



AOTEAROA CREDIT UNION – TERM DEPOSIT INVESTMENT STATEMENT

Dated 30 June 2011

IMPORTANT INFORMATION

(The information in this section is required under the Securities Act 1978)

Investment decisions are very important. They often have long-term consequences. Read all documents carefully. Ask questions. Seek advice before committing yourself.

Choosing an Investment

When deciding whether to invest, consider carefully the answers to the following questions that can be found on the pages noted below:

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In addition to the information in this document, important information can be found in the current registered prospectus for the investment. You are entitled to a copy of that prospectus on request.

Engaging an Investment Adviser

An investment adviser must give you a written statement that contains information about the adviser and his or her ability to give advice. You are strongly encouraged to read that document and consider the information in it when deciding whether or not to engage an adviser.

Tell the adviser what the purpose of your investment is. This is important because different investments are suitable for different purposes, and carry different levels of risk.

The written statement should contain important information about the adviser, including:

- relevant experience and qualifications, and whether dispute resolution facilities are available to you; and
- what types of investments the adviser gives advice about; and
- whether the advice is limited to investments offered by 1 or more particular financial institutions; and
- information that may be relevant to the adviser's character, including certain criminal convictions, bankruptcy, any adverse findings by a court against the adviser in a professional capacity, and whether the adviser has been expelled from, or prohibited from joining, a professional body; and
- any relationships likely to give rise to a conflict of interest.

The adviser must also tell you about fees and remuneration before giving you advice about an investment. The information about fees and remuneration must include –

- the nature and level of the fees you will be charged for receiving the advice; and
- whether the adviser will or may receive a commission or other benefit from advising you.

An investment adviser commits an offence if he or she does not provide you with the information required.

WHAT SORT OF INVESTMENT IS THIS?

Description of the Securities

This Investment Statement details an offer of \$1 fully paid-up redeemable shares ("term deposits") in Aotearoa Credit Union ("Credit Union"). The term deposit cannot be allotted to you until fully paid up in cash. Term deposits rank equally with all other shares (both term shares and call shares issued by the Credit Union). The term deposit is issued with a fixed rate of return and for a fixed period. The term deposit is treated as a debt security for the purposes of the Securities Act 1978.

The offer is made to a section of the public, being:

- Those persons residing or working within the territory of the Te Tai Tokerau, Tamaki Makarau, Hauraki Waikato, Waiariki, Te Tai Hauauru or Ikaroa Rawhiti electoral districts and the main centres of the Te Tai Tonga electorate.
- A charitable entity as defined by the Charities Act 2005.
- An incorporated society registered under the Incorporated Societies Act 1908.

You must come within this section of the public in order to be eligible to subscribe for a term deposit with the Credit Union. Shareholders in the Credit Union are termed ("members").

WHO IS INVOLVED IN PROVIDING IT FOR ME?

The Credit Union

The issuer of the term deposit is the Credit Union. The Credit Union's registered office is located at Unit B/123 Ormiston Road, Botany Junction, Auckland 2016, phone (09) 250 2491, fax (09) 279 8596.

The directors of the Credit Union as at the date of this Investment Statement are Robert Alfred Anderson, Darryl Vincent Evans, Bryan David Hemi, Gail Kura Hohaia, Kristen Jane Kohere-Soutar, Diana Marie Puketapu and John Muru Walters.

The Prudential Supervisor

The Credit Union has appointed Perpetual Trust Limited ("Prudential Supervisor") to act as trustee for the purpose of the Securities Act 1978. The Credit Union and Prudential Supervisor have entered into a trust deed to record their respective rights and obligations ("Trust Deed").

The Prudential Supervisor's contact details are: Level 6, AMP Chambers, 187 Featherston St PO Box 3845, Wellington Ph: (04) 901 4400 Fax: (04) 470 9623.

The Prudential Supervisor does not guarantee the repayment of the term deposits or any returns thereon.

Activities of the Credit Union

The Credit Union is a not-for-profit financial co-operative registered as a credit union under the Friendly Societies and Credit Unions Act 1982 (Act"). The objects of the Credit Union are essentially the promotion of thrift amongst its members by the accumulation of their savings, the use and control of members' savings for their mutual benefit and the training and education of members in the wise use of money and in the management of their financial affairs.

The Credit Union's primary activity since its registration in 1990 has been to provide a co-operative savings facility for members, through the issue of shares, to form a loan fund.

Loans to Members

The Credit Union makes loans from the share capital of the Credit Union to members. The availability of loans to members is dependent upon the availability of funds to the Credit Union from the Credit Union's share capital, at any particular time.

HOW MUCH DO I PAY?

Moneys Payable by You

The only amount you will need to pay is the subscription price for the term deposit.

Minimum and Maximum Term Deposits

At the date of this Investment Statement the minimum term deposit is \$500 and the maximum term deposit is \$250,000.

Application and Payments for Term Deposits

Your initial application to subscribe for a term deposit must be made on the Credit Union's standard membership application form, which is available on request from any of the Credit Union's branch offices.

You must deliver your membership application form, payment for your term deposit and evidence of identification in person to any one of the Credit Union's branch offices.

The Credit Union will only accept your application if you meet the Credit Union's membership criteria. Further, the Credit Union reserves the right to accept or decline your application without giving any reason for its decision.

The application form also governs subsequent subscriptions for term deposits by you, once your application has been accepted.

WHAT ARE THE CHARGES?

Types of Fees and Charges

There will be a charge of \$3.00 if you redeem your term deposit by cheque prior to maturity. There is no charge if you redeem your term deposit early and credit the term deposit to an account held with the Credit Union.

If you redeem your term deposit early then the interest rate relevant to the term you have selected will be reduced by 1% of the total interest rate. For example if you select a 6 month term at 5.25% interest, this would reduce to 4.25% interest.

If you have been paid any returns on the term deposit prior to the early redemption then you may also be required to repay any overpayment of interest to the Credit Union. Alternatively the amount owing may be deducted from the term deposit amount.

Alteration of Fees and Charges

The Credit Union reserves the right, at its absolute discretion, to vary the types, conditions or rate of any fees and charges relating to term deposits payable by members from time to time. The Credit Union will provide members with notice of any variation and this notice may be by way of inclusion in the Credit Union's newsletter and the Credit Union's web site.

WHAT RETURNS WILL I GET?

Rate of Return

The rate of return on your term deposit is dependent on the length of the term you have selected and the amount placed on term deposit.

Profitability of the Credit Union

Your rate of return is also dependent on the profitability of the Credit Union. Please see the risk disclosures on page 3 for further details.

The amount of any surplus available for distribution to members (by way of return on term deposits) is subject to the Credit Union's obligation to maintain its reserves under the Act and the Trust Deed.

Term Deposit Accounts

Term deposits will earn a return at the rate specified by the Credit Union upon subscription. At the date of this Investment Statement the following rates are offered for terms of 1, 3, 6, 9, 12 and 24 months:

1 Month:	3.00% p.a.
3 Months:	4.00% p.a.
6 Months:	5.25% p.a.
9 Months:	5.00% p.a.
12 Months:	7.00% p.a.
24 Months:	8.10% p.a.

Your return is calculated on the minimum monthly balance and paid either monthly, quarterly or at the end of the term at your option. The return may be compounded to the principal or paid to another share or bank account.

Maturity

Term deposits will mature on the expiry of their invested term. While term shares are usually available to be withdrawn on maturity of the term deposit, the Rules provide that a 60-day notice period for withdrawals may be required.

You may instruct the Credit Union to automatically reinvest the term deposit when it matures. The reinvested term deposit will earn the return applicable at the time of reinvestment to the term deposit share account nominated. You will receive a notice of reinvestment.

Please contact the Credit Union for further details about reinvestment options.

Early Repayment

The policy of the Credit Union is to not make repayments prior to maturity for term deposits.

In the event of financial hardship or extraordinary circumstances, you may make written application to the Credit Union for repayment prior to maturity of any term deposits. The Credit Union may exercise its discretion to repay the term deposit in whole or in part. In such case the return payable will be subject to adjustment in accordance with the terms of the term deposit and any charges. As at the date of this Investment Statement, the usual rate of return will be reduced by 1% in the event of an early repayment.

The board of the Credit Union reserves the right to vary any or all of the matters specified above, which may affect the rate of return on your term deposit. The Credit Union will provide members with notice of any variation and this notice may be by way of inclusion in the Credit Union's newsletter.

Withholding Tax

The Credit Union will deduct resident withholding tax from the gross return payable to you, unless it receives a copy of a valid certificate of exemption.

Term Deposit Statements

The Credit Union will, on request, and not less than every 6 months during the period of membership, forward you a statement of your term deposit with the Credit Union.

WHAT ARE MY RISKS?

Risks

The principal risks of placing money on term deposit with the Credit Union are:

- **General Market Risk** - The Credit Union may be affected by the state of the New Zealand and international economies. Economic slowdowns or recessions may have a negative impact on the potential and existing memberships' saving and borrowing habits, which may have a consequential flow-on-effect on the growth and profitability of the Credit Union.

In particular, if there is an economic slowdown and a high number of members become unemployed, or otherwise unable to meet their loan repayment obligations, this may affect the profitability and solvency of the Credit Union.

- **Member Returns** - The rate of return on your term deposit is dependent on annual surpluses being earned through the ongoing profitability of the Credit Union. The rate of return on your term deposit is therefore dependent on the ability of the Board and senior management to prudently manage the Credit Union and generate an operating surplus for its members. Should the Credit Union's profitability be threatened then the Credit Union may reduce the rate of return on term deposits or even pay no return on term deposits.

The financial statements for the year ended 30 September 2010 note that the NZACU Group has incurred losses, resulting in a reduction in the net tangible assets of the Group and the net tangible assets backing for the capital notes falling

below par. The financial statements note that this has been considered as an indicator of potential impairment for the capital notes but that the recent financial performance of the Group has indicated a return to sustainable profits and that consequently, the Board has determined that there is not impairment in the carrying value of the capital notes as at 30 September 2010.

- **Competition** – You may only subscribe for term deposits if you fall within the Credit Union’s “common bond”, as set out under the heading “*What sort of investment is this?*”. As the Credit Union is competing with banks and other financial institutions operating in the national savings and loans market, restrictions on membership may affect the Credit Union’s profitability and the returns payable to you.
- **Compliance Risk** - Compliance risk is the risk of legislative or regulatory changes impacting on the Credit Union. If the Credit Union had to make changes to comply with new legislation this would be likely to increase the Credit Union’s compliance costs, which could affect the Credit Union’s profitability and the returns payable to you. In particular, the Credit Union has been impacted upon by the costs involved in complying with the Financial Advisers Act 2008 and the Financial Service Providers (Registration and Dispute Resolution) Act 2008.

In addition, the Credit Union will be impacted upon by proposed amendments to the Act contained in the Regulatory Reform Bill (number 269-1). These amendments will likely require Rule and Trust Deed amendments. They include, removing the maximum limit on members’ shareholdings, removing the requirement that credit unions only accept deposits by way of subscription for shares, removing the limitations on the amount and the term of the loans credit unions make to their members and removing the requirement to maintain a general reserve. The Bill has been referred to the Commerce Select Committee, which is due to report to Parliament on 15 August 2011.

- **Government Policy Risk** - Policies and decisions of the Government and other local or national regulatory bodies may also impact on the Credit Union’s potential and existing membership or saving and borrowing habits with a consequential flow-on-effect on the growth and profitability of the Credit Union.

A significant number of the Credit Union’s members receive Government benefits. There is a risk that, if the Government decided to substantially reduce the level of benefit payments, some members may be unable to meet their loan repayment obligations to the Credit Union.

- **Credit Risk** – Credit risk is the risk of members not repaying their loans or making interest payments on the due date.

The Credit Union has a credit policy which is used to manage its exposure to credit risk. Such security includes chattels, motor vehicles and members’ deposits. As part of this policy, credit evaluations are made on members who wish to borrow money and limits on exposures are set. Lending is subject to defined criteria and is monitored and controlled by prudent credit measures.

The Credit Union takes security over assets to secure most of the loans it makes. Over 50% of loans are secured solely by members’ share accounts. If a member fails to repay a loan on the due date and the value of the secured asset is insufficient to cover the outstanding payments, or if the loan is unsecured, the Credit Union may make a loss on that loan. This may adversely affect the Credit Union’s profitability.

As at 31 December 2010 the Credit Union had \$1,340,000 invested through the NZACU’s central banking deposit scheme and \$352,688 of capital notes issued by the NZACU. These investments are permitted under the Trust Deed as investments in a “Prime Debtor”. There are no security or trust arrangements governing such deposits. Accordingly,

there is a concentration of credit risk with respect to investments by the Credit Union in the NZACU.

The Credit Union has had an increase in the amount of impaired advances and has increased the provisioning for impairment from the financial year ended 30 September 2009 to 30 September 2010. The total amount of impaired advances increased from \$112,796 as at 30 September 2009 to \$1,235,265 as at 30 September 2010. The provisioning for impairment increased from \$68,797 as at 30 September 2009 to \$290,655 as at 30 September 2010. The amount of impaired advances has further increased to \$2,084,337 in the period from 30 September 2010 to 28 February 2011. The provisioning for impairment has increased to \$467,152 during this same period. The increase in the provisioning for impairment relates to the Whangarei Venture (see below).

In February 2010, the Credit Union entered into a new business venture in Whangarei, whereby loans are provided to customers of a local Whangarei department store, provided those customers first become members of the Credit Union. The Credit Union has appointed Profile Finance Limited (“PFL”) to manage these loans. Loans made under this venture are advanced through a joint bank account operated by either the Credit Union or PFL. As this account is not under the sole control of the Credit Union there is a potential credit risk on PFL in connection with funds in the account.

While Profile Finance guarantees repayment of the loans to the Credit Union, should the member default, the Credit Union makes no representations about the creditworthiness of the guarantor nor any recoverability under the guarantee.

Further details in relation to this venture are set out in the Credit Union’s current registered prospectus.

- **Trust Deed Breaches** - Directors Certificates - Clause 8.1(da) of the Trust Deed requires the Credit Union to provide a directors’ certificate to the Prudential Supervisor within seven days of the end of each month confirming that the Credit Union is in compliance with the ratios set out in clauses 7.2(a), 7.2(d) and 7.2(f) of the Trust Deed.

The requirement to provide this certificate was added to the Trust Deed by way of a deed of amendment dated 30 November 2010. While the Credit Union did not initially provide the Prudential Supervisor with such certificates, all required certificates, as at the date of this Investment Statement, have been received by the Prudential Supervisor. On 23 June 2011 the Prudential Supervisor noted the late receipt.

Liabilities Ratio - Under Clause 7.1(e)(ii) of the Trust Deed the Credit Union covenants not to permit its creditor liabilities to exceed 10% of its total liabilities.

While the Credit Union breached this Clause in March 2011 (as its creditor liabilities were 10.15% of its total liabilities) that breach was subsequently righted.

On 23 June 2011, the Prudential Supervisor noted the breach, and also noted that no further action was required.

- **Credit Rating Exemption** - The Reserve Bank of New Zealand Act 1989 requires every deposit taker, including credit unions, is required to have a current rating of its creditworthiness given by an approved rating agency (unless otherwise exempted).

The Credit Union is not required to obtain a credit rating as it operates under the exemption contained in the Deposit Takers (Credit Ratings Minimum Threshold) Exemption Notice 2009. The creditworthiness of the Credit Union is, therefore, not rated by an approved rating agency under the above Act. The Exemption Notice applies to the Credit Union because it has liabilities of less than \$20 million and it would be unduly onerous and burdensome for the Credit Union to comply with the requirements to have a credit rating.

The exemption is conditional on the Credit Union providing to the Reserve Bank, annually prior to March in each year, a statement from the directors of the Credit Union that the Credit Union meets the requirements of the exemption and that it will be operating on the basis of the exemption for that forthcoming year. Figures supporting the directors' statement must be attached to the statement.

- **Liquidity Risk** - Liquidity risk is the risk of not having sufficient cash to meet obligations to members. This risk requires the Credit Union to manage the maturity of loans and balance this with the repayment of members' shares. It does this by making loans to members repayable on demand. The Credit Union also has the right to require a sixty-day notice period for the repayment of members' shares held at call.
- **Insolvency** - The main risk to members in investing in shares is that the Credit Union fails to remain solvent, that is, its assets cease to exceed its liabilities or it is unable to meet its debts as they fall due. The Credit Union could become insolvent and be wound up where a significant amount of the loans due for repayment remain unpaid for an extended period of time, or where as a result of the risks stated above or otherwise, the Credit Union is for any reason unable to pay its debts as they fall due.

Consequences of Insolvency - Should the Credit Union become insolvent:

- You will not be required to pay any additional moneys other than that already owing to the Credit Union;
- The Credit Union is legally obliged to reject all requests for withdrawals from your share accounts, and will not be entitled to make any further loans; and
- Your claim will rank equally with all other members' claims (including those who invest under a later prospectus).
- Some specific claims will rank ahead of member's claims, for example, employees' unpaid wages, insolvency costs and Prudential Supervisor's fees.
- You will not be entitled to participate in any residual surplus of the Credit Union upon winding up.

Ranking of Security

At the date of this Investment Statement, there are no claims that rank in priority to or equally with members' claims, except for claims given priority by the Trust Deed or by law, for example any moneys owing to the Prudential Supervisor and any unpaid wages and taxation.

The repayment of moneys owing on members' term deposits are secured by a first ranking security interest over the whole of the Credit Union's property and business. This security has been granted in favour of the Prudential Supervisor, which has registered a financing statement under the Personal Property Securities Act 1999.

Other Security

With the prior consent of the Prudential Supervisor the Credit Union may grant a security interest over or affecting all or any part of its assets, which may rank in priority to or equally with members claims. No such interests exist at the date of this Investment Statement.

CAN THE INVESTMENT BE ALTERED?

Alteration by You

You may alter the amount or the term of your term deposit, subject always to the relevant terms and conditions. You may be required to pay account charges when altering your investment. See the section headed "What are the Charges" on page 2 for further information.

Alteration by the Credit Union

The Credit Union reserves the right, at its absolute discretion, to vary the terms, conditions, timing of payments, rate of return or fees and charges of any term deposit from time to time. Any alteration of the rate of return will not apply to existing term deposits. The Credit Union will provide members with notice of

any variation and this notice may be by way of inclusion in the Credit Union's newsletter.

Trust Deed

The terms or conditions of any term deposit may also be altered by a change to the Trust Deed. Any change to the Trust Deed must be agreed upon by the Credit Union and Prudential Supervisor.

In the event that the Credit Union breaches its obligations under the Trust Deed, the Prudential Supervisor may exercise its rights of enforcement, which include, but are not limited to, giving directions, appointing a receiver or requiring the immediate repayment of all moneys (including members' subscriptions) secured under the equitable assignment by way of security.

HOW DO I CASH IN MY INVESTMENT?

Payment on Maturity

You may withdraw funds from the Credit Union upon the maturity of your term deposit. On maturity, funds representing your term deposit will be paid to you as funds become available but only after deducting all amounts due from you to the Credit Union.

Termination of Non-Qualifying Member's Membership

Should you cease to meet the membership criteria of the Credit Union, you will be deemed to be a non-qualifying member. The number of non-qualifying members must not exceed 10% of the total membership of the Credit Union. In such event the board of the Credit Union will terminate the membership of as many non-qualifying members as is necessary to reduce the number to 10% of the total membership.

If your membership is terminated in this manner, you may be repaid your term deposit plus any returns owed, in accordance with the terms outlined under the heading "Cessation of Membership".

Expulsion of Member

You may be expelled from membership by a two-thirds majority vote of members present at a special general meeting called for that purpose. In such event, you will be repaid your term deposit plus any returns owed.

Right to Sell Securities

Term deposits in the Credit Union are generally non-transferable. However, you may nominate someone to receive your shareholding upon your death up to a maximum of \$2,000. Any such nomination must be in writing, signed by you and delivered or sent to the registered office of the Credit Union.

WHO DO I CONTACT WITH ENQUIRIES ABOUT MY INVESTMENT?

All staff and management of the Credit Union can assist with any questions about subscribing for a term deposit with the Credit Union. The management of the Credit Union can be contacted at the Credit Union's registered office.

IS THERE ANYONE TO WHOM I CAN COMPLAIN IF I HAVE PROBLEMS WITH MY INVESTMENT?

Any complaint about an investment should, in the first instance, be made to the manager or chief executive officer of the Credit Union, and if you still have problems the Board.

If after discussing any concerns with the above persons, you are still not satisfied, you may contact either the Prudential Supervisor, Perpetual Trust Limited as referred to under "The Prudential Supervisor" on page 1; or the Registrar of Friendly Societies and Credit Unions.

The Registrar's contact details are: Companies Office, Level 18, ASB Centre, 135 Albert Street, Private Bag 92061, Auckland 1141 Phone 0508 266726 Fax (09) 912 7787

As a financial service provider registered under the Financial Service Providers (Registration and Dispute Resolution) Act 2008, the Credit Union is a member of an approved dispute resolution scheme. The scheme is operated by Financial Services Complaints Limited ("FSCL").

FSCL's contact details are: PO Box 5967, Lambton Quay, Wellington 6145, Phone: 0800 347257 or (04) 472FSCL (472 3725), Fax (04) 472 3727, Website: www.fscl.org.nz, Email: info@fscl.org.nz.

There is no ombudsman to whom complaints can be made.

WHAT OTHER INFORMATION CAN I OBTAIN ABOUT THIS INVESTMENT?

Credit Union

You can obtain further information about the term deposits detailed in this Investment Statement from the Credit Union free of charge by requesting a copy of the Credit Union's rules, current registered prospectus, Trust Deed, and the Credit Union's most recent audited financial statements. The documents can be requested from any of the Credit Union's offices and can be inspected during office hours and are also available on the Credit Union's web site.

Companies Office

You can view the above documents, along with any material contracts listed in the prospectus, for free on the Companies Office website www.business.govt.nz/companies under "search other registers". Copies may also be obtained by telephoning the Companies Office on the number above (a fee may apply).