|
| | 2013 \$000 | 2012 \$000 | 2013 \$000 | 2012 \$000 |
| Employee Entitlements | 357 | 347 | 309 | 301 |
| | 357 | 347 | 309 | 301 |

25. Derivative Financial Liabilities

| | GROUP | | ASSOCIATION | |
|--|---------------|---------------|---------------|---------------|
| | 2013 \$000 | 2012 \$000 | 2013 \$000 | 2012 \$000 |
| Interest Rate Swaps - Registered Bank Counterparties | - | 56 | - | 56 |

Interest rate swaps are held for trading and are accordingly valued at fair value with any gains or losses flowing through the Statement of Comprehensive Income.

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2013

26. Leases

| | GROUP | | ASSOCIATION | |
|--|---------------|---------------|---------------|---------------|
| | 2013 \$000 | 2012 \$000 | 2013 \$000 | 2012 \$000 |
| Non Cancellable Operating Lease Payments | | | | |
| Lease liabilities are payable: | | | | |
| Not later than 1 year | 235 | 208 | 220 | 171 |
| Later than 1 year and not later than 2 years | 824 | 236 | 824 | 224 |
| Later than 2 years and not later than 5 years | 2,049 | 2,819 | 2,049 | 2,819 |
| | 3,108 | 3,263 | 3,093 | 3,214 |
| Non Cancellable Operating Lease Receivables | | | | |
| Lease liabilities are receivable: | | | | |
| Not later than 1 year | 38 | 38 | 38 | 38 |
| Later than 1 year and not later than 2 years | 38 | 38 | 38 | 38 |
| Later than 2 years and not later than 5 years | 305 | 343 | 305 | 343 |
| | 381 | 419 | 381 | 419 |

Operating leases relate to the leasing of office space.

27. Segmental Analysis

Business Segment Analysis

For management purposes, the Group is organised into 4 business units:

Business Services Division

The Business Services Division provides a full range of financial and bureau services to its Member credit unions.

Member Services Division

The Member Services Division provides trade association services to its Member credit unions.

NZCU Finance Limited

NZCU Finance Limited is a subsidiary company which during the year ceased operations and has been made dormant.

Credit Union Insurance Limited

Credit Union Insurance Limited is a subsidiary company which provides insurance underwriting services to Credit Unions and other customers.

Other Entities

Other Entities incorporate the subsidiary entities CU Group Trust and FACTS Limited.

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2013

| | Business Services Division \$000 | Members Services Division \$000 | NZCU Finance \$000 | Credit Union Insurance Limited \$000 | Other Entities \$000 | Inter Entity Adjustments \$000 | Total \$000 |
|--|---|--|--------------------------|---|----------------------------|--------------------------------------|----------------|
| GROUP | | | | | | | |
| At 30 June 2013 | | | | | | | |
| Revenue from sales with other Segments, excluding interest | 704 | - | - | 187 | - | (891) | - |
| Revenue from external customers | 18,275 | 1,303 | 6 | 5,946 | 8 | (891) | 24,647 |
| Total Interest Income | 3,557 | 57 | 2 | 158 | 193 | (379) | 3,588 |
| Total Revenue before Interest Expense | 22,536 | 1,360 | 8 | 6,291 | 201 | (2,161) | 28,235 |
| Total Interest Expense | 3,041 | 1 | 7 | 92 | 199 | (379) | 2,961 |
| Net Profit/(Loss) before Tax | 1,487 | (80) | (17) | 499 | (27) | (592) | 1,270 |
| Total Assets | 115,732 | 178 | - | 10,543 | 12,195 | (21,563) | 117,085 |
| Total Liabilities | 104,785 | 66 | - | 4,811 | 12,341 | (16,026) | 105,977 |
| Other Segment Items: | | | | | | | |
| Acquisition of Property, Plant and Equipment | 594 | 1 | - | 21 | - | - | 616 |
| Acquisition of Intangible Assets | 528 | - | - | 151 | - | - | 679 |
| Depreciation Expense - Property, Plant and Equipment | 214 | - | - | 13 | - | - | 227 |
| Amortisation Expense - Software | 203 | - | - | 141 | - | - | 344 |
| Impairment (Recoveries)/Expense | 104 | - | (6) | - | - | (500) | (402) |

| | | | | | | | |
|--|---------------|--------------|-----------|--------------|------------|----------------|---------------|
| GROUP | | | | | | | |
| At 30 June 2012 | | | | | | | |
| Revenue from sales with other Segments, excluding interest | 611 | - | - | 250 | - | (861) | - |
| Revenue from external customers | 20,216 | 1,778 | 17 | 4,693 | 319 | (861) | 26,162 |
| Total Interest Income | 3,321 | 57 | 8 | 86 | 143 | (357) | 3,258 |
| Total Revenue before Interest Expense | 24,148 | 1,835 | 25 | 5,029 | 462 | (2,079) | 29,420 |
| Total Interest Expense | 2,548 | 1 | 10 | 134 | 148 | (357) | 2,484 |
| Net Profit/(Loss) before Tax | 1,416 | (25) | 12 | 562 | 16 | (472) | 1,509 |
| Total Assets | 91,301 | 190 | 43 | 6,241 | 10,279 | (16,686) | 91,368 |
| Total Liabilities | 81,131 | 139 | 115 | 2,916 | 10,405 | (14,084) | 80,622 |
| Other Segment Items: | | | | | | | |
| Acquisition of Property, Plant and Equipment | 607 | - | - | 14 | - | - | 621 |
| Acquisition of Intangible Assets | 421 | - | - | 143 | - | - | 564 |
| Depreciation Expense - Property, Plant and Equipment | 250 | - | - | 48 | - | - | 298 |
| Amortisation Expense - Software | 198 | - | - | 164 | - | - | 362 |
| Impairment (Recoveries)/Expense | (339) | - | (19) | - | - | 339 | (19) |

Geographical Segment Analysis

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

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2013

28. Financial Instruments

Financial Risk Management Objectives

NZACU's Finance and Central Banking departments provide services to the Group entities, including co-ordinating access to funding, providing banking facilities, and managing external banking relationships. Services also include advice, assistance and reports to the Boards of the Group companies and to the NZACU Board in relation to financial risks relating to the operations of the Group. These risks include market risk (including interest rate risk and price risk), credit risk and liquidity risk. These services are augmented by specialist advice to the appropriate Boards from within the entity or its external advisors, for example in relation to underwriting risk. NZACU reviews the activity of its Central Banking department by an Asset and Liability Management Committee which meets bi-monthly. Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis. The Group does not enter into or trade financial instruments for speculative purposes.

Capital Risk Management

The Group manages its capital resources to ensure that entities in the Group will be able to withstand the assessed business and financial risks appropriate to their operation. In the case of group subsidiaries with an external market focus, the level of capital investment is determined by reference to market norms and the requirements of external agencies such as rating agencies or regulators. In the case of NZACU the required level of capital investment is determined by means of a departmental analysis applying a range of methodologies appropriate to the risk profile of the key operations. These include but are not limited to the minimum capital adequacy measures for New Zealand non-bank deposit takers. In the case of Credit Union Insurance Limited, the required level of capital investment is determined by adding a margin to the minimum solvency capital amount as measured by the Reserve Bank of New Zealand's life and non-life solvency standards. The Group meets its objectives for managing capital by formally reviewing its available capital in relation to its risks at least once per annum or more frequently if required.

Interest Rate Risk Management

Interest rate risk is the risk of loss to NZACU arising from adverse changes in interest rates. This exposure in respect of on-Balance Sheet Assets and Liabilities depends on the degree of mismatch between the value of interest sensitive assets and liabilities that are repricing; where repricing refers to the event when the interest rate attached to an asset or liability is reset. NZACU controls its exposure to interest rate risk by actively managing this mismatch within Board approved policy.

Interest Rate Sensitivity Analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non derivative instruments at balance date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at balance date was outstanding for the whole year. A 100 basis point increase or decrease represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 30 June 2013 would increase/decrease by \$60,000 (2012: increase/decrease by \$66,000).

If interest rates had been 100 basis points higher/lower and all other variables were held constant, NZACU's profit for the year ended 30 June 2013 would increase/decrease by \$37,000 (2012: increase/decrease by \$61,000).

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2013

Interest Rate Pricing

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

| As at 30 June 2013 | 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 |
|---|-----------------------------|--------------------------------|--------------------------------|--------------------|--------------------|-------------------|------------------------------------|----------------------|
| GROUP | | | | | | | | |
| Assets | | | | | | | | |
| Cash and Cash Equivalents | 2.34% | 8,144 | - | - | - | - | - | 8,144 |
| Accounts Receivable | - | - | - | - | - | - | 3,501 | 3,501 |
| Investments | 3.71% | 84,750 | 17,682 | - | - | - | - | 102,432 |
| Loans Receivable | - | - | - | - | - | - | 477 | 477 |
| | | 92,894 | 17,682 | - | - | - | 3,978 | 114,554 |
| Liabilities | | | | | | | | |
| Deposits Received | 3.52% | 90,280 | 7,821 | - | - | - | - | 98,101 |
| Accounts Payable | - | - | - | - | - | - | 3,568 | 3,568 |
| | | 90,280 | 7,821 | - | - | - | 3,568 | 101,669 |
| On Balance Sheet Interest Sensitivity Gap - 30 June 2013 | | | | | | | | |
| | | 2,614 | 9,861 | - | - | - | 410 | 12,885 |
| ASSOCIATION | | | | | | | | |
| Assets | | | | | | | | |
| Cash and Cash Equivalents | 2.34% | 8,144 | - | - | - | - | - | 8,144 |
| Accounts Receivable | - | - | - | - | - | - | 1,655 | 1,655 |
| Investments | 3.66% | 85,934 | 17,682 | - | - | - | - | 103,616 |
| Loans Receivable | - | - | - | - | - | - | 477 | 477 |
| | | 94,078 | 17,682 | - | - | - | 2,132 | 113,892 |
| Liabilities | | | | | | | | |
| Deposits Received | 3.48% | 93,588 | 7,821 | - | - | - | - | 101,409 |
| Accounts Payable | - | - | - | - | - | - | 3,133 | 3,133 |
| | | 93,588 | 7,821 | - | - | - | 3,133 | 104,542 |
| On Balance Sheet Interest Sensitivity Gap - 30 June 2013 | | | | | | | | |
| | | 490 | 9,861 | - | - | - | (1,001) | 9,350 |

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2013

| As at 30 June 2012 | 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 |
|---|-----------------------------|--------------------------------|--------------------------------|--------------------|--------------------|-------------------|------------------------------------|----------------------|
| GROUP | | | | | | | | |
| Assets | | | | | | | | |
| Cash and Cash Equivalents | 2.44% | 8,835 | - | - | - | - | - | 8,835 |
| Accounts Receivable | - | - | - | - | - | - | 2,046 | 2,046 |
| Investments | 3.82% | 66,101 | 9,358 | - | - | - | 244 | 75,703 |
| Loans Receivable | 10.64% | 255 | 944 | - | - | - | 24 | 1,223 |
| Derivative Financial Assets | - | - | - | - | - | - | 57 | 57 |
| | | 75,191 | 10,302 | - | - | - | 2,371 | 87,864 |
| Liabilities | | | | | | | | |
| Deposits Received | 3.31% | 72,056 | 306 | - | - | - | - | 72,362 |
| Accounts Payable | - | - | - | - | - | - | 3,534 | 3,534 |
| Derivative Financial Liabilities | - | - | - | - | - | - | 56 | 56 |
| | | 72,056 | 306 | - | - | - | 3,590 | 75,952 |
| On Balance Sheet Interest Sensitivity Gap - 30 June 2012 | | 3,135 | 9,996 | - | - | - | (1,219) | 11,912 |
| ASSOCIATION | | | | | | | | |
| Assets | | | | | | | | |
| Cash and Cash Equivalents | 2.44% | 8,835 | - | - | - | - | - | 8,835 |
| Accounts Receivable | - | - | - | - | - | - | 1,945 | 1,945 |
| Investments | 3.66% | 69,326 | 9,080 | - | - | - | - | 78,406 |
| Loans Receivable | 10.49% | 255 | 944 | - | - | - | - | 1,199 |
| Derivative Financial Assets | - | - | - | - | - | - | 57 | 57 |
| | | 78,416 | 10,024 | - | - | - | 2,002 | 90,442 |
| Liabilities | | | | | | | | |
| Deposits Received | 3.31% | 75,230 | 306 | - | - | - | - | 75,536 |
| Accounts Payable | - | - | - | - | - | - | 3,386 | 3,386 |
| Derivative Financial Liabilities | - | - | - | - | - | - | 56 | 56 |
| | | 75,230 | 306 | - | - | - | 3,442 | 78,978 |
| On Balance Sheet Interest Sensitivity Gap - 30 June 2012 | | 3,186 | 9,718 | - | - | - | (1,440) | 11,464 |

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2013

Interest Rate Swap Contracts

NZACU offers an interest rate swap facility to Credit Unions. It is NZACU'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:

| Outstanding 'Receive Floating-Pay Fixed' Contracts | Average Fixed Interest Rate | | Notional Principal Amount | | Fair Value | |
|--|-----------------------------|-----------|---------------------------|---------------|---------------|---------------|
| | 2013 % | 2012 % | 2013 \$000 | 2012 \$000 | 2013 \$000 | 2012 \$000 |
| Less than 1 year | N/A | 7.95% | - | 2,075 | - | (56) |
| | | | - | 2,075 | - | (56) |

| Outstanding 'Receive Fixed Pay Floating' Contracts | Average Fixed Interest Rate | | Notional Principal Amount | | Fair Value | |
|--|-----------------------------|-----------|---------------------------|---------------|---------------|---------------|
| | 2013 % | 2012 % | 2013 \$000 | 2012 \$000 | 2013 \$000 | 2012 \$000 |
| Less than 1 year | N/A | 8.05% | - | 2,075 | - | 57 |
| | | | - | 2,075 | - | 57 |

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, with the exception of Credit Union Insurance Limited, are required to maintain their bank accounts and place all surplus liquidity with NZACU's Central Banking department. Credit Union Insurance Limited places its surplus liquidity with a range of counterparties including the Association in accordance with its own policy. 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.

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2013

The following tables detail the Group and Association's remaining contractual maturity for their financial assets and liabilities. The tables have been drawn up based on the undiscounted cash flows of financial assets and liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

GROUP

| | 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 |
|--|------|--------------------------------|--------------------------------|--------------------|--------------------|-------------------|----------------------|
| 2013 | | | | | | | |
| Assets | | | | | | | |
| Cash and Cash Equivalents | | 8,144 | - | - | - | - | 8,144 |
| Accounts Receivable | | 3,501 | - | - | - | - | 3,501 |
| Investments | | 79,726 | 17,682 | 5,024 | - | - | 102,432 |
| Loans Receivable | | 23 | 52 | 139 | 260 | 3 | 477 |
| Future Interest Receivable | | 334 | 586 | 210 | - | - | 1,130 |
| Total Financial Assets | | 91,728 | 18,320 | 5,373 | 260 | 3 | 115,684 |
| Liabilities | | | | | | | |
| Deposits Received | | 90,280 | 7,821 | - | - | - | 98,101 |
| Accounts Payable | | 3,568 | - | - | - | - | 3,568 |
| Future Interest Payable | | 359 | 117 | - | - | - | 476 |
| Unearned Premium Liability | | 526 | 1,402 | - | - | - | 1,928 |
| Outstanding Claims Liability | | 2,023 | - | - | - | - | 2,023 |
| Total Financial Liabilities | | 96,756 | 9,340 | - | - | - | 106,096 |
| Net Financial Assets | | (5,028) | 8,980 | 5,373 | 260 | 3 | 9,588 |
| Unrecognised Commitments | 31 | (7,036) | - | - | - | - | (7,036) |
| Net Liquidity Gap at 30 June 2013 | | (12,064) | 8,980 | 5,373 | 260 | 3 | 2,552 |
| 2012 | | | | | | | |
| 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 |
| Unearned Premium Liability | | 556 | 1,482 | - | - | - | 2,038 |
| Outstanding Claims Liability | | 2,285 | - | - | - | - | 2,285 |
| Total Financial Liabilities | | 78,682 | 1,831 | - | - | - | 80,513 |
| Net Financial Assets | | (8,279) | 8,357 | 2,576 | 6,088 | 113 | 8,855 |
| Unrecognised Commitments | 31 | (8,476) | - | - | - | - | (8,476) |
| Net Liquidity Gap at 30 June 2012 | | (16,755) | 8,357 | 2,576 | 6,088 | 113 | 379 |

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2013

ASSOCIATION

| | 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 |
|--|------|--------------------------------|--------------------------------|--------------------|--------------------|-------------------|----------------------|
| 2013 | | | | | | | |
| Assets | | | | | | | |
| Cash and Cash Equivalents | | 8,144 | - | - | - | - | 8,144 |
| Accounts Receivable | | 1,655 | - | - | - | - | 1,655 |
| Investments | | 80,910 | 17,682 | 5,024 | - | - | 103,616 |
| Loans Receivable | | 23 | 52 | 139 | 260 | 3 | 477 |
| Future Interest Receivable | | 334 | 586 | 210 | - | - | 1,130 |
| Total Financial Assets | | 91,066 | 18,320 | 5,373 | 260 | 3 | 115,022 |
| Liabilities | | | | | | | |
| Deposits Received | | 93,588 | 7,821 | - | - | - | 101,409 |
| Accounts Payable | | 3,133 | - | - | - | - | 3,133 |
| Future Interest Payable | | 359 | 117 | - | - | - | 476 |
| Total Financial Liabilities | | 97,080 | 7,938 | - | - | - | 105,018 |
| Net Financial Assets | | (6,014) | 10,382 | 5,373 | 260 | 3 | 10,004 |
| Unrecognised Commitments | 31 | (7,046) | - | - | - | - | (7,046) |
| Net Liquidity Gap at 30 June 2013 | | (13,060) | 10,382 | 5,373 | 260 | 103 | 2,958 |
| 2012 | | | | | | | |
| 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 |
| Outstanding Claims Liability | | 1,921 | - | - | - | - | 1,921 |
| Total Financial Liabilities | | 80,788 | 349 | - | - | - | 81,137 |
| Net Financial Assets | | (7,269) | 9,301 | 2,576 | 6,088 | 113 | 10,809 |
| Unrecognised Commitments | 31 | (8,506) | - | - | - | - | (8,506) |
| Net Liquidity Gap at 30 June 2012 | | (15,775) | 9,301 | 2,576 | 6,088 | 113 | 2,303 |

The Group and Association has access to financing facilities of \$7,600,000 (2012: \$7,600,000). The facilities are secured by charges over interest bearing Investments. Utilisation of credit facilities at 30 June 2013 was \$1,670,000 (2012: \$1,147,000). The Group expects to meet its obligations from operating cash flows and proceeds of maturing financial assets.

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2013

Fair Value of Financial Instruments

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

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

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

Fair value measurements recognised in the Statement of Financial Position

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

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

| As at 30 June 2013 | Level 1 \$000 | Level 2 \$000 | Level 3 \$000 | Total \$000 |
|--|------------------|------------------|------------------|----------------|
| GROUP | | | | |
| Financial assets at Fair Value | | | | |
| - Derivative financial assets | - | - | - | - |
| - Bond (Government) | - | - | - | - |
| | - | - | - | - |
| Financial liabilities at Fair Value | | | | |
| - Derivative financial liabilities | - | - | - | - |
| | - | - | - | - |
| ASSOCIATION | | | | |
| Financial assets at Fair Value | | | | |
| - Derivative financial assets | - | - | - | - |
| - Bond (Government) | - | - | - | - |
| | - | - | - | - |
| Financial liabilities at Fair Value | | | | |
| - Derivative financial liabilities | - | - | - | - |
| | - | - | - | - |

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

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2013

| 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 year.

| Financial Instruments by Category | GROUP | | ASSOCIATION | |
|---|----------------|---------------|----------------|---------------|
| | 2013 \$000 | 2012 \$000 | 2013 \$000 | 2012 \$000 |
| Financial Assets at Fair Value through Profit or Loss | | | | |
| Investments | - | 1,568 | - | 1,045 |
| Derivative Financial Assets | - | 57 | - | 57 |
| Total Assets at Fair Value through Profit or Loss | - | 1,625 | - | 1,102 |
| Loans and receivables | | | | |
| Cash and cash equivalents | 8,144 | 8,835 | 8,144 | 8,835 |
| Accounts receivable | 1,962 | 2,046 | 1,655 | 1,945 |
| Loans receivable | 477 | 1,223 | 477 | 1,199 |
| Investments | 102,432 | 74,135 | 103,616 | 77,361 |
| Total loans and receivables | 113,015 | 86,239 | 113,892 | 89,340 |
| Total Financial Assets | 113,015 | 87,864 | 113,892 | 90,442 |
| Other Financial Liabilities at amortised cost | | | | |
| Deposits received | 98,101 | 72,362 | 101,409 | 75,536 |
| Accounts payable | 3,072 | 3,135 | 2,709 | 2,983 |
| Total other Financial Liabilities at amortised cost | 101,173 | 75,497 | 104,118 | 78,519 |
| Financial liabilities at Fair Value through Profit or Loss | | | | |
| Derivative Financial Liabilities | - | 56 | - | 56 |
| Total Liabilities at Fair Value through Profit or Loss | - | 56 | - | 56 |
| Total Financial Liabilities | 101,173 | 75,553 | 104,118 | 78,575 |

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2013

29. Investments in Subsidiaries

Subsidiaries controlled at 30 June:

| Name | Percentage Holding at Balance Date | | Principal Activities | Balance Date |
|---|---------------------------------------|------|--------------------------------------|--------------|
| | 2013 | 2012 | | |
| 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 |
| Credit Union Insurance Limited | 100% | 100% | Insurance Underwriter | 30 June |
| NZCU Finance Limited | 100% | 100% | Non Trading | 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% | 50% | Computer Bureau | 31 March |

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2013

30. Related Party Disclosures

Parent Entity

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

Equity Interests in Related Parties

Details of the equity interests held in subsidiaries and the joint operation are disclosed in note 29. NZACU does not hold any other equity interests.

Transactions with Related Parties

NZACU 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 NZACU is granted a charge over all present and after acquired assets of the issuer. At 30 June 2013 NZACU held investment bonds which are valued at \$5,837,000 (2012: \$3,381,000).

At 30 June 2013 interest of \$Nil (2012: \$102,000) was payable to NZACU in respect of these bonds.

NZACU provides unsecured overdraft facilities to subsidiaries and the joint operation. At 30 June 2013 overdraft facilities available totalled \$180,000 (2012: \$180,000). The total drawn down under these facilities at 30 June 2013 was \$170,000 (2012: \$89,000). Interest was charged monthly on the outstanding balances during the year at rates of between 5.65% and 8.75% (2012: between 5.65% and 8.75%).

During the year NZACU charged interest and facility fees on the investment bonds and overdraft facilities of \$106,000 (2012: \$145,000) to subsidiaries and the joint operation.

NZACU maintains bank accounts and short term deposit facilities for subsidiaries and the joint operation. All deposits are unsecured. At 30 June 2013 funds placed with NZACU by subsidiaries and the joint operation totalled \$3,308,000 (2012: \$3,174,000). Interest is credited monthly on the outstanding balances at commercial interest rates.

On 1 April 2013, NZACU transferred its insurance operations to Credit Union Insurance Limited as a result of the Company being granted a full Insurance License by the Reserve Bank of New Zealand. The granting of a full Insurance License to Credit Union Insurance Limited required further investment in the subsidiary to meet minimum capital requirements of \$2,000,000. The transfer of the Insurance Outstanding Claims Provision required a payment of \$1,678,000.

During the year NZACU paid interest of \$74,000 to subsidiaries and the joint operation (2012: \$71,000).

During the year NZACU charged fees to subsidiaries of \$680,000 (2012: \$536,000).

During the year NZACU was charged fees by the subsidiaries of \$211,000 (2012: \$284,000).

During the year Fixed Assets valued at \$1,000 (2012: \$70,000) were purchased by NZACU from Credit Union Insurance Limited.

During the year Fixed Assets valued at \$72,000 (2012: \$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 | |
|------------------------------|---------------|---------------|---------------|---------------|
| | 2013 \$000 | 2012 \$000 | 2013 \$000 | 2012 \$000 |
| Short Term Employee Benefits | 1,159 | 1,214 | 1,159 | 1,214 |

There were no other payments made to Key Management Personnel.

31. Commitments

| | GROUP | | ASSOCIATION | |
|--|---------------|---------------|---------------|---------------|
| | 2013 \$000 | 2012 \$000 | 2013 \$000 | 2012 \$000 |
| Undrawn advances under credit facilities | 6,666 | 7,366 | 6,685 | 7,396 |
| Capital expenditure | 370 | 1,110 | 361 | 1,110 |
| | 7,036 | 8,476 | 7,046 | 8,506 |

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2013

32. Contingent Liabilities

There are no material contingent liabilities for year ended 30 June 2013 (2012: Nil).

33. Notes to Statements of Cash Flow

Reconciliation of Net Profit After Tax to Net Operating Cash Flows

| | GROUP | | ASSOCIATION | |
|--|---------------|---------------|---------------|---------------|
| | 2013 \$000 | 2012 \$000 | 2013 \$000 | 2012 \$000 |
| Profit after Tax | 1,370 | 1,509 | 1,407 | 1,391 |
| Adjustments to reconcile operating profit to net cash flow from operating activities | | | | |
| Add/(less) non cash items: | | | | |
| Depreciation | 227 | 298 | 214 | 250 |
| Amortisation | 344 | 362 | 203 | 198 |
| Impairment Expense/(Recoveries) | 402 | - | (104) | (339) |
| Loss/(Gain) on Disposal of Property, Plant and Equipment | 9 | (72) | - | (83) |
| Unrealised Loss on Bond Investments | 47 | 43 | 32 | 34 |
| | 1,029 | 631 | 345 | 60 |
| Add/(less) movement in Working Capital: | | | | |
| (Increase)/Decrease in Inventory | 13 | 232 | 13 | 232 |
| (Increase)/Decrease in Accounts Receivable | 91 | (34) | 290 | 142 |
| (Increase)/Decrease in Loans Receivable | 646 | 225 | 622 | 174 |
| (Increase)/Decrease in Prepayments | - | (8) | (9) | 63 |
| (Increase)/Decrease in Derivative Financial Assets | 57 | 391 | 57 | 391 |
| Increase/(Decrease) in Accounts Payable | 80 | 359 | (253) | 841 |
| Increase/(Decrease) in Unearned Premium Liability | (110) | (32) | - | - |
| Increase/(Decrease) in Provisions | (10) | (10) | 8 | (5) |
| Increase/(Decrease) in Life Insurance Liability | 16 | (28) | (70) | (28) |
| Increase/(Decrease) in Other Non-Life Insurance Liability | (625) | 41 | (539) | 41 |
| Increase/(Decrease) in Motor Vehicle Insurance Liability | (23) | (45) | - | - |
| Increase/(Decrease) in Derivative Financial Liabilities | (56) | (382) | (56) | (382) |
| | 79 | 709 | 63 | 1,469 |
| Add/(less) items classified as Investing Activities | | | | |
| Non Cash movement in Investments | (292) | 21 | (289) | 41 |
| Add items included within Financing Activities: | | | | |
| Non Cash movement in Deposits Received | 60 | 107 | 60 | 107 |
| Net Cash Flow from Operating Activities | 2,246 | 2,977 | 1,586 | 3,068 |

Treatment of Deposits Received

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

Notes to and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2013

34. 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 | |
|-----------------------|---------------|---------------|---------------|---------------|
| | 2013 \$000 | 2012 \$000 | 2013 \$000 | 2012 \$000 |
| Current Assets | | | | |
| Cash | 105 | 99 | 105 | 99 |
| NET ASSETS | 105 | 99 | 105 | 99 |

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

| | | | | |
|--|----------|----------|----------|----------|
| Donations, Interest and Grants received | 8 | 3 | 8 | 3 |
| Grant paid | (2) | (2) | (2) | (2) |
| OPERATING SURPLUS/(LOSS) | 6 | 1 | 6 | 1 |

35. Member Services Division Operating Surplus

| | 2013 \$000 | 2012 \$000 |
|-------------------------------------|---------------|---------------|
| New Zealand Credit Union Foundation | 6 | 1 |
| MSD Operations | (86) | (26) |
| TOTAL | (80) | (25) |

36. Events after the Balance Sheet Date

The Directors on 31 July 2013 have declared a final dividend on BCN II of \$318,401 payable on 30 September 2013.

37. Discontinued Operations

After consideration of the insurance business of the Group, the Boards of the New Zealand Association of Credit Unions and the Credit Union Insurance Limited resolved to transfer the Association's insurance operations to the Association's subsidiary Credit Union Insurance Limited.

On 1 April 2013, the Reserve Bank of New Zealand granted an Insurance licence to Credit Union Insurance Limited under the Insurance (Prudential Supervision) Act 2010. On that date the Association transferred, with Reserve Bank of New Zealand approval, all its insurance operations to Credit Union Insurance Limited. Accordingly Credit Union Insurance Limited acquired the assets and liabilities of the Association's insurance business at book value. Credit Union Insurance Limited received \$1,678,000 to compensate for the Outstanding Claims provisions.

The discontinued insurance business of the Association represents a significant portion of the business of the Association which has been disposed of or transferred during the financial year. In accordance with NZ IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations), when such an operation is classified as a discontinued operation, the Statement of Comprehensive Income is restated as if the operation had been discontinued from the commencement of the financial year.

| | 2013 \$000 | 2012 \$000 |
|--|---------------|---------------|
| The cash flows attributed to the discontinued operations are as follows: | | |
| Cash provided from operating activities | 3,937 | 4,964 |
| Cash applied to operating activities | (2,980) | (4,047) |
| Total Discontinued Cash Flows | 957 | 917 |

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

Deputy 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



Robert Anderson

Director

Elected to the Board in September 2012
Director, Credit Union Insurance Limited

Other responsibilities:
Trustee, NZACU



Graham Clouston

Director

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

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

Directors Fees - For Year Ended 2013

| | ROLE | PERIOD | TOTAL |
|--------------|------------------------------|------------------------|-------------------|
| S Scott | Director | 1/7/2012 - 30/6/2013 | \$ 53,000 |
| | Chair | 1/7/2012 - 30/6/2013 | |
| M Blair | Director | 1/7/2012 - 30/6/2013 | \$ 33,215 |
| | Deputy Chair | 1/7/2012 - 30/6/2013 | |
| G Clouston | Director | 1/7/2012 - 30/6/2013 | \$ 26,470 |
| | Audit & Risk Committee | 30/11/2012 - 30/6/2013 | |
| R Nicholls | Director | 1/7/2012 - 30/6/2013 | \$ 33,215 |
| | Audit & Risk Committee Chair | 1/7/2012 - 30/6/2013 | |
| R Anderson | Director | 28/9/2012 - 30/6/2013 | \$ 20,250 |
| B Hancock | Director | 1/7/2012 - 30/11/2012 | \$ 11,125 |
| | Audit & Risk Committee | 1/7/2012 - 30/11/2012 | |
| Total | | | \$ 177,275 |

Board of Directors/Audit & Risk Committee Meetings

| | S Scott | M Blair | G Clouston | R Nicholls | R Anderson | B Hancock | H Lynch |
|--|---------|---------|------------|------------|------------|-----------|---------|
| Formal Board Meetings | 12/12 | 11/12 | 10/12 | 11/12 | 9/9 | 1/4* | 3/3* |
| Audit & Risk Committee Meetings | - | 6/7 | 3/4* | 7/7 | - | 0/3* | - |

* B. Hancock passed away in November 2012.

* H. Lynch ceased as an ex-Officio Director in October 2012.

* G. Clouston was appointed to the Audit & Risk Committee in March 2013.

Member Locations

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
Otarā
Papakura
Papatoetoe

Fisher & Paykel Credit Union
East Tamaki

NZCU Auckland
Auckland Airport
Penrose
Manukau City
Mt Wellington

NZCU Employees
Penrose

NZCU Steelsands
Auckland City
Glenbrook
Waiuku

Westforce Credit Union
Avondale
Onehunga
Papakura
Pukekohe

WAIKATO REGION

Aotearoa Credit Union
Hamilton

First Credit Union
Hamilton City
Ngaruawahia
Te Aroha
Te Kauwhata
Thames

BAY OF PLENTY REGION

AWHI Credit Union
Opotiki
Rotorua

Caxton Employees Credit Union
Kawerau

First Credit Union
Bethlehem
Greerton
Kawerau
Mt. Maunganui
Tauranga Hospital
Taupo
Whakatane

Credit Union Central
Kawerau
Kopeopeo
Murupara
Rotorua
Taneatua
Te Puke

NZCU Rotorua

Rotorua
Tokoroa

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
Taradale
Waipukurau
Wairoa

WESTCOAST REGION

Nelson Building Society
Greymouth
Murchison
Westport

NZCU South
Greymouth

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

MANAWATU/ WANGANUI REGION

Aotearoa Credit Union
Wanganui

NZCU Baywide
Palmerston North
Palmerston North Hospital
Wanganui

CANTERBURY REGION

Christchurch Emergency Services Credit Union
Christchurch

Nelson Building Society
Ashburton

NZCU South
Hornby
Shirley
Timaru

OTAGO REGION

NZCU South
Dunedin
Oamaru

SOUTHLAND REGION

Alliance Group Credit Union
Invercargill

NZCU South
Invercargill
Gore



Unity. Cooperation. Future.



Directory

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New Zealand

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By phone +64 9 520 0451

Website

www.nzacu.org.nz
www.cui.co.nz

Solicitors

Bell Gully

External Auditors

PricewaterhouseCoopers

Internal Auditors

Deloitte

Bankers

Westpac New Zealand Limited

Insurers

Crombie Lockwood Insurance Brokers

Executive Team

Henry Lynch | Chief Executive Officer
David Smart | Chief Financial Officer
Jonathan Lee | Chief Operating Officer
Deane Johns | Chief Information Officer

Leadership Team

Rodney Brown | Group Risk & Compliance Manager
Troy Dibble | Service Centre Manager
Hugh Floyd | Manager Banking Services
Glen Hill | Accounting Manager
John Lanyon | Credit Union Insurance Manager
Peter Miles | Central Banking Manager
Yvonne Tuionetoa | PR & Communications Manager