



**NZACU**  
New Zealand Association of Credit Unions



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Annual Report **2014**



# NZACU Overview

**\$1,508,000**

Group profit for year

**\$810,725**

Total annual dividend declared

**\$466,000**

Credit Union Insurance Ltd.  
profit for the year

**\$1.36m**

Credit Union Insurance rebate  
paid to credit unions in addition  
to dividends

**69.9 million**

transactions processed by NZACU  
for Members up 1.1m on 2013

Information Service  
Channels uptime

**99.7%**

(banking system availability  
for Members)

NZACU's members employ over 550 staff, with more than 90 branches, have assets of over \$1.4 billion and collectively are the sixth largest financial transactor by volume in New Zealand. NZACU also wholly own Credit Union Insurance Ltd ([www.cui.co.nz](http://www.cui.co.nz)), a fully licensed insurance provider, under the Insurance (Prudential Supervision) Act 2010, with over 67,000 lives covered.

## Our Mission

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

## Our Vision

All Members and the NZACU cooperating together to grow.

## Our History and Ownership

NZACU 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 17 Member credit unions and represent in total 18 credit unions and 4 mutual building societies, with total assets of **\$1.4 billion**.

## Our Members

NZACU represents credit unions and building societies that meet the financial services needs of more than **200,000** New Zealanders - that's 1 in 20 kiwis. 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.

Cooperatively owned credit unions and mutual building societies have a long and proud history of serving communities across the country. Unlike the big, overseas-owned banks, profits made by credit unions and mutual building societies are not paid to external shareholders, but put back into improving products and services for their member-owners and the local communities they live in.

## 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 our governance, pricing, service and products will continue to ensure we offer our Members what they need to satisfy their current and future members.

We will continue to encourage working together to harness the collective strength of credit unions and mutual building societies.

## 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.

## NZACU and the International Credit Union Movement

NZACU is a member of global trade association WOCCU, the World Council of Credit Unions, which represents over 208 million people in 103 countries across the globe. This international network operates under the vision:

"Improving people's lives through credit unions"

and promotes the sustainable development of credit unions and other financial cooperatives around the world. NZACU is committed to operating according to International Credit Union Operating Principles founded on the philosophy of cooperation and democracy.

## Cooperatives in New Zealand

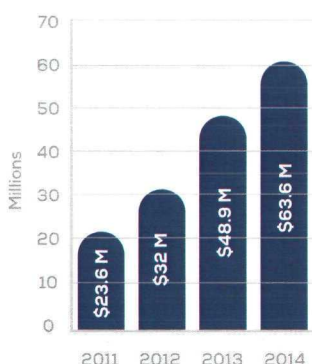
NZACU also supports the wider cooperative sector through our membership of the Cooperative Business New Zealand ([www.nz.coop](http://www.nz.coop)), the industry body whose mission is "bringing together the country's cooperative and mutual businesses to promote, encourage and support the co-operative and mutual business model, and act as the advocate for those engaged in co-operatives and mutuals."

Over 350,000 'mum and dad' members "bank" with a co-operative organisation – that's 1 in 12 New Zealanders.

Collectively the mutual banking sector, including mutual banks, building societies and credit unions, represent more than \$600 million in revenue per year with a number of these organisations among Cooperative Business New Zealand's "Top 40" co-operative and mutual businesses (by revenue) and NZACU is ranked at number 28.

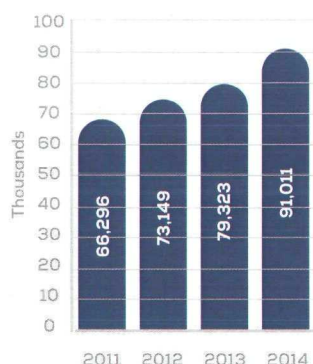
### KiwiSaver:

Total value of units held by members



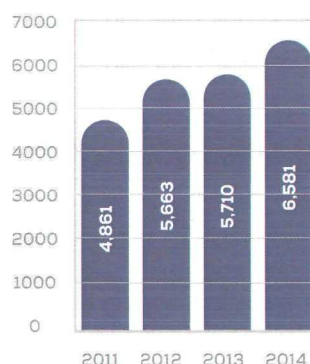
### Internet Banking:

Monthly Transactions as at 30 June



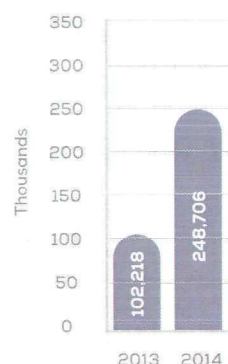
### Funeral Plan Policies:

as at 30 June



### AccessDebit Transactions:

Per month as at 30 June (launched Nov. 2012)



## Some Key Highlights:

Over **15** major published media reports

**15%** increase in Internet Banking Transactions

**25%** increase in KiwiSaver scheme members

**61%** of Credit Union Insurance carminder policyholders have added Roadside Assistance option

**18,670** calls answered at the NZACU & CUI help desks, 85% of calls resolved on the first call

Successful launch of AccessMobile (mobile phone App) in May 2014, with with over **6,000** downloads since then

**\$1.36m** CUI rebate paid to credit unions in addition to dividends

**24 enrolments** for the National Certificate in First Line Management (Level 4)

National Certificate in Financial Services (Level 4) introduced (starting August 2014)

**9 submissions** made to government departments on behalf of our Members

Network of over **93 ATMs** nationwide owned and operated by NZACU & our Members

Loanminder (loan repayment insurance) cover limit increased to **\$100,000**



# Products & Services

**In addition to providing representation and support to our Members, NZACU is also an independent provider of quality products & services to our Members, as well as other financial institutions.**

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.

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
- Bilateral agreements in place with all major banks for ATM's/card services
- Annual audits by PricewaterhouseCoopers and Deloitte
- Security audited annually by Security-Assessment.com
- Robust security and compliance on all network services and entry points
- Dual mirrored sites provide secure disaster recovery systems.

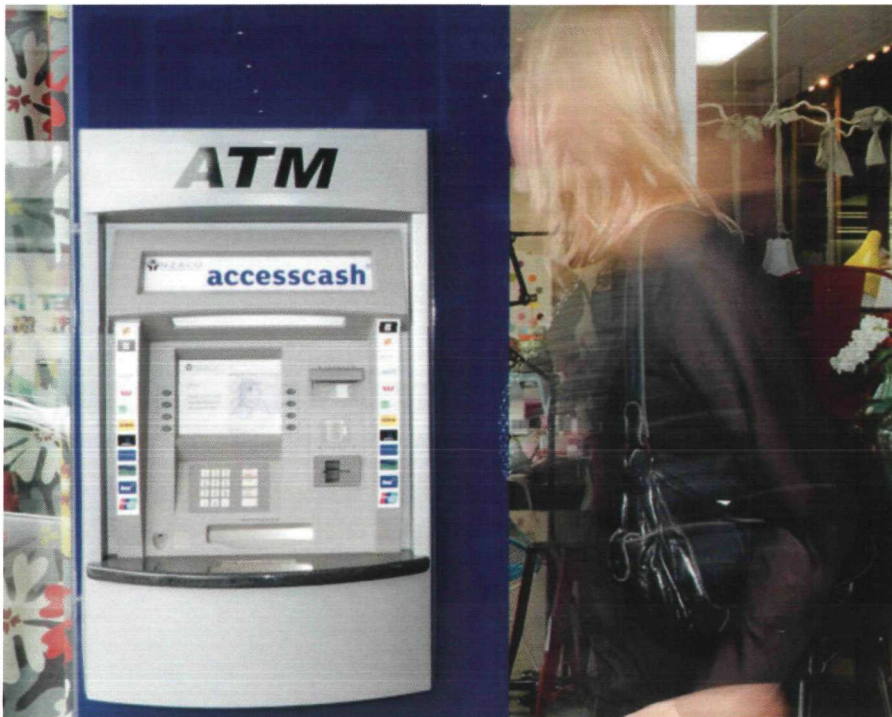
## Our core products include:

- FACTS Computer Bureau – 24/7 real time bureau and core banking software platform with a full suite of savings and loans products. Functionality includes card processing, internet, telephone, mobile 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
- Accesscash – nationwide network of over 90 ATMs
- AccessDebit MasterCard® – a MasterCard debit card that can be used on-line, at ATM and EFTPOS terminals throughout New Zealand and at millions of locations overseas wherever MasterCard is accepted
- Accesscard – which can be used at all ATM and EFTPOS terminals throughout New Zealand and overseas where the MAESTRO logo is displayed
- AccessMobile – a mobile banking App to enable access to account information and transactions on the go.

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 & services
- A range of training and development opportunities for directors, managers and front line staff, including National Certificates, delivered both online and face to face





- Technical assistance to help Members achieve their objectives, including:
  - product development
  - planning
  - 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 small organisations.

### Credit Union Insurance:

Our subsidiary, Credit Union Insurance Ltd ([www.cui.co.nz](http://www.cui.co.nz)), provides a range of very competitive, simple insurance products such as funeral, loan protection and motor vehicle insurance.

We are constantly reviewing our products and listening to Member feedback to ensure we are providing quality, market-leading insurance policies that reflect the needs of our Members. Three new products introduced from August 2014 include Accidental Death Insurance, BackStop Insurance (providing cover for redundancy and bankruptcy), and a 'stand-alone' Roadside Assistance cover that doesn't have to be taken in conjunction with motor vehicle insurance.

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

*"The credit union has saved my bacon many a time in the 13 years I've been a member with loans, savings plans, refinancing of other high interest loans etc. Nothing has been more of a bacon saver than the credit union loan insurance (Loanminder). Having had over a year off due to work related neck injury and subsequent spinal surgery all my loan repayments were taken care of every week without fail for the 12+ months I was off.*

*People may think it's just another cost, but it's a minute amount per week for the peace of mind. Hopefully it will never be needed but if like me one day, you'll be glad you have it. Thanks to the team for helping my long recovery be stress free".*

**– Grateful NZCU Auckland Member**



# 2014: In Review

Simon Scott

**With a large contingent of Members attending the World Council of Credit Unions' annual conference on the Gold Coast in July 2014, it helped to remind us all of the collective global impact that credit unions and other mutually owned organisations have. It also helped to reinforce how lucky we are to have such a sophisticated and professional organisation such as the NZACU to support us.**



## Overview

Overall, the NZACU Group has again performed very well, with a group profit for the year to 30 June 2014 of \$1,508,000 compared to the prior year profit of \$1,270,000. Once again, this result is over and above extremely positive CUI Rebate of \$1,361,288 paid during the year (refer below). NZACU has an ongoing strategic goal to maintain capital adequacy, while returning value to our Members. The final year's result to 30 June 2014 is once again a very good result. Total dividends declared for the year were \$810,725, and the dividend rate was 5.92%. For the six months to 30 June 2014, the dividend rate was 7.17%. Capital adequacy as at 30 June 2014 was 10.7%, above the policy minimum of 10%.

## Credit Union Insurance

Our insurance business, Credit Union Insurance, has once again performed very well, with rebates of \$1,361,288 payable, compared to \$1,193,676 for the year ended 30 June 2013. This is a very positive increase of 14% on last year. The CUI rebate this year is the third highest on record.

The Loanminder Non-life rebate was up to \$876,685, due to growth in premium income and a reduction in overheads following

the relocation of the Napier team to Auckland in May 2013. The relocation of the Credit Union Insurance team to Auckland has seen a significant streamlining of processes and systems which has led to improved product and service support, as well as a more efficient management structure. It should also be noted that there was also very good growth in Funeral Plan net premium income, which increased over the year by 13%.

## Regulatory Changes

Whilst we are still awaiting the official report from the Minister of Finance on the review undertaken last year on the Non-Bank Deposit Takers Prudential Supervision regime, it is very pleasing to see the Government announcement that there are positive changes being made to the antiquated Friendly Societies and Credit Unions Act 1982. NZACU has lobbied long and hard on Members' behalf to get these changes through and to achieve Government initiated amendments to this legislation is a testament to a well-executed and persistent engagement strategy.

The reductions in operational and compliance complexity that these changes will enable will no doubt be welcomed by Members, and I hope you will all embrace the opportunity that





the ability to lend directly to your members' businesses that the revised Act will allow.

We can only hope that the final outcome of the Non-Bank Deposit Taker's Prudential Supervision regime review will be a more balanced approach to the Prudential Supervision of our sector and further reduce the unnecessary compliance layers currently hindering the everyday operations and growth of our Members. You can rest assured that if there is no change in the status quo, the NZACU team will continue to raise the effects of the current regime with the appropriate ministers on Members' behalf.

### Local Service – Global Good

With a large contingent of Members attending the World Council of Credit Unions' annual conference on the Gold Coast in July 2014, it helped to remind us all of the collective global impact that credit unions and other mutually owned organisations have. It also helped to reinforce how lucky we are to

have such a sophisticated and professional organisation such as NZACU to support us.

It also reminded us of all of the potential we have to grow and continue to 'do good' for more New Zealanders. It's easy for many of us to get caught up in the day to day challenges of operating our organisations, particularly with today's more onerous compliance requirements. But it's important not to lose sight of the bigger picture and to seize opportunities to cooperate together to maximise our collective impact.

The theme for the 2014 International Credit Union (ICU) Day is 'Local Service – Global Good'. This year ICU Day coincides with the Commission for Financial Literacy and Retirement Income's 'Money Week', which is a fantastic opportunity to really maximise our collective power nationwide. I hope that Members are able to embrace this concept of 'Local Service – Global Good' and continue to balance providing their own unique local service to

their members with us all working together cooperatively to become a larger, stronger part of the New Zealand financial services market.

I would like to congratulate the entire NZACU team for yet another extremely positive and productive year. Your dedication to serving Members' best interests is truly appreciated.

As always, I would like to thank my fellow Directors for their dedication, hard work and personal support over the past year. And thank you, our Members, for continuing to do what you do so well for your members.

**Simon Scott**  
Chairman of the Board



# Persistence brings change

Henry Lynch

**It may have seemed to many who have been involved in our sector for a number of years that our continued attempts to get changes made to several outdated and incongruous pieces of legislation was unlikely to be successful. But a quote about the value of perseverance springs to mind when thinking about the past year: 'A river cuts through rock not because of its power, but because of its persistence'.**



## Barriers Coming Down

Following the reclassification of our simple savings products last year from Category 1 to Category 2 under the Financial Advisers Act 2008, our key lobbying strategies continue to come to fruition, with the recent announcement by the Hon Craig Foss, Minister of Commerce, that the Government will soon be amending the outdated Friendly Societies and Credit Unions Act 1982 to give credit unions legal status, amongst other matters.

This particular change is one that has been long overdue, and will help reduce unnecessary compliance costs for Members. The changes being made to the Act giving our Members the ability to lend directly to small businesses owned by credit union members will open up more opportunity for these valuable local enterprises, and is going to be a positive step towards encouraging local economic growth.

This success in getting these changes made to the Friendly Societies and Credit Unions Act has been the result of many meetings, letters and proactive engagement with Government officials and regulators that has helped to raise awareness of the issues, and an appreciation of the importance of our sector to the New Zealand economy, and its potential for future growth. Although this has

been a Government sponsored Bill, there was cross-party support from the main political parties for the changes we proposed and each relationship our Members established at a local level with their respective MP's had an impact. We believe this collaborative and somewhat relentless approach has been the key to our success!

It's a time honoured and true saying that the squeaky wheel gets the oil, and we're delighted to have been able to achieve such a positive outcome for our Members. Of course, we will continue to work closely with both regulators and relevant Government Ministers going forward to ensure that we advocate on behalf of our Members and mum and dad Kiwi consumers whenever appropriate.

We have also continued to develop relationships with key national organisations on our Members' behalf, such as with the Commission for Financial Literacy and Retirement Income, and the New Zealand Federation of Family Budgeting Services. It is important to us that we work closely with those allies if you will who are dealing with challenges around finances within the wider community so that we are all working productively together and maximising each other's strengths for the benefit of all New Zealanders.





## Going Mobile

It's a mobile world these days and the speed at which technology has advanced over the last few years in this area is astounding. In May 2014, we were delighted to be able to bring our Members a bespoke, state of the art mobile banking solution. This was a major project for us to be able to roll this out in 11 different Member's brand 'skins' and we, like you, are very proud of the final product. The 'AccessMobile' app has obviously been very popular with end users too, with over 28% of the current active Accessweb users having downloaded it within weeks and some very positive reviews on the App stores.

Helping members manage their money in new ways is all part of the constantly changing environment we operate in, and with the growth in on-line transactions in recent years, we launched the first MasterCard Debit Card across our Membership in late 2012. Since then, the AccessDebit MasterCard product has seen consistent growth

with the increasing awareness and acceptance of the *PayPass™* 'Tap & Go™' functionality, and we are excited about the flexibility and versatility it will offer members, particularly with the advent of 'mobile wallets' edging ever closer on the technological horizon.

In another first, February 2014 saw us launch New Zealand's first co-branded International Student Identity Card (ISIC)/AccessDebit MasterCard in conjunction with First Credit Union. In addition to acting as their worldwide student ID card, this exciting new card also offers students a fantastic array of discounts and special offers, in addition to a tertiary banking package and all of the benefits of AccessDebit MasterCard functionality.

## Collaborative Advantage Continues

June 2013 saw the introduction of the AML transaction monitoring requirements under the Anti-Money Laundering & Counter Financing of Terrorism Act 2009, and after

a full year of working with this legislation, it appears that the collective solution provided through the Wynyard Group, at no cost to Members by NZACU, is performing very well. We are delighted that we have been able to continue to provide this service to our Members free of charge, and is another example of how important it is that we collaborate together to maximise access to new technology for everyone within the movement.

## New Learning Opportunities

Our strengthened relationship with the national industry training body The Skills Organisation this year has seen exciting new learning opportunities open up to our Members, and these have been fully embraced by management and staff alike. We are delighted to now be offering two fully NZQA certified certificates – the National Certificate in Business Administration – First Line Management (Level 4) and the National Certificate in Financial Services Level 4, with a remarkable



level of interest and uptake already for both courses.

In addition to these Certificates, we have also launched via our 'Cooperative Learning' Youtube channel, a series of three videos on Leadership, which feature leading international motivational speaker John Shackleton and credit union staff discussing various aspects of leadership. These videos are available, as part of membership dues for all Members to use to help grow leadership skills amongst their staff and are a valuable free tool.

Our Forums, Summits and Annual Conference continue to enable a positive sharing of ideas and learning opportunities for Members and we work hard to put together relevant events that both inform and inspire. The feedback from the most recent March Forum was extremely pleasing, with over 83% of delegates rated the Forum as either "Very Good" or "Excellent", a pleasing result compared to 75% KPI in the Strategic Plan. Once again, I would like to thank all of the chairs, directors, managers and NZACU staff who take time out of their precious weekends to attend these events. Not only are they a great way to pick up new ideas, but they are also an important networking opportunity for both Members and NZACU staff, some of whom aren't always able to physically visit credit unions in their day to day role due to the need to be at the office to serve Members.

### Better Communication and Understanding

One of our key goals of our Strategic Plan is to constantly improve the Member communication and consultation process, and we have taken some significant strides forward in this area in recent times.

We have established a Credit Union Insurance User Group which meets monthly to discuss issues, enhancements and promotions relating to our insurance products, and the FACTS User Group, which also has a bi-monthly meeting where enhancements to the FACTS system are discussed and prioritised. This important two-way communication process has allowed us to deliver a number of key projects in line with the key requirements of our Members.

The feedback we received from our Members through these important User Groups has enabled us to introduce a number of exciting product enhancements in the last 12 months. November 2014 saw several changes to the Credit Union Insurance Funeral Plan product, including the introduction of a higher benefit level and upper age limit. We also increased the maximum cover level for our important loan repayment protection insurance, Loanminder, from \$50,000 to \$100,000. This has given our Members a greater ability to protect both their members and their credit union's interests.

Efficiencies in our processes and systems at Credit Union Insurance have also been a key outcome of this improved dialogue with Members, and in May 2014 we introduced a new streamlined Electronic Statement of Insurability or 'ESOI' process. By making the completion of the ESOI a simple on-line process when completing a loan application or top up, it has reduced our Members' the Credit Union Insurance Team's processing time considerably and has also allowed a much faster turnaround time in underwriting decisions for members, with the ability for credit union staff to track the status of any requests put through.

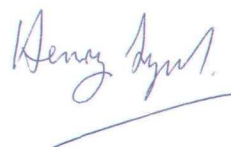
Increased operational efficiencies, in addition to improved support from Members, has seen a very positive increase of 14% in the CUI rebate of \$1,361,288 we were able to return to credit unions this year.

### Embracing New Paradigms

The theme for our Forum in March was 'New Paradigms' and it is apt with the ever increasing pace of technological, social and economic change that we continue to work together to look for new ways to leverage these changes and constantly be open to new opportunities. As cooperatives, the power of collaboration and cooperation is our strength and will always be the key to growing our sector in the future.

As always, I would like to express my thanks to every NZACU and CUI staff and board member for their on-going commitment and dedication in serving our Members, and to our Members for their continued support and collaboration. The coming year will no doubt be filled with many challenges, opportunities and successes, and I look forward to sharing them with you all.

Thank you for your continued support.



**Henry Lynch**  
Chief Executive







# Board & Governance

**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 65 of this report.**

At the 2013 AGM Simon Scott, First Credit Union, Graham Clouston, NZCU Baywide, Claire Matthews, NZCU Baywide and Chris Andersen of NZCU Rotorua were elected to the board. Following the election results, Simon Scott was re-elected as Chair and Malcolm Blair was re-elected as Deputy Chair. Malcolm Blair, Graham Clouston and Robert Anderson were re-elected as Trustees.

Rob Nicholls was re-elected Chair of the Audit & Risk Committee, Graham Clouston was re-elected as Audit & Risk Committee member, and Claire Matthews was elected to the Audit and Risk Committee, replacing Malcolm Blair.

## **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 2013 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 an 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
- Establishment of an independent external party who conducts the internal audit function with reporting responsibility to the Audit & Risk Committee
- The Audit & Risk Committee meet on a regular basis

throughout the year and report directly to the Board.

### **5. Making timely and balanced disclosure**

Accountability for compliance with disclosure obligations is with 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 financial statements 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 Member credit unions to participate in general meetings and forums.





To assist with this, an NZACU 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, operational and insurance risks. The committee is also responsible for overseeing the

audit programme designed to test the adequacy of internal controls related to the Information Services delivered by 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 NZACU director. As part of the annual review of its governance processes, the Board 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 2014 are as per the table on page 65. 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 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 acknowledgment 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, Conference and forums, 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/CUIL 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 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, or joint ventures.

## **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 director or executive of NZACU holds any notes or any personal beneficial interest in NZACU.

## **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 2014.

For and on behalf of the board of directors.



**Simon Scott**  
Chairman



**Malcom Blair**  
Deputy Chairman

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## Report of the Audit & Risk Committee

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

We have seen that PricewaterhouseCoopers have completed the annual Audit in accordance with the Friendly Societies and Credit Unions Act 1982.

We have determined that a written Audit Report is received, and reviewed the Audit Report on behalf of the Members.

We have reviewed NZACU minutes and financial statements for the year to 30 June 2014 and determined that actions taken are in accordance with the Friendly Societies and Credit Unions Act 1982, NZACU 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 18 to 64, which comprise the statements of financial position as at 30 June 2014, 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 2014 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 controlled entities 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 18 to 64:

- (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 2014, 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 2014:

- (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 Use of our Report**

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  
28 August 2014

Auckland

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# Statements of Comprehensive Income

for the year ended 30 June 2014

	Note	Group		Association	
		2014 \$000	2013 \$000	2014 \$000	2013 \$000
Interest Revenue	2	4,426	3,588	4,232	3,582
Interest Expense	3	3,671	2,961	3,737	3,042
<b>NET INTEREST REVENUE</b>		<b>755</b>	<b>627</b>	<b>495</b>	<b>540</b>
Banking Services Revenue		13,358	13,277	13,350	13,272
Insurance Premium Revenue	7	9,896	9,717	-	-
Other Revenue	4	1,051	1,653	2,457	1,987
<b>TOTAL REVENUE NET OF INTEREST EXPENSE</b>		<b>25,060</b>	<b>25,274</b>	<b>16,302</b>	<b>15,799</b>
Employee Costs	5	4,044	3,912	3,568	3,195
Insurance Claims, Commissions and Rebates	7	7,554	6,969	-	-
Transaction Costs		7,801	7,550	7,801	7,550
Operating Expenses	6	4,171	5,157	3,525	4,622
<b>TOTAL EXPENDITURE</b>		<b>23,570</b>	<b>23,588</b>	<b>14,894</b>	<b>15,367</b>
Share of Profit/(Loss) of Joint Venture accounted for using the equity method		18	(14)	-	-
<b>NET PROFIT BEFORE IMPAIRMENT</b>		<b>1,508</b>	<b>1,672</b>	<b>1,408</b>	<b>432</b>
Impairment (Expense)/Reversal	8	-	(402)	-	104
<b>NET PROFIT BEFORE TAXATION</b>		<b>1508</b>	<b>1,270</b>	<b>1,408</b>	<b>536</b>
Taxation Expense	9	-	-	-	-
<b>Profit and Total Comprehensive Income for the Year from Continuing Operations</b>		<b>1,508</b>	<b>1,270</b>	<b>1,408</b>	<b>536</b>
<b>Profit and Total Comprehensive Income for the Year from Discontinued Operations</b>					
Insurance Premium Revenue	7	-	-	-	4,351
Insurance Claims and Rebates	7	-	-	-	(3,480)
<b>Profit after income tax expense from Discontinued Operations</b>	36	-	-	-	871
<b>PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>1,508</b>	<b>1,270</b>	<b>1,408</b>	<b>1,407</b>

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

# Statements of Changes in Equity (Members' Funds)

for the year ended 30 June 2014

Group	Base Capital Notes \$000	Accumulated Losses \$000	Total \$000
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
<b>Balance at 30 June 2013</b>	<b>13,695</b>	<b>(2,587)</b>	<b>11,108</b>
Balance at 1 July 2013	13,695	(2,587)	11,108
Base Capital Notes Dividends paid	-	(638)	(638)
Profit and Total Comprehensive Income for the Year	-	1,508	1,508
<b>Balance at 30 June 2014</b>	<b>13,695</b>	<b>(1,717)</b>	<b>11,978</b>

Association	Base Capital Notes \$000	Accumulated Losses \$000	Total \$000
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
<b>Balance at 30 June 2013</b>	<b>13,695</b>	<b>(2,636)</b>	<b>11,059</b>
Balance at 1 July 2013	13,695	(2,636)	11,059
Base Capital Notes Dividends paid	-	(638)	(638)
Profit and Total Comprehensive Income for the Year	-	1,408	1,408
<b>Balance at 30 June 2014</b>	<b>13,695</b>	<b>(1,866)</b>	<b>11,829</b>

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



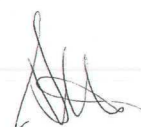
# Statements of Financial Position

as at 30 June 2014

		Group		Association	
	Note	2014	2013	2014	2013
		\$000	\$000	\$000	\$000
EQUITY (MEMBERS' FUNDS)					
Base Capital Notes	10	13,695	13,695	13,695	13,695
Accumulated Losses	11	(1,717)	(2,587)	(1,866)	(2,636)
TOTAL EQUITY (MEMBERS' FUNDS)		11,978	11,108	11,829	11,059
ASSETS					
Cash and Cash Equivalents	12	10,790	8,144	10,790	8,144
Accounts Receivable	13	3,596	3,354	1,524	1,508
Expected Recoveries	7	145	234	-	-
Investments	14	102,951	102,432	102,296	103,616
Loans Receivable	15	69	477	69	477
Prepayments	16	667	645	402	393
Inventory	17	126	102	126	102
Property, Plant and Equipment	18	500	836	466	813
Other Intangible Assets	19	789	948	604	710
Non-current Deposit		147	147	147	147
TOTAL ASSETS		119,780	117,319	116,424	115,910
LIABILITIES					
Deposits Received	20	99,680	98,101	102,157	101,409
Accounts Payable	21	3,610	3,568	2,121	3,133
Unearned Premium Liability	22	1,957	1,928	-	-
Provisions	23	387	357	317	309
Outstanding Claims Liability	7	2,168	2,257	-	-
TOTAL LIABILITIES		107,802	106,211	104,595	104,851
NET ASSETS		11,978	11,108	11,829	11,059

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

These financial statements were authorised for issue by the Board of Directors on 28th August 2014 and were signed for on its behalf.



Simon Scott  
Chair



Malcom Blair  
Deputy Chair

# Statements of Cash Flows

for the year ended 30 June 2014

		Group		Association	
	Note	2014	2013	2014	2013
		\$000	\$000	\$000	\$000
Cash Flows from operating activities					
Cash was provided from					
Membership Contributions Received		708	764	708	764
Insurance Premiums Received		9,939	8,892	-	3,937
Other Receipts from Customers		13,740	14,316	14,741	14,340
Loan Repayments from Customers		408	735	408	709
Investment Interest Received		4,372	3,034	4,643	3,313
Motor Vehicle Claims Recoveries		262	555	-	-
Credit Union Foundation Grants and Donations		-	5	-	5
		29,429	28,301	20,500	23,068
Cash was applied to					
Payments to Suppliers and Employees		18,306	17,330	15,482	15,520
Insurance Claims and Rebates Paid		5,179	6,088	-	2,980
Interest Paid		3,426	2,637	3,612	2,982
		26,911	26,055	19,094	21,482
NET CASH FLOWS FROM OPERATING ACTIVITIES	32	2,518	2,246	1,406	1,586
Cash Flows from investing activities					
Cash was provided from					
Sale of Fixed Assets and Intangibles		620	72	616	72
Proceeds from Sales and Maturities of Investment Securities		586,787	586,148	586,787	586,169
		587,407	586,220	587,403	586,241
Cash was applied to					
Purchase of Property, Plant and Equipment		167	616	139	595
Purchase of Intangible Assets		587	679	489	528
Payment for Insurance Claims Liability transferred		-	-	-	1,678
Purchase of Investment Securities		585,520	610,622	585,520	610,622
		586,274	611,917	586,148	613,423
NET CASH FLOWS FROM /(TO) INVESTING ACTIVITIES		1,133	(25,697)	1,255	(27,182)
Cash Flows from financing activities					
Cash was provided from					
Net (decrease)/increase in Deposits		(367)	23,668	623	25,813
		(367)	23,668	623	25,813
Cash was applied to					
Base Capital Note Dividend Paid		638	908	638	908
		638	908	638	908
NET CASH FLOWS FROM/(TO) FINANCING ACTIVITIES		(1,005)	22,760	(15)	24,905
Net increase/(decrease) in Cash and Cash Equivalents					
		2,646	(691)	2,646	(691)
Cash and Cash Equivalents at the Beginning of the Year		8,144	8,835	8,144	8,835
Cash and Cash Equivalents at the End of the Year	12	10,790	8,144	10,790	8,144



# Statement of Accounting Policies

for the year ended 30 June 2014

## 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"): 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 wholly 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 Association has adopted External Reporting Board Standard A1 Accounting Standards Framework (For-profit Entities Update) (XRB A1). XRB A1 establishes a for-profit tier structure and outlines which suite of accounting standards entities in different tiers must follow. The Association is a Tier 1 entity. There was no impact on the current or prior year financial statements.

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 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 Group's functional and presentation currency. All values have been rounded off to the nearest 1,000 dollars (\$) unless otherwise stated.

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

### Significant Judgements, Estimates and Assumptions

In the application of NZ IFRS management is required to make judgements, estimates and assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various

other factors that management believe to be reasonable under the circumstances, the results of which form the basis of making the 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
- 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**

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.

#### **(i) 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.

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

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

#### **(ii) 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.

#### **(iii) 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.

#### **(iv) 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.

#### **Financial Liabilities**

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

Liabilities are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, liabilities are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit or loss on the Statement of Comprehensive Income over the period of borrowing using the effective interest rate method. Interest expense is recognised in profit or loss on the Statement of Comprehensive Income using the effective interest method.

#### **Deposits Received**

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

#### **(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.

### **(c) Asset Quality**

#### **Impairment of Financial Assets**

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

#### **(i) Loans Receivable**

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

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

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



Comprehensive Income.

## (ii) Impaired Loans Receivable

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

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

## (iii) Impairment of Assets 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.

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.

#### (d) 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.

#### (e) 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.

#### (f) Consolidation

The Group financial statements consolidate the Association and the following entities:

- Credit Union Insurance Limited (wholly owned subsidiary) – an insurance company;
- Facts Limited (wholly owned subsidiary) – a company providing services to non-members of the Association;
- CU Group Trust the investment holding trust of the Association.

#### (i) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power, exposure or rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power.



Where subsidiaries have been acquired or sold during the year, their operating results have been included from the date control is passed to the Association, or to the date control ceases.

Acquisition-related costs are expensed as incurred.

Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary are recorded through equity to reflect a transaction amongst shareholders.

The acquisition of any subsidiary is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and liabilities assumed are measured at their acquisition date fair values.

On consolidation, all significant inter-company transactions, balances and unrealised gains on transactions have been eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

#### **(ii) Joint Ventures**

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.

#### **(g) Cash and Cash Equivalents**

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

#### **(h) Accounts Receivables**

Accounts 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.

#### **(i) 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.

#### **(j) 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.

#### **(k) 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.

### (l) Intangible Assets

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.

### (m) Taxation

The Association has not provided for income tax on the basis it is exempt for tax under Section CW44 (a) of the Income Tax Act 2007. However other Group entities are subject to taxation.

Income tax on the net profit for the period comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or directly in equity.

#### (i) Current Tax

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

#### (ii) Deferred Tax

Deferred tax is accounted for using the liability method in

respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

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

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

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

Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

#### (iii) Goods and Services Tax (GST)

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

- When the GST incurred on a purchase of goods and services is not recoverable from Inland Revenue in which case the GST is recognised as part of the cost of the acquisition of the assets or as part of the expense item as applicable.
- Accounts Receivables and Accounts Payable, which are stated with the amount of GST included.



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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.

### **(n) 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.

### **(o) Provisions**

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

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance date. If the effect of the time value of money is material, provisions are

discounted using a pre-tax rate that reflects the time value of money and the risks specific to the liability. The increase in the provisions resulting from the passage of time is recognised as a finance cost.

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

### **(p) 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.

### **(q) 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.

## Statement of Accounting Policies

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.

### (r) 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.

### (s) 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.

### (t) 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.

### (u) 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.

### (v) Accounting Standards Adopted during the Year

NZ IFRS 10 (*Consolidated Financial Statements*), NZ IFRS 12 (*Disclosure of Interests in other Entities*) and revised NZ IAS 27 (*Separate Financial Statements*) and NZ IAS 28 (*Investments in Associates and Joint Ventures*) (effective periods commencing on or after 1 July 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 replaced all of the guidance on control and consolidation in NZ IAS 27 Consolidated and separate financial statements, and NZ SIC-12 Consolidation – special purpose entities. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remained unchanged, as did the mechanics of consolidation. However the standard introduced 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. The new guidance also included participating and protective rights and agent/principal relationships. Adopting this standard had no significant impact on the composition of the Group or the reports presented.

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

NZ IAS 27 on Separate Financial Statements defines the standard dealing solely with separate financial statements. Application of this standard by the Group has not affected any of the amounts recognised in the financial statements.



Amendments to NZ IAS 28 provided 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 has not had any impact on the financial statements.

**NZ IFRS 13 (Fair Value Measurement)** (effective periods commencing on or after 1 July 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 reviewed its measurement techniques. The impact of the new rules on the value of the amounts recognised in the financial statements has been identified. The application of the new standard has impacted the type of information disclosed in the notes to the financial statements.

**Revised NZ IAS 19 (Employee Benefits)** (effective for periods commencing on or after 1 July 2013)

The revised standard required 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 replaced the expected return on plan assets that is currently included in profit or loss. The standard also introduced a number of additional disclosures for defined benefit liabilities/assets and could affect the timing of the recognition of termination benefits. The policy had no effect on the results of the Group as there are no defined benefit liabilities owing to employees and no intention to terminate employees.

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

#### **(w) New Accounting Standards and Interpretations issued not yet effective and have not been early adopted by the Group**

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting period's beginning on or after 1 July 2014 or later periods, but the Group has not early adopted them.

**NZ IFRS 9 (Financial Instruments)** (Effective for annual reporting periods beginning on or after 1 January 2017)  
Addresses the classification, measurement and recognition of financial assets and financial liabilities.

**NZ IFRS 9** was issued in November 2009, October 2010 and December 2013. It replaces the parts of NZ IAS 39 that relate to the classification and measurement of financial instruments and hedge accounting. NZ IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the NZ IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The new hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risks. The Group is yet to assess NZ IFRS 9's full impact.

**IFRS 9 (Financial Instruments)** (effective for annual reporting periods beginning on or after 1 January 2018)

IFRS 9 (Financial Instruments), was issued by the International Accounting Standards Board in July 2014 as a complete version of the standard. This standard adds to the requirements of NZ IFRS 9 by incorporating the expected credit loss model for calculating the impairment of financial assets. This standard is effective for reporting periods beginning on or after 1 January 2018. The Company is yet to assess the impact of this standard and does not expect to adopt it before its effective date.

**NZ IFRS 15 (Revenue from contracts with Customers)**  
(Effective for annual periods beginning on or after 1 January 2017)

NZ IFRS 15 addresses the recognition of revenue from contracts with customers. It replaces the current revenue recognition guidance in NZ IAS 18 'Revenue' and NZ IAS 11 'Construction Contracts' and is applicable to all entities with revenue. It sets out a 5 step model for revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Group is yet to assess the full impact of NZ IFRS 15. The Group will apply this standard from 1 July 2017.

	Group		Association	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000

## 2 INTEREST REVENUE

Government and Other Bond Interest	194	12	-	(2)
Bank, Money Market Securities, Local Authority and Floating Rate Note Interest	3,962	3,234	3,962	3,244
Loan Interest	-	89	-	87
Other Interest	270	253	270	253
<b>TOTAL INTEREST REVENUE</b>	<b>4,426</b>	<b>3,588</b>	<b>4,232</b>	<b>3,582</b>

## 3 INTEREST EXPENSE

Interest on Deposits	3,605	2,891	3,677	2,978
Bank Fees and Charges	60	64	60	64
Other Interest	6	6	-	-
<b>TOTAL INTEREST EXPENSE</b>	<b>3,671</b>	<b>2,961</b>	<b>3,737</b>	<b>3,042</b>
<b>NET INTEREST REVENUE</b>	<b>755</b>	<b>627</b>	<b>495</b>	<b>540</b>

## 4 OTHER REVENUE

Membership Contributions	708	753	708	753
Dividends Received	-	-	350	32
Other Revenue	343	900	1,399	1,202
<b>TOTAL OTHER REVENUE</b>	<b>1,051</b>	<b>1,653</b>	<b>2,457</b>	<b>1,987</b>

## 5 EMPLOYEE COSTS

Salaries and Wages	4,027	3,871	3,558	3,173
Other Staff Costs	17	41	10	22
<b>TOTAL EMPLOYEE COSTS</b>	<b>4,044</b>	<b>3,912</b>	<b>3,568</b>	<b>3,195</b>



## 6 OPERATING EXPENSES

	Group		Association	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
<b>Auditors' Remuneration:</b>				
- Audit fees to PricewaterhouseCoopers	98	89	58	50
- Other fees to PricewaterhouseCoopers	-	-	-	-
Information System Review	28	24	28	24
Taxation	27	22	-	-
Other Statutory Returns	6	9	-	5
Corporate Finance	6	63	6	60
<b>Total Auditors' Remuneration</b>	<b>165</b>	<b>207</b>	<b>92</b>	<b>139</b>
<b>Depreciation:</b>				
- Furniture, Fittings, Office Equipment & Vehicles	60	57	59	55
- Computer Equipment	135	170	120	159
Amortisation of Intangible Assets	444	344	293	203
Directors' Fees	225	177	225	177
Directors' and Governance Expenses	125	174	125	174
Leasing Charges	261	313	272	270
(Gain)/Loss on Disposal of Property, Plant & Equipment	(10)	9	(7)	-
Other Operating Expenses	2,766	3,706	2,346	3,445
<b>TOTAL OPERATING EXPENSES</b>	<b>4,171</b>	<b>5,157</b>	<b>3,525</b>	<b>4,622</b>

## 7 INSURANCE PRODUCTS

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 1 April 2013.

Refer Related Party Note 29 and Discontinued Operations Note 36 for further details.

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

	Group		Association	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
<b>LIFE INSURANCE</b>				
Gross Earned Premium	1,830	1,707	-	1,279
Reinsurance Premiums	-	-	-	-
<b>Net Earned Premium</b>	<b>1,830</b>	<b>1,707</b>	<b>-</b>	<b>1,279</b>
Gross Claims	814	817	-	649
Reinsurance Received	-	-	-	-
<b>Net Claims</b>	<b>814</b>	<b>817</b>	<b>-</b>	<b>649</b>
Commission	224	212	-	159
<b>Underwriting Result</b>	<b>792</b>	<b>678</b>	<b>-</b>	<b>471</b>
Credit Union Rebates	484	417	-	316
	<b>308</b>	<b>261</b>	<b>-</b>	<b>155</b>
<b>OTHER NON-LIFE INSURANCE</b>				
Gross Earned Premium	4,200	4,081	-	3,072
Reinsurance Premiums	-	-	-	-
<b>Net Earned Premium</b>	<b>4,200</b>	<b>4,081</b>	<b>-</b>	<b>3,072</b>
Gross Claims	1,735	1,570	-	1,078
Reinsurance Received	-	-	-	-
<b>Net Claims</b>	<b>1,735</b>	<b>1,570</b>	<b>-</b>	<b>1,078</b>
Commission	891	868	-	654
<b>Underwriting Result</b>	<b>1,574</b>	<b>1,643</b>	<b>-</b>	<b>1,340</b>
Credit Union Rebates	762	675	-	624
	<b>812</b>	<b>968</b>	<b>-</b>	<b>716</b>
<b>MOTOR VEHICLE INSURANCE</b>				
Gross Earned Premium	4,104	4,156	-	-
Reinsurance Premiums	(238)	(227)	-	-
<b>Net Earned Premium</b>	<b>3,866</b>	<b>3,929</b>	<b>-</b>	<b>-</b>
Gross Claims	2,194	1,967	-	-
Reinsurance Received	-	-	-	-
<b>Net Claims</b>	<b>2,194</b>	<b>1,967</b>	<b>-</b>	<b>-</b>
Commission	450	443	-	-
<b>Underwriting Result</b>	<b>1,222</b>	<b>1,519</b>	<b>-</b>	<b>-</b>

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	Group		Association	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
<b>TOTAL INSURANCE</b>				
<b>Net Earned Premium</b>	<b>9,896</b>	<b>9,717</b>	<b>-</b>	<b>4,351</b>
Net Claims	4,743	4,354	-	1,727
Commission	1,565	1,523	-	813
<b>Underwriting Result</b>	<b>3,588</b>	<b>3,840</b>	<b>-</b>	<b>1,811</b>
Credit Union Rebates	1,246	1,092	-	940
<b>Insurance Claims, Commission and Rebates</b>	<b>7,554</b>	<b>6,969</b>	<b>-</b>	<b>3,480</b>
<b>Total Underwriting Result after Commission and Rebates</b>	<b>2,342</b>	<b>2,748</b>	<b>-</b>	<b>871</b>

## 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 2014. 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% (2013 : 10%), which provides a likelihood

of sufficiency of 75% (2013 : 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 3.56% per annum (2013: 2.85%). 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 15% (2013 : 8.5%), which provides a likelihood of sufficiency of 75% (2013 : 75%). The Board has elected to use a risk Margin of 15% (2013 : 17%) which gives a 75% (2013: 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 allowance is based on historical monies recovered against claims paid.

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.

	Group		Association	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
<b>OUTSTANDING CLAIMS LIABILITY</b>				
<b>LIFE INSURANCE</b>				
Opening Claims Liability	86	70	-	70
Claims Expense	814	810	-	649
Claims Paid	(801)	(794)	-	(649)
Claims Liability transferred to Credit Union Insurance Limited	-	-	-	(70)
<b>Closing Claims Liability</b>	<b>99</b>	<b>86</b>	<b>-</b>	<b>-</b>
<b>OTHER NON-LIFE INSURANCE</b>				
Opening Claims Liability	1,666	1,921	-	1,921
Claims Expense	1,735	1,554	-	1,078
Claims Paid	(1,803)	(1,809)	-	(1,391)
Claims Liability transferred to Credit Union Insurance Limited	-	-	-	(1,608)
<b>Closing Claims Liability</b>	<b>1,598</b>	<b>1,666</b>	<b>-</b>	<b>-</b>
<b>MOTOR VEHICLE INSURANCE</b>				
Opening Claims Liability	505	624	-	-
Claims Expense	2,368	2,425	-	-
Claims Paid	(2,402)	(2,544)	-	-
<b>Closing Gross Claims Liability</b>	<b>471</b>	<b>505</b>	<b>-</b>	<b>-</b>
<b>TOTAL GROSS OUTSTANDING CLAIMS LIABILITY</b>	<b>2,168</b>	<b>2,257</b>	<b>-</b>	<b>-</b>

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	Group		Association	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
<b>OUTSTANDING CLAIMS LIABILITY</b>				
<b>MOTOR VEHICLE EXPECTED RECOVERIES RECEIVABLE</b>				
Opening Expected Recoveries	234	330	-	-
Increase In Expected Recoveries	184	458	-	-
Actual Third Party Recoveries Received	(273)	(554)	-	-
<b>Closing Expected Recoveries</b>	<b>145</b>	<b>234</b>	<b>-</b>	<b>-</b>
<b>Motor Vehicle Net Claims Liability</b>	<b>326</b>	<b>271</b>	<b>-</b>	<b>-</b>
<b>TOTAL NET OUTSTANDING CLAIMS LIABILITY</b>	<b>2,023</b>	<b>2,023</b>	<b>-</b>	<b>-</b>

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

	Group		Association	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
<b>COMPOSITION OF OUTSTANDING CLAIMS LIABILITY</b>				
<b>LIFE INSURANCE</b>				
Outstanding Claims	1	16	-	-
IBNR	98	70	-	-
<b>Closing Claims Liability</b>	<b>99</b>	<b>86</b>	<b>-</b>	<b>-</b>
<b>OTHER NON-LIFE INSURANCE</b>				
Outstanding Claims	1,199	1,226	-	-
Management Allowance - 8.5%	114	119	-	-
Risk Margin - 10%	145	151	-	-
IBNR	140	170	-	-
<b>Closing Claims Liability</b>	<b>1,598</b>	<b>1,666</b>	<b>-</b>	<b>-</b>
<b>MOTOR VEHICLE INSURANCE</b>				
Outstanding Claims	300	285	-	-
Risk Margin - 15% (2013: 17%)	45	48	-	-
Indirect Claims Management - 17.8% (2013: 21%)	61	72	-	-
IBNR	65	100	-	-
Closing Gross Claims Liability	471	505	-	-
Closing Expected Recoveries	(145)	(234)	-	-
<b>Closing Claims Liability</b>	<b>326</b>	<b>271</b>	<b>-</b>	<b>-</b>
<b>TOTAL NET OUTSTANDING CLAIMS LIABILITY</b>	<b>2,023</b>	<b>2,023</b>	<b>-</b>	<b>-</b>

## 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 Life and Other Non-Life 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 a Fixed Minimum Solvency Capital of \$5,000,000 as determined under the Solvency Standards for Life and Non-Life Insurance Business (the solvency standard) issued by the RBNZ. RBNZ defines Actual Solvency Capital as: CUIL's Capital less Intangible Assets less dividends payable on Ordinary and Perpetual Preference Shares in the period leading up to the filing of the return.

CUIL has defined in its Capital Risk Management Policy that it will maintain a Target Minimum Solvency Capital at the higher of:

- 105% of the Fixed Minimum Solvency Capital set by the RBNZ which is \$5,250,000 (2013: minimum Actual Capital of \$5,500,000);
- 125% of the Calculated Minimum Solvency Capital which at 30 June 2014 was \$4,858,114 (2013: \$5,609,055).

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.

### (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:

	Group	
30 June	2014	2013
	\$	\$
Actual Solvency Capital	5,663,524	5,493,863
Fixed Minimum Solvency Capital	5,000,000	5,000,000
<b>Solvency Margin</b>	<b>663,524</b>	<b>493,863</b>

## 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 (the Company) 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 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 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 Company's 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.

### **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 create 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:

	Group		Association	
	2014		2013	
	\$000	\$000	\$000	\$000
<b>SENSITIVITY CALCULATIONS</b>	Balance	Sensitivity	Balance	Sensitivity
Outstanding Claims Liability	1,865		1,917	
Reopening allowance 10% higher		3		3
Reopening allowance 10% lower		(3)		(3)
Claim estimates 10% higher		186		192
Claim estimates 10% lower		(186)		(192)
Administration costs 10% higher		20		20
Administration costs 10% lower		(20)		(20)
IBNR	303		340	
Claim reporting 10% longer		106		119
Claim reporting 10% quicker		(97)		(109)
	<b>2,168</b>		<b>2,257</b>	

### Insurance Rating

The Company has a Financial Strength rating of 'BB+' issued by Fitch Ratings on 17 December 2013, and affirmed on 30 May 2014. Previously the Company has a Financial Strength rating of 'BB' issued by Standard & Poors' on 27 February 2013.

## 8 IMPAIRMENT

	Group		Association	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
<b>Movement in Provisions in respect of:</b>				
- Loans Receivable	-	330	-	330
- Investments	-	-	-	(578)
	-	<b>330</b>	-	<b>(248)</b>
<b>Amounts written off in respect of:</b>				
- Loans Receivable	-	72	-	144
<b>IMPAIRMENT EXPENSES/(REVERSALS)</b>	-	<b>402</b>	-	<b>(104)</b>

Refer to notes 14 and 15 for further information.



## 9 TAXATION

	Group		Association	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
<b>Profit before Taxation</b>	<b>1,508</b>	<b>1,270</b>	<b>1,408</b>	<b>1,407</b>
Income Tax at current rate of 28%	422	356	394	394
Exempt Income	(331)	(197)	(394)	(394)
Non Deductible Expenses	(5)	108	-	-
Movement in Temporary Differences (not recognised)	-	(197)	-	-
Utilisation of Tax Losses (previously not recognised)	(86)	(70)	-	-
<b>TAXATION EXPENSE</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Taxation losses have been recognised to the extent of the deferred tax liability on temporary differences. The additional tax losses have not been recognised because there is not sufficient probability of taxable profits in future years to offset such losses. Tax losses are subject to Inland

Revenue assessment in the next tax return and shareholder continuity requirements. Tax losses not recognised are \$4,064,000 (\$1,138,000 at the tax rate of 28%) (2013: \$4,371,000 (\$1,223,000 at the tax rate of 28%)).

Deferred tax assets/(liabilities) recognised are comprised as follows:

2014	Group		
	Opening Balance	Charged to Income	Closing Balance
	\$000	\$000	\$000
<b>Deferred Tax Assets:</b>			
Tax Losses Recognised	59	(2)	57
Property, Plant and Equipment	2	(2)	-
Provisions	3	6	9
Impairment Losses	-	-	-
	<b>64</b>	<b>2</b>	<b>66</b>
<b>Deferred Tax Liabilities:</b>			
Property, Plant and Equipment	-	-	-
Intangible Assets	-	-	-
Deferred Acquisition Costs	(64)	(2)	(66)
	<b>(64)</b>	<b>(2)</b>	<b>(66)</b>
	-	-	-

2013	Group		
	Opening Balance	Charged to Income	Closing Balance
	\$000	\$000	\$000
<b>Deferred Tax Assets:</b>			
Tax Losses Recognised	-	59	59
Property, Plant and Equipment	-	2	2
Provisions	16	(13)	3
Impairment Losses	251	(251)	-
	<b>267</b>	<b>(203)</b>	<b>64</b>
<b>Deferred Tax Assets:</b>			
Property, Plant and Equipment	(1)	1	-
Intangible Assets	(3)	3	-
Deferred Acquisition Costs	(66)	2	(64)
	<b>(70)</b>	<b>6</b>	<b>(64)</b>
	<b>197</b>	<b>(197)</b>	<b>-</b>

## 10 BASE CAPITAL NOTES

	Group and Association		Group and Association	
	2014	2013	2014	2013
	'000 Units	'000 Units	\$000	\$000
Issue I	17	18	170	180
Issue II	13,525	13,515	13,525	13,515
	<b>13,542</b>	<b>13,533</b>	<b>13,695</b>	<b>13,695</b>

The Rules of the Association provide for the creation of the Association Business Services Division Trust (the "Business Services Division"). Base Capital Notes are those unsecured subordinated Capital Notes forming the capital of the Business Services Division. All notes qualify for Dividends as determined by the Directors.

	Group and Association		Group and Association	
	2014	2013	2014	2013
	'000 Units	'000 Units	\$000	\$000
<b>Issue I</b>				
Balance at 1 July	18	20	180	200
Notes redeemed by transfer to Base Capital Notes II	(1)	(2)	(10)	(20)
<b>BALANCE AT 30 JUNE</b>	<b>17</b>	<b>18</b>	<b>170</b>	<b>180</b>

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 and Association		Group and Association	
	2014	2013	2014	2013
	'000 Units	'000 Units	\$000	\$000
<b>Issue II</b>				
Balance at 1 July	13,515	13,495	13,515	13,495
Notes Issued:				
By transfer from Base Capital Notes I	10	20	10	20
Notes Redeemed	-	-	-	-
<b>BALANCE AT 30 JUNE</b>	<b>13,525</b>	<b>13,515</b>	<b>13,525</b>	<b>13,515</b>

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	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
Balance at 1 July	(2,587)	(2,949)	(2,636)	(3,135)
Operating Profit	1,508	1,270	1,408	1,407
	(1,079)	(1,679)	(1,228)	(1,728)
Base Capital Note Dividends	(638)	(908)	(638)	(908)
Balance at 30 June	(1,717)	(2,587)	(1,866)	(2,636)
<b>TOTAL ACCUMULATED LOSSES</b>	<b>(1,717)</b>	<b>(2,587)</b>	<b>(1,866)</b>	<b>(2,636)</b>

The net profit for the years ended 30 June 2014 and 30 June 2013 have been transferred to Accumulated Losses.

	Group		Association	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
Member Services Division	1,238	1,361	1,238	1,361
Business Services Division	(2,955)	(3,948)	(3,104)	(3,997)
	<b>(1,717)</b>	<b>(2,587)</b>	<b>(1,866)</b>	<b>(2,636)</b>

Member Services Division Retained Earnings at 30 June 2014 includes the Retained Earnings of the New Zealand Credit Union Foundation of \$104,000 (30 June 2013: \$105,000). Refer note 33.

**12 CASH AND CASH EQUIVALENTS**

	Group		Association	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
Cash at Bank	2,886	2,144	2,886	2,144
Bank Call Deposits	7,904	6,000	7,904	6,000
	<b>10,790</b>	<b>8,144</b>	<b>10,790</b>	<b>8,144</b>

**13 ACCOUNTS RECEIVABLE**

	Group		Association	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
Trade Receivables	1,453	1,398	1,374	1,328
Receivable from Subsidiaries	-	-	150	180
Future Funded Premiums	1,699	1,539	-	-
	<b>3,152</b>	<b>2,937</b>	<b>1,524</b>	<b>1,508</b>
Insurance Premiums Due	444	417	-	-
Provision for Cancellation	-	-	-	-
	<b>444</b>	<b>417</b>	<b>-</b>	<b>-</b>
<b>Total Carrying Amount</b>	<b>3,596</b>	<b>3,354</b>	<b>1,524</b>	<b>1,508</b>
<b>Provision for Cancellation</b>				
<b>Collective Provision Against Insurance Premiums Due</b>				
Balance at Beginning of the Year	-	7	-	-
Movement in Provision	-	(7)	-	-
<b>Balance at End of the Year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Past Due Receivables Not Impaired</b>				
Trade Receivables	86	152	62	105
<b>Total Past Due Receivables Not Impaired</b>	<b>86</b>	<b>152</b>	<b>62</b>	<b>105</b>
<b>Aging of Past Due Receivables Not Impaired</b>				
Past Due 1-30 days	40	118	26	93
Past Due 31-90 days	17	12	14	4
Past Due over 90 days	29	22	22	8
<b>BALANCE AT END OF THE YEAR</b>	<b>86</b>	<b>152</b>	<b>62</b>	<b>105</b>

In respect of the Association, Trade Receivables are mainly due from Member credit unions. There is no Provision for Bad Debts (2013: \$Nil) and there has been no write off (2013: \$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 (2013: \$Nil)

Refer also to note 29 for Related Party Disclosures.



## 14 INVESTMENTS

	Group		Association	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
Bank Deposits	81,744	67,733	75,387	63,210
Advances to Subsidiaries	-	-	113	100
Money Market Securities	15,931	27,437	15,931	27,437
Floating Rate Notes	5,028	7,032	5,028	7,032
	<b>102,703</b>	<b>102,202</b>	<b>96,459</b>	<b>97,779</b>
Investment Bonds	-	-	12,337	12,337
Investment in Joint Venture accounted for under the equity method	248	230	-	-
Provision for Impairment	-	-	(6,500)	(6,500)
	<b>248</b>	<b>230</b>	<b>5,837</b>	<b>5,837</b>
<b>Total Carrying Amount</b>	<b>102,951</b>	<b>102,432</b>	<b>102,296</b>	<b>103,616</b>

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 (2013: \$6,500,000) is held.

The provision in respect of Credit Union Insurance Limited of \$6,500,000 (2013: \$6,500,000) was reviewed based on detailed cash flow forecasts for the five years to 30 June 2019. Key assumptions in this forecast were a low sales growth, loss ratios based on experience and a range of

discount rates up to 15%. The valuation indicated that the asset was fairly valued and the Directors decided to write back \$Nil (2013: \$500,000) of the previous impairment to fairly value the investments.

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 28 for Unconsolidated Joint Venture and note 29 for Related Party Disclosures.

## 15 LOANS RECEIVABLE

	Group		Association	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
Gross Loans Receivable	399	807	399	807
Provision for Credit Impairment	(330)	(330)	(330)	(330)
<b>Total Carrying Amount</b>	<b>69</b>	<b>477</b>	<b>69</b>	<b>477</b>
<b>PROVISION FOR CREDIT IMPAIRMENT</b>				
<b>Individually Impaired Loans</b>				
Balance at Beginning of the Year	-	883	-	-
New Provisions during the Year	-	-	-	-
Amounts Released/Written Off	-	(883)	-	-
<b>Balance at End of the Year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>COLLECTIVE PROVISION AGAINST LOANS</b>				
Balance at Beginning of the Year	330	12	330	12
New Provisions during the Year	-	330	-	330
Amounts Released/Written Off	-	(12)	-	(12)
<b>Balance at End of the Year</b>	<b>330</b>	<b>330</b>	<b>330</b>	<b>330</b>
<b>Total Provision for Credit Impairment</b>	<b>330</b>	<b>330</b>	<b>330</b>	<b>330</b>
<b>AGING OF PAST DUE BUT NOT INDIVIDUALLY IMPAIRED LOANS</b>				
Past Due 0-30 days	-	-	-	-
Past Due 31-90 days	-	-	-	-
Past Due over 90 days	69	477	69	477
<b>Balance at End of the Year</b>	<b>69</b>	<b>477</b>	<b>69</b>	<b>477</b>

During 2013, the Gross Loans Receivable 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 were fully written off using the impairment provisions held at 30 June 2012.

During 2013, 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, \$556,000 was collected by 30 June 2014 (2013: \$148,000)

The Directors assessed the loans owing at 30 June 2013 and assessed the discounted value of the expected cash flow at 12.5% and provided a further impairment of \$330,000. At 30 June 2014, the Directors were satisfied that no adjustment in the provisions held were required.

There were no assets acquired through enforcement of security.



## 16 PREPAYMENTS

	Group		Association	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
<b>Deferred Commission</b>				
Deferred Commission Costs	228	236	-	-
Commission Costs Paid	1,582	721	-	-
Commission Costs Released	(1,575)	(729)	-	-
<b>Closing Deferred Commission Costs</b>	<b>235</b>	<b>228</b>	<b>-</b>	<b>-</b>
Other Prepayments	432	417	402	393
	<b>667</b>	<b>645</b>	<b>402</b>	<b>393</b>

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	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
ATM Machines and Parts	92	81	92	81
Promotional and Other Items	34	21	34	21
	<b>126</b>	<b>102</b>	<b>126</b>	<b>102</b>

The cost of inventories recognised as an expense during the year was \$425,000 (2013: \$546,000).

**18 PROPERTY, PLANT AND EQUIPMENT**

	<b>Group</b>		<b>Association</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Furniture and Fittings, Office Equipment and Vehicles</b>				
Opening Cost at 1 July	682	759	635	670
Additions	22	58	22	47
Disposals	(44)	(135)	(44)	(82)
<b>Closing Cost at 30 June</b>	<b>660</b>	<b>682</b>	<b>613</b>	<b>635</b>
Opening Accumulated Depreciation at 1 July	355	425	319	346
Depreciation Expense	60	57	59	55
Disposals	(36)	(127)	(36)	(82)
<b>Closing Accumulated Depreciation at 30 June</b>	<b>379</b>	<b>355</b>	<b>342</b>	<b>319</b>
<b>Net Book Value at 30 June</b>	<b>281</b>	<b>327</b>	<b>271</b>	<b>316</b>
<b>Computer Equipment</b>				
Opening Cost at 1 July	1,362	1,066	1,323	958
Additions	145	558	117	548
Disposals	(595)	(262)	(594)	(183)
<b>Closing Cost at 30 June</b>	<b>912</b>	<b>1,362</b>	<b>846</b>	<b>1,323</b>
Opening Accumulated Depreciation at 1 July	853	873	826	778
Depreciation Expense	135	170	120	159
Disposals	(295)	(190)	(295)	(111)
<b>Closing Accumulated Depreciation at 30 June</b>	<b>693</b>	<b>853</b>	<b>651</b>	<b>826</b>
<b>Net Book Value at 30 June</b>	<b>219</b>	<b>509</b>	<b>195</b>	<b>497</b>
<b>Carrying Amount at 30 June</b>	<b>500</b>	<b>836</b>	<b>466</b>	<b>813</b>

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



## 19 OTHER INTANGIBLE ASSETS

	Group		Association	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
<b>Computer Software</b>				
Opening Cost at 1 July	4,629	4,177	3,896	3,370
Additions	587	679	489	528
Disposals	(608)	(227)	(608)	(2)
<b>Closing Cost at 30 June</b>	<b>4,608</b>	<b>4,629</b>	<b>3,777</b>	<b>3,896</b>
Opening Accumulated Amortisation at 1 July	3,681	3,563	3,186	2,985
Amortisation Expense	444	344	293	203
Disposals	(306)	(226)	(306)	(2)
<b>Closing Accumulated Amortisation at 30 June</b>	<b>3,819</b>	<b>3,681</b>	<b>3,173</b>	<b>3,186</b>
<b>Net Book Value at 30 June</b>	<b>789</b>	<b>948</b>	<b>604</b>	<b>710</b>

## 20 DEPOSITS RECEIVED

	Group		Association	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
Deposits from Credit Unions	98,565	97,303	98,565	97,303
Deposits from Subsidiaries	-	-	2,477	3,308
Deposits from Other Parties	1,115	798	1,115	798
	<b>99,680</b>	<b>98,101</b>	<b>102,157</b>	<b>101,409</b>

Deposits are accepted on an unsecured basis. Average interest rates, repricing terms and duration are as shown in note 26.

## 21 ACCOUNTS PAYABLE

	Group		Association	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
Trade Payable	1,298	1,236	1,224	1,116
Credit Union Rebates	1,246	1,092	-	940
Accrued Expenses	933	1,032	801	962
Reinsurance Accruals	9	69	-	-
GST Payable	124	139	96	115
	<b>3,610</b>	<b>3,568</b>	<b>2,121</b>	<b>3,133</b>

## 22 UNEARNED PREMIUM LIABILITY

	Group		Association	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
Opening Balance	1,928	2,038	-	-
Gross Written Premium	9,606	5,928	-	-
Premium Cancelled	(689)	(599)	-	-
Earnings Released	(8,888)	(5,439)	-	-
<b>Closing Unearned Premium Liability</b>	<b>1,957</b>	<b>1,928</b>	<b>-</b>	<b>-</b>

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 8.0% (2013: 17.0%) lower than the unearned premium provision. The conduct of the liability adequacy test identified a surplus at the level of 75% likelihood of sufficiency (2013: 75%). Accordingly there is no need to recognise any deficiency in the unearned premium provision.

## 23 PROVISIONS

	Group		Association	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
Employee Entitlements	387	357	317	309
	<b>387</b>	<b>357</b>	<b>317</b>	<b>309</b>

## 24 LEASES

	Group		Association	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000

### Non Cancellable Operating Lease Payments

Lease liabilities are payable:

Not later than 1 year	319	235	319	220
Later than 1 year and not later than 2 years	395	824	395	824
Later than 2 years and not later than 5 years	2,463	2,049	2,463	2,049
	<b>3,177</b>	<b>3,108</b>	<b>3,177</b>	<b>3,093</b>

### 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	267	305	267	305
	<b>343</b>	<b>381</b>	<b>343</b>	<b>381</b>

Operating leases relate to the leasing of office space.



## 25 SEGMENTAL ANALYSIS

### Business Segment Analysis

For management purposes, the Group is organised into 4 (2013: 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.

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

Group	Business Services Division	Members Services Division	Credit Union Insurance Limited	Other Entities	Inter Entity Adjustments	Total
At 30 June 2014	\$000	\$000	\$000	\$000	\$000	\$000
Revenue from sales with other Segments, excluding interest	1,466	-	4	-	(1,470)	-
Revenue from external customers	14,468	989	10,256	62	(1,470)	24,305
Total Interest Income	4,534	48	265	125	(546)	4,426
<b>Total Revenue before Interest Expense</b>	<b>20,468</b>	<b>1,037</b>	<b>10,525</b>	<b>187</b>	<b>(3,486)</b>	<b>28,731</b>
Total Interest Expense	3,736	1	125	131	(322)	3,671
Net Profit/(Loss) before Tax	1,530	(122)	466	(16)	(350)	1,508
Total Assets	116,225	199	11,631	12,188	(20,608)	119,635
Total Liabilities	104,535	60	5,783	12,350	(15,071)	107,657
<b>Other Segment Items:</b>						
Acquisition of Property, Plant and Equipment	139	-	2	26	-	167
Acquisition of Intangible Assets	489	-	98	-	-	587
Depreciation Expense - Property, Plant and Equipment	178	1	10	6	-	195
Amortisation Expense - Software	293	-	151	-	-	444
Impairment (Reversals)/Expense	-	-	-	-	-	-
<b>At 30 June 2013</b>						
Revenue from sales with other Segments, excluding interest	704	-	187	-	(891)	-
Revenue from external customers	18,275	1,303	5,946	14	(891)	24,647
Total Interest Income	3,557	57	158	195	(379)	3,588
<b>Total Revenue before Interest Expense</b>	<b>22,536</b>	<b>1,360</b>	<b>6,291</b>	<b>209</b>	<b>(2,161)</b>	<b>28,235</b>
Total Interest Expense	3,041	1	92	206	(379)	2,961
Net Profit/(Loss) before Tax	1,487	(80)	499	(44)	(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
<b>Other Segment Items:</b>						
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 (Reversals)/Expense	104	-	-	(6)	(500)	(402)

### Geographical Segment Analysis

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

## 26 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 after tax and equity for the year ended 30 June 2014 would increase/decrease by \$122,370 (2013: increase/decrease by \$60,000).

If interest rates had been 100 basis points higher/lower and all other variables were held constant, NZACU's profit after tax and equity for the year ended 30 June 2014 would increase/decrease by \$97,130 (2013: increase/decrease by \$37,000).

### Interest Rate Repricing

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



////////////////////////////////////

Group	Average Interest Rate	Less than 3 months	3 months to 1 year	1-2 years	2-5 years	5+ years	Non Interest Sensitive	Group Total
At 30 June 2014	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>Assets</b>								
Cash and Cash Equivalents	3.50%	10,790	-	-	-	-	-	10,790
Accounts Receivable	-	-	-	-	-	-	3,596	3,596
Investments	4.18%	96,096	6,607	-	-	-	248	102,951
Loans Receivable	0.00%	-	-	-	-	-	69	69
Non-current Deposit	-	-	-	-	-	-	147	147
		106,886	6,607	-	-	-	4,060	117,553
<b>Liabilities</b>								
Deposits Received	3.69%	92,772	6,908	-	-	-	-	99,680
Accounts Payable	-	-	-	-	-	-	3,610	3,610
	-	92,772	6,908	-	-	-	3,610	103,290
<b>On Balance Sheet Interest Sensitivity Gap - 30 June 2014</b>		<b>14,114</b>	<b>(301)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>450</b>	<b>14,263</b>
<b>Association</b>								
<b>Assets</b>								
Cash and Cash Equivalents	3.50%	10,790	-	-	-	-	-	10,790
Accounts Receivable	-	-	-	-	-	-	1,524	1,524
Investments	3.94%	95,689	6,607	-	-	-	-	102,296
Loans Receivable	0.00%	-	-	-	-	-	69	69
Non-current Deposit	-	-	-	-	-	-	147	147
		106,479	6,607	-	-	-	1,740	114,826
<b>LIABILITIES</b>								
Deposits Received	3.67%	95,249	6,908	-	-	-	-	102,157
Accounts Payable	-	-	-	-	-	-	2,121	2,121
		95,249	6,908	-	-	-	2,121	104,278
<b>On Balance Sheet Interest Sensitivity Gap - 30 June 2014</b>		<b>11,230</b>	<b>(301)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(381)</b>	<b>10,548</b>

**Notes to the Financial Statements**

Group	Average Interest Rate	Less than 3 months	3 months to 1 year	1-2 years	2-5 years	5+ years	Non Interest Sensitive	Group Total
At 30 June 2013	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>Assets</b>								
Cash and Cash Equivalents	2.34%	8,144	-	-	-	-	-	8,144
Accounts Receivable	-	-	-	-	-	-	3,357	3,357
Investments	3.71%	84,520	17,682	-	-	-	230	102,432
Loans Receivable	-	-	-	-	-	-	477	477
Non-current Deposit	-	-	-	-	-	-	147	147
		92,664	17,682	-	-	-	4,211	114,557
<b>Liabilities</b>								
Deposits Received	3.52%	90,280	7,821	-	-	-	-	98,101
Accounts Payable	-	-	-	-	-	-	3,568	3,568
		90,280	7,821	-	-	-	3,568	101,669
<b>On Balance Sheet Interest Sensitivity Gap - 30 June 2014</b>		<b>2,384</b>	<b>9,861</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>643</b>	<b>12,888</b>
<b>Association</b>								
<b>Assets</b>								
Cash and Cash Equivalents	2.34%	8,144	-	-	-	-	-	8,144
Accounts Receivable	-	-	-	-	-	-	1,511	1,511
Investments	3.66%	85,934	17,682	-	-	-	-	103,616
Loans Receivable	-	-	-	-	-	-	477	477
Non-current Deposit	-	-	-	-	-	-	147	147
		94,078	17,682	-	-	-	2,135	113,895
<b>LIABILITIES</b>								
Deposits Received	3.48%	93,588	7,821	-	-	-	-	101,409
Accounts Payable	-	-	-	-	-	-	3,133	3,133
		93,588	7,821	-	-	-	3,133	104,542
<b>On Balance Sheet Interest Sensitivity Gap - 30 June 2014</b>		<b>490</b>	<b>9,861</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(998)</b>	<b>9,353</b>



## 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 Bank counterparties. There were no transactions outstanding (2013: Nil).

## 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 and rated for a smaller sublimit of \$5 million for A3 rated New Zealand Banks, 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 unless otherwise specifically approved by the Board of the Association. 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 30% (2013: 50%) of investments must be capable of being liquidated within five days.

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

# Notes to the Financial Statements

Group	Note	Less than 3 months	3 months to 1 year	1-2 years	2-5 years	5+ years	Group Total
2014		\$000	\$000	\$000	\$000	\$000	\$000
<b>Assets</b>							
Cash and Cash Equivalents		10,790	-	-	-	-	10,790
Accounts Receivable		3,596	-	-	-	-	3,596
Investments		91,316	11,635	-	-	-	102,951
Loans Receivable		-	69	-	-	-	69
Non-current Deposit		-	-	144	-	-	144
Future Interest Receivable		547	311	-	-	-	858
<b>Total Financial Assets</b>		<b>106,249</b>	<b>12,015</b>	<b>144</b>	<b>-</b>	<b>-</b>	<b>118,408</b>
<b>Liabilities</b>							
Deposits Received		92,772	6,908	-	-	-	99,680
Accounts Payable		3,610	-	-	-	-	3,610
Future Interest Payable		355	89	-	-	-	444
Unearned Premium Liability		820	1,137	-	-	-	1,957
Outstanding Claims Liability		2,023	-	-	-	-	2,023
<b>Total Financial Liabilities</b>		<b>99,580</b>	<b>8,134</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>107,714</b>
<b>Net Financial Assets</b>		<b>6,669</b>	<b>3,881</b>	<b>144</b>	<b>-</b>	<b>-</b>	<b>10,694</b>
Unrecognised Commitments	30	(6,324)	-	-	-	-	(6,324)
<b>Net Liquidity Gap at 30 June 2014</b>		<b>345</b>	<b>3,881</b>	<b>144</b>	<b>-</b>	<b>-</b>	<b>4,370</b>
<b>2013</b>							
<b>Assets</b>							
Cash and Cash Equivalents		8,144	-	-	-	-	8,144
Accounts Receivable		3,357	-	-	-	-	3,357
Investments		79,726	17,682	5,024	-	-	102,432
Loans Receivable		23	52	139	260	3	477
Non-current Deposit		-	-	-	144	-	144
Future Interest Receivable		334	586	210	-	-	1,130
<b>Total Financial Assets</b>		<b>91,584</b>	<b>18,320</b>	<b>5,373</b>	<b>404</b>	<b>3</b>	<b>115,684</b>
<b>Liabilities</b>							
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
<b>Total Financial Liabilities</b>		<b>96,756</b>	<b>9,340</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>106,096</b>
<b>Net Financial Assets</b>		<b>(5,172)</b>	<b>8,980</b>	<b>5,373</b>	<b>404</b>	<b>3</b>	<b>9,588</b>
Unrecognised Commitments	30	(7,036)	-	-	-	-	(7,036)
<b>Net Liquidity Gap at 30 June 2013</b>		<b>(12,208)</b>	<b>8,980</b>	<b>5,373</b>	<b>404</b>	<b>3</b>	<b>2,552</b>





Association	Note	Less than 3 months	3 months to 1 year	1-2 years	2-5 years	5+ years	Group Total
2014		\$000	\$000	\$000	\$000	\$000	\$000
<b>Assets</b>							
Cash and Cash Equivalents		10,790	-	-	-	-	10,790
Accounts Receivable		1,524	-	-	-	-	1,524
Investments		90,662	11,634	-	-	-	102,296
Loans Receivable		-	69	-	-	-	69
Non-current Deposit		-	-	144	-	-	144
Future Interest Receivable		499	311	-	-	-	810
Total Financial Assets		103,475	12,014	144	-	-	115,633
<b>Liabilities</b>							
Deposits Received		95,249	6,908	-	-	-	102,157
Accounts Payable		2,121	-	-	-	-	2,121
Future Interest Payable		355	89	-	-	-	444
Total Financial Liabilities		97,725	6,997	-	-	-	104,722
<b>Net Financial Assets</b>		5,750	5,017	144	-	-	10,911
Unrecognised Commitments	30	(6,216)	-	-	-	-	(6,216)
<b>Net Liquidity Gap at 30 June 2014</b>		<b>(466)</b>	<b>5,017</b>	<b>144</b>	<b>-</b>	<b>-</b>	<b>4,695</b>
<b>2013</b>							
<b>Assets</b>							
Cash and Cash Equivalents		8,144	-	-	-	-	8,144
Accounts Receivable		1,511	-	-	-	-	1,511
Investments		80,910	17,682	5,024	-	-	103,616
Loans Receivable		23	52	139	260	3	477
Non-current Deposit		-	-	-	144	-	144
Future Interest Receivable		334	586	210	-	-	1,130
Total Financial Assets		90,922	18,320	5,373	404	3	115,022
<b>Liabilities</b>							
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
<b>Net Financial Assets</b>		(6,158)	10,382	5,373	404	3	10,004
Unrecognised Commitments	30	(7,046)	-	-	-	-	(7,046)
<b>Net Liquidity Gap at 30 June 2013</b>		<b>(13,204)</b>	<b>10,382</b>	<b>5,373</b>	<b>404</b>	<b>3</b>	<b>2,958</b>

The Group and Association has access to financing facilities of \$7,600,000 (2013: \$7,600,000). The facilities are secured by charges over interest bearing Investments. Utilisation of credit facilities for unsettled transactions at 30 June 2014 was \$77,000 (2013: \$1,670,000). The Group expects to meet its obligations from operating cash flows and the proceeds of maturing financial assets.

### Fair Value Measurements recognised in the Statement of Financial Position

In accordance with NZ IFRS 13, the Group 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).

**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).

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.

Cash and Cash Equivalents are balances held with financial institutions at current interest rates on overnight or short term investments and approximate fair value.

Investments with Banks consist of term deposits invested at market rates applicable at the time of investment. The investments bear interest between 3.20% and 4.45%

Investment Bonds represent Investment in Subsidiaries is the amortised cost (less Provision for Impairment) of those investments as detailed in note 14.

Investment in the Joint Venture has been assessed against the comparative cost of maintaining the same infrastructure in-house and the current and expected future benefits of cost savings. The carrying value of the investment is considered to approximate the fair value on this basis.

Deposits Received are the short term liabilities of funds placed with the Association by Member credit unions on which the Association pays interest and approximate their fair values.

Financial Instruments by Category	Group		Association	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
Loans and Receivables				
Cash and Cash equivalents	10,790	8,144	10,790	8,144
Accounts Receivable	1,897	1,962	1,671	1,655
Loans Receivable	69	477	69	477
Investments	102,951	102,432	102,296	103,616
Total Loans and Receivables	115,707	113,015	114,826	113,892
<b>Total Financial Assets</b>	<b>115,707</b>	<b>113,015</b>	<b>114,826</b>	<b>113,892</b>
Other Financial Liabilities at Amortised Cost				
Deposits Received	99,680	98,101	102,157	101,409
Accounts Payable	3,099	3,072	1,708	2,709
Total Other Financial Liabilities at Amortised Cost	102,779	101,173	103,865	104,118
<b>Total Financial Liabilities</b>	<b>102,779</b>	<b>101,173</b>	<b>103,865</b>	<b>104,118</b>



## 27 INVESTMENTS IN SUBSIDIARIES

Subsidiaries controlled at 30 June:

Name	Group and Association Percentage Holding at Balance Date		Principal Activities	Balance Date
	2014	2013		
Parent Entity				
Business Services Division Trust of NZACU				
CU Securities Limited as Trustee of the CU Group	100%	100%	Corporate Trustee	30 June
Subsidiaries of CU Securities Limited				
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

All subsidiaries of the Parent and Group are incorporated in New Zealand and their place of business is Level 3 25 Teed Street, Newmarket, Auckland.

There are no significant restrictions on any of the subsidiaries.

## 28 UNCONSOLIDATED JOINT VENTURE

Name	Group and Association Percentage Holding at Balance Date		Principal Activities	Balance Date
	2014	2013		
Joint Venture				
NZ Bureau Limited	50%	50%	Computer Bureau	31 March

NZ Bureau is incorporated in New Zealand and operates from Level 3 25 Teed Street, Newmarket, Auckland.

The Group has 50% non-controlling interest in a joint venture, NZ Bureau Limited. The company operates as a computer bureau supplying the hardware and infrastructure that the Group is reliant on for all its operations. The operational risk is minimised by through the use of the server warehouse providers and full disaster recovery facilities.

The joint venture is adequately capitalised and is self funding from the services provided to the joint venture partners. The Group has no obligations or commitments to assume any financial risks independent of the joint venture partner.

The other investor in the joint venture, Finzsoft Limited, has served notice of intention to dissolve NZ Bureau. In this event both parties have agreed to distribute the assets at book value and no loss on dissolution is expected.

## 29 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 venture are disclosed in notes 27 and 28. NZACU does not hold any other equity interests.

### Transactions with Related Parties

NZACU provides funding to subsidiaries and the joint venture by way of purchasing investment bonds in CU Group Trust which in turn purchases the securities 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 2014 NZACU held investment bonds which are valued at \$5,837,000 (2013: \$5,837,000).

At 30 June 2014 interest of \$Nil (2013: \$Nil) was payable to NZACU in respect of these bonds.

NZACU provides unsecured overdraft facilities to subsidiaries and the joint venture. At 30 June 2014 overdraft facilities available to subsidiaries of \$120,000 and joint venture of \$60,000 (2013: subsidiaries \$120,000 and joint venture \$60,000). The total drawn down under these facilities at 30 June 2014 was \$113,000 to subsidiaries and \$Nil to joint venture (2013: subsidiaries \$170,000 and joint venture \$44,000). Interest was charged monthly on the outstanding balances during the year at rates of between 5.65% and 8.75% (2013: between 5.65% and 8.75%).

NZACU maintains bank accounts and short term deposit facilities for subsidiaries. All deposits are unsecured. At 30 June 2014 funds placed with NZACU by subsidiaries \$2,477,000 (2013: \$3,308,000). 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 that company being granted a full Insurance Licence by the Reserve Bank of New Zealand. The granting of a full Insurance Licence 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 charged interest and facility fees on the investment bonds and overdraft facilities of \$132,000 (2013: \$106,000) to the subsidiaries.

NZACU paid interest of \$71,000 to the subsidiaries (2013: \$74,000).

NZACU charged fees to the subsidiaries of \$1,470,000 and the joint venture of \$92,000 (2013: subsidiaries \$680,000 and joint venture \$63,000).

NZACU was charged fees by the subsidiaries of \$4,000 and the joint venture of \$935,000 (2013: subsidiaries \$211,000 and joint venture \$1,069,000).

Fixed Assets valued were purchased by NZACU from the subsidiaries at \$Nil (2013: \$1,000) and the joint venture at \$264,000 (2013: \$25,000).

Fixed Assets valued at \$13,000 (2013: \$72,000) were sold to the joint venture.

#### At the year end:

NZACU was owed \$Nil (2013: \$3,000) by the subsidiaries and by the joint venture \$93,000 (2013: \$Nil).

NZACU owed \$150,000 (2013: \$181,000) to the subsidiaries and to the joint venture \$17,000 (2013: \$10,000).

The Directors and staff of the Group may insure with CUIL.

### 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	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
Short Term Employee Benefits	1,276	1,159	1,276	1,159

There were no other payments made to Key Management Personnel.



### 30 COMMITMENTS

	Group		Association	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
Undrawn advances under credit facilities	6,166	6,666	6,173	6,685
Capital expenditure	158	370	43	361
	<b>6,324</b>	<b>7,036</b>	<b>6,216</b>	<b>7,046</b>

### 31 CONTINGENT LIABILITIES

There are no material contingent liabilities for year ended 30 June 2014 (2013: Nil).

### 32 NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of Net Profit After Tax to Net Operating Cash Flows		Group		Association	
		2014	2013	2014	2013
		\$000	\$000	\$000	\$000
<b>Profit after Tax</b>		1,508	1,270	1,408	1,407
Adjustments to reconcile operating profit to net cash flow from operating activities					
Add/(less) non cash items:					
Depreciation		195	227	179	214
Amortisation		444	344	293	203
Impairment Expense/(Recoveries)		-	502	-	(104)
(Gain)/Loss on Disposal of Property, Plant & Equipment		(10)	9	(7)	-
Unrealised Loss on Bond Investments		-	47	-	32
		629	1,129	465	345
Add/(less) movement in Working Capital:					
(Increase)/Decrease in Inventory		(24)	13	(24)	13
(Increase)/Decrease in Accounts Receivable		(242)	91	(16)	290
(Increase)/Decrease in Loans Receivable		408	646	408	622
(Increase)/Decrease in Prepayments		(22)	-	(9)	(9)
(Increase)/Decrease in Derivative Financial Assets		-	57	-	57
Increase/(Decrease) in Accounts Payable		42	80	(1,012)	(253)
Increase/(Decrease) in Unearned Premium Liability		29	(110)	-	-
Increase/(Decrease) in Provisions		30	(10)	8	8
Increase/(Decrease) in Outstanding Claims Liability		-	(632)	-	(609)
Increase/(Decrease) in Derivative Financial Liabilities		-	(56)	-	(56)
		221	79	(644)	63
<b>Add/(less) items classified as Investing Activities</b>					
Non Cash movement in Investments		35	(292)	52	(289)
<b>Add items included within Financing Activities:</b>					
Non Cash movement in Deposits Received		125	60	125	60
<b>Net Cash Flow from Operating Activities</b>		<b>2,518</b>	<b>2,246</b>	<b>1,406</b>	<b>1,586</b>

### Treatment of Deposits Received

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

### 33 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	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
<b>Current Assets</b>				
Cash	104	105	104	105
<b>NET ASSETS</b>	<b>104</b>	<b>105</b>	<b>104</b>	<b>105</b>

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

Donations, Interest and Grants received	43	8	43	8
Grants paid	(43)	(2)	(43)	(2)
<b>OPERATING SURPLUS/(LOSS)</b>	<b>-</b>	<b>6</b>	<b>-</b>	<b>6</b>

### 34 MEMBER SERVICES DIVISION OPERATING SURPLUS

	2014	2013
	\$000	\$000
New Zealand Credit Union Foundation	-	6
MSD Operations	(123)	(86)
<b>TOTAL</b>	<b>(123)</b>	<b>(80)</b>

### 35 EVENTS AFTER THE BALANCE SHEET DATE

The Directors on 28 August 2014 declared a final dividend on BCN II of \$490,954 payable on 30 September 2014.

The directors of NZ Bureau Limited have recommended to their respective shareholders that the company be dissolved.

The shareholders agreed the appropriate split of assets which are intended to be transferred at book value following dissolution. NZACU has undertaken to provide an offer of employment to each member of staff. No loss is anticipated from the dissolution.



### 36 DISCONTINUED OPERATIONS

During 2013 the Boards of the New Zealand Association of Credit Unions and the Credit Union Insurance Limited resolved to transfer the NZACU's insurance operations to NZACU'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 NZACU 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 NZACU represented a significant portion of the business of NZACU which has been disposed of or transferred during that 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.

	2014 \$000	2013 \$000
The cash flows attributed to the discontinued operations are as follows:		
Cash provided from operating activities	-	3,937
Cash applied to operating activities	-	(2,980)
Total discontinued cash flows	-	957

# 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


**Graham Clouston - Director**

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

*Other responsibilities:*

Trustee, NZACU  
Member, Audit & Risk Committee


**Malcolm Blair - Deputy Chair**

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

*Other responsibilities:*

Trustee, NZACU  
Member, Audit & Risk Committee  
(to September 2013)


**Claire Matthews - Director**

Elected to the Board in September 2013  
Director, Credit Union Insurance Limited

*Other responsibilities:*

Member, Audit & Risk Committee  
(from September 2013)


**Chris Andersen - Director**

Elected to the Board in September 2013  
Director, Credit Union Insurance Limited


**Rob Nicholls - Independent Director**

Director, Credit Union Insurance Limited

*Other responsibilities:*

Chair, NZACU Audit & Risk Committee  
Director, CU Securities Limited


**Robert Anderson - Director**

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

*Other responsibilities:*

Trustee, NZACU

**NZACU & CUIL Directors Fees – For Year Ending 2014**

	Role	Director fees
S Scott	Director Chair	\$54,000
M Blair	Director Deputy Chair	\$33,750
R Nicholls	Director A & R Chair	\$33,750
G Clouston	Director A & R Comm	\$27,000
C Matthews	Director A & R Comm	\$24,750
C Andersen	Director	\$24,750
R Anderson	Director	\$27,000
<b>TOTAL:</b>		<b>\$225,000</b>

**NZACU & CUIL Board Meetings and Audit & Risk Committee Meetings**

	S Scott	M Blair	R Nicholls	C Andersen	R Anderson	G Clouston	C Matthews	H Lynch
NZACU Board Meetings	12/12	12/12	12/12	9/11	9/12	11/12	11/11	-
CUIL Board Meetings	12/12	12/12	12/12	9/11	9/12	11/12	11/11	12/12
Audit & Risk Committee Meetings	-	1/1	6/6	-	-	6/6	5/5	-



# Member Locations

## Northland Region:

Aotearoa Credit Union  
Whangarei

NZCU Steelsands  
Marsden Point

Westforce Credit Union  
Whangarei

## Auckland Region:

Aotearoa Credit Union  
Clendon

Glen Innes

Mangere

Otahuhu

Otara

Papakura

Papatoetoe

Fisher & Paykel Credit Union

Appliances, East Tamaki

Healthcare, 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

Edgecumbe

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

## Hawkes Bay Region:

Heretaunga Building Society

Hastings

Napier Building Society

Napier

NZCU Baywide

Dannevirke

Hastings

Hastings Hospital

Napier

Taradale

Waipukurau

Wairoa

## Manawatu/ Wanganui Region:

Aotearoa Credit Union

Wanganui

NZCU Baywide

Palmerston North Palmerston North

Hospital

Wanganui

## Wellington Region:

Aotearoa Credit Union

Porirua

NZCU Baywide

Lower Hutt

Masterton

Porirua

Wainuiomata

NZ Fire Fighter's 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

Richmond

Nelson Port

## West Coast Region:

Nelson Building Society

Greymouth

Murchison

Westport

NZCU South

Greymouth

## Canterbury Region:

Christchurch Emergency Services

Credit Union

Christchurch

Nelson Building Society

Ashburton

NZCU South

Hornby

Sydenham

Timaru

## Otago Region:

NZCU South

Dunedin

Oamaru

## Southland Region:

Alliance Group Credit Union

Invercargill

NZCU South

Invercargill

Gore





## Directory

### **New Zealand Association of Credit Unions**

*Registered Office*  
Level 3, 25 Teed Street  
Newmarket, Auckland, 1023  
*Postal Address*  
PO Box 9582, Newmarket  
Auckland 1149  
New Zealand

### **How to Contact Us:**

By email: [enquiries@nzacu.org.nz](mailto:enquiries@nzacu.org.nz)  
By phone: +64 9 520 0451

### **Website**

[www.nzacu.org.nz](http://www.nzacu.org.nz)  
[www.cui.co.nz](http://www.cui.co.nz)

### **Solicitors**

Bell Gully

### **External Auditors**

PricewaterhouseCoopers

### **Internal Auditors**

Deloitte

### **Bankers**

Westpac Institutional Bank

### **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 - Manager, Product & Operational Risk  
Troy Dibble - Sales & Service Centre Manager  
Hugh Floyd - Manager Banking Services  
Steve Friis - Manager Compliance Services  
Qi Gu - Project Administrator  
Kath Harawira - Service Desk Team Leader  
Glen Hill - Accounting Manager  
John Lanyon - Credit Union Insurance Manager  
Peter Miles - Central Banking Manager  
Louisa Plumptre - Development Manager  
Nijeeya Renju - Learning and Development Manager  
Yvonne Tuionetoo - PR & Communications Manager  
Glenda Williams - Executive Assistant & Office Manager

**Anyone can join a credit union or building society!**

If you're not already a member, go to:

**[www.nzacu.org.nz](http://www.nzacu.org.nz)**