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AOTEAROA CREDIT UNION

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2011

AOTEAROA CREDIT UNION
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FOR THE YEAR ENDED 30 SEPTEMBER 2011

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AOTEAROA CREDIT UNION
DIRECTORY
FOR THE YEAR ENDED 30 SEPTEMBER 2011

Nature of Business		Providing financial services to members.
Registered Office		Unit B,123 Ormiston Road, Botany Junction, Manukau.
Board of Directors	Chairman	John Walters
	Treasurer	Diana Puketapu
	Secretary	Gail Hohaia
	Directors	Bryan Hemi
		Bob Anderson
		Kirsten Kohere- Soutar
		Darryl Evans
Trustees		Bob Anderson Bryan Hemi
Manager		Bruce Bleakley
Auditors		Staples Rodway P O Box 3899 Auckland
Bankers		NZACU Central Banking Facility Level 3, 25 Teed Street Newmarket Auckland,1023
		Westpac Institutional Bank PO Box 691 Wellington NZ
		ANZ Banking Group (NZ) Ltd PO Box 1492 Wellington
Solicitors		Burke Melrose Level 7 52 Swanson St PO Box 5142 Auckland
Affiliations		New Zealand Association of Credit Unions Credit Union Institute of New Zealand
Prudential Supervisor		Perpetual Trust Limited Level 6, AMP Chambers 187 Featherston Street Wellington 6140

AOTEAROA CREDIT UNION

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 SEPTEMBER 2011

	Note	2011	2010
		\$	\$
Interest Revenue	2	1,755,574	1,486,695
Dividend Revenue	2	19,640	20,421
Other Revenue	2	5,267,009	4,750,882
		7,042,223	6,257,998
TOTAL REVENUE			
EXPENDITURE			
Finance Costs	2 & 3	327,113	278,516
Loan Impairment Expenses	2	550,899	313,013
Employee Benefits	2	2,099,365	1,824,868
Occupancy	2	695,221	692,952
Depreciation	2	359,483	364,477
Advertising	2	208,899	170,948
Printing & Stationery	2	164,538	190,498
Advisory Costs-Consultant	2	90,062	200,599
Telephone Expenses	2	87,041	128,029
Other Expenditure	2	2,145,790	1,982,421
		6,728,411	6,146,321
TOTAL EXPENDITURE			
Profit for the Year		313,812	111,677
Total Comprehensive Income for the Year		313,812	111,677

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 SEPTEMBER 2011

	Retained Earnings \$	General Reserves \$	Total Reserves \$
Balance at 1 October 2009	2,157,107	809,364	2,966,471
Profit/Total Comprehensive income for the year	111,677		111,677
Other Comprehensive Income	-	-	-
Balance at 30 September 2010	2,268,784	809,364	3,078,148
Balance at 1 October 2010	2,268,784	809,364	3,078,148
Profit/Total Comprehensive income for the year	313,812	-	313,812
Other Comprehensive Income	-	-	-
Transfers to and from General Reserve	(65,636)	65,636	-
Balance at 30 September 2011	2,516,960	875,000	3,391,960

The attached notes to the financial statements form part of and should be read in conjunction with the financial statements.

AOTEAROA CREDIT UNION

STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2011

	Note	2011 \$	2010 \$
MEMBERS' FUNDS			
Retained Earnings	4	2,516,960	2,268,784
Other Reserves	4	875,000	809,364
TOTAL MEMBERS FUNDS		3,391,960	3,078,148
ASSETS			
Cash and Cash Equivalents	5	1,170,791	834,607
Short Term Deposits	5	3,640,000	2,740,000
Trade and Other Receivables	6	228,711	170,250
Loans to Members	7 & 8	11,051,363	10,012,632
Property, Plant and Equipment	9	816,758	918,394
Capital Notes	10	352,688	352,688
TOTAL ASSETS		17,260,311	15,028,571
LIABILITIES			
Trade and Other Payables	11	1,166,067	1,159,333
Members' Deposits	12	12,702,284	10,791,090
TOTAL LIABILITIES		13,868,351	11,950,423
NET ASSETS		3,391,960	3,078,148

These Financial Statements are authorised for issue by:

Director

Date

Director

Date

The attached notes to the financial statements form part of and should be read in conjunction with the financial statements.

AOTEAROA CREDIT UNION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 SEPTEMBER 2011

	Note	2011 \$	2010 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest Received		1,769,099	1,487,965
Fees and Commissions Received		5,174,265	4,729,525
Bad Loans Recovered		14,156	18,706
Other Income		40,191	41,085
Net Proceeds from Member Deposits		1,911,194	(440,388)
Net Loans to Members		(1,589,629)	(1,683,902)
Interest Paid		(310,978)	(268,338)
Payments to Suppliers and Employees		(5,541,178)	(5,047,720)
Net Cash (Used in)/Provided by Operating Activities		<u>1,467,120</u>	<u>(1,163,067)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Property, Plant and Equipment		(257,847)	(481,853)
Net Movement in Short Term Investments		(900,000)	1,170,000
Net Cash Provided by/(used in) Investing Activities		<u>(1,157,847)</u>	<u>688,147</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Net Hire Purchase Principal Funding / (Repayments)		26,911	27,526
Net Cash Provided by/(used in) Financing Activities		<u>26,911</u>	<u>27,526</u>
Total Net (Decrease) / Increase in Cash Held		336,184	(447,394)
Cash and Cash Equivalents at the Beginning of the Period		834,607	1,282,001
Cash and Cash Equivalents at the End of the Period		<u>1,170,791</u>	<u>834,607</u>

RECONCILIATION OF CASH FLOW FROM OPERATING ACTIVITIES WITH OPERATING PROFIT

	Note	2011 \$	2010 \$
Profit for the year		313,812	111,677
Non Cash Items			
Depreciation		359,483	364,477
Bad Debts		123,891	91,155
Provision for Loan Impairment		427,008	221,858
Changes in Assets and Liabilities			
Movements in Accounts Receivables		(58,462)	26,812
Movements in Member Deposits		1,911,194	(440,388)
Movements in Loans to Members		(1,589,629)	(1,683,902)
Movements in Accounts Payable		6,734	172,770
Included in Financing Activities-As described above			
Hire purchase principal payments		(26,911)	(27,526)
Net Cash Provided by /(used in) Operating Activities		<u>1,467,120</u>	<u>(1,163,067)</u>

The attached notes to the financial statements form part of and should be read in conjunction with the financial statements.

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2011

Reporting Entity

The Aotearoa Credit Union ("The Credit Union") is a public-benefit entity registered and domiciled in New Zealand under the Friendly Societies and Credit Unions Act 1982. The Credit Union is an issuer for the purposes of the Financial Reporting Act 1993. The financial report is a general purpose financial report which has been prepared in accordance with the Financial Reporting Act 1993, the Friendly Societies and Credit Unions Act 1982 and relevant Securities Regulations.

These financial statements have also been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards, as appropriate for public benefit entities. The financial statements also comply with International Financial Reporting Standards ("IFRS"). The presentation currency is New Zealand Dollars. Figures are rounded to the nearest dollar.

The financial statements have been approved for issue by the Board of Directors on 21 December 2011.

Nature of Business

The purpose of a Credit Union is to promote savings among its members and to use those savings for their mutual benefit.

The Credit Union is restricted in its borrowings and members contribute to the Credit Union by way of share subscriptions. The shares cannot be transferred or sold. Members are able to withdraw their funds subject to certain conditions. The Credit Union makes loans to members or invests funds on the members' behalf. Interest and other income are received by the Credit Union and interest is paid to depositing members in the form of interest on shares.

The Credit Union operates predominantly in one industry, being the investment of members' funds. All operations are based in New Zealand.

Trust Deed

To meet the requirements of The Securities Act 1978 a Trust Deed was entered into on the 18 October 2001 between the Trustees of the Credit Union and Perpetual Trust Ltd. Perpetual Trust Ltd as the Prudential Supervisor was appointed to act in the interests of the members of the Credit Union by monitoring the compliance by the Credit Union of its obligations, its Rules, the Trust Deed and the Friendly Societies and Credit Unions Act 1982. In addition, the Prudential Supervisor is under duty to exercise reasonable diligence to ascertain whether the Credit Union has;

- a) committed any breach of the Trust Deed or any of the conditions of issue of the shares; and
- b) sufficient assets to meet its obligations to members as they fall due.

Clause 8.1 (d. a) 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 ratio's 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 2011. The Credit Union did not provide the Prudential Supervisor with the certificates for the period from 30th November 2010 to 1st June 2011 and was therefore in breach of the Trust Deed.

On the 23rd June 2011, the Prudential Supervisor noted the late and non-receipt of the monthly certificates and also noted that the outstanding certificates had, at that date, been received.

1. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the material accounting policies adopted by the Credit Union in the preparation of the financial report. Except where stated, the accounting policies have been consistently applied.

a) Measurement Base

These financial statements have been prepared on a going concern basis in accordance with the historic cost convention, as modified by the revaluation of certain assets and liabilities as identified in specific accounting policies below.

b) Members' Shares (Deposits)

Members' shares in the Credit Union have characteristics of both debt and equity instruments. For the purposes of financial reporting, members' shares are recorded as debt instruments. All payments of dividends on these shares are recorded as interest payments.

Members have the right to one vote at the meetings of the Credit Union, regardless of how many shares they hold in the Credit Union.

c) Financial Instruments Recognition

Financial instruments are initially measured at fair value plus transaction costs. Subsequent to initial recognition these instruments are measured as set out below.

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2011

1. SIGNIFICANT ACCOUNTING POLICIES CONT...

c) Financial Instruments Recognition cont/-

Basis of recognition and measurement

The Credit Union classifies financial instruments into one of the following categories at initial recognition: financial assets or liabilities at fair value through profit or loss, available for sale, loans and receivables, held to maturity, and financial liabilities measured at amortised cost.

Some of these categories require measurement at fair value. Where available, quoted market prices are used as a measure of fair value. Where quoted market prices do not exist, fair values are estimated using present value or other market accepted valuation techniques, using methods and assumptions that are based on market conditions and risks existing as at balance date.

A financial instrument is recognised if the Credit Union becomes a party to the contractual provisions of the instrument. Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Credit Union neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, Credit Union recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Credit Union retains substantially all the risks and rewards of ownership of a transferred financial asset, Credit Union continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received. Financial liabilities are derecognised if the Credit Union's obligations specified in the contract expire or are discharged or cancelled. Subsequent to initial recognition these instruments are measured as set out below.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method less any impairment provision.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash, bank balances, call deposits and deposits with less than 3 months maturity. Bank overdrafts that are repayable on demand and form an integral part of the Credit Union's cash management are included as a component of cash and cash equivalents for the purposes of the statement of cash flows.

Receivables Due from other Financial Institutions

Receivables from other financial institutions are primarily settlement account balances due from banks, New Zealand Association of Credit Unions (NZACU) and other credit unions. They are brought to account at the gross value of the outstanding balance. Interest is brought to account in the Statement of Comprehensive Income using the effective interest rate method less any impairment provision.

Trade and Other Receivables

Trade and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Trade and other receivables are measured at amortised cost less impairment (if any).

Held-to-maturity Investments

Held to maturity investments are non-derivative financial instruments with a fixed maturity where the Credit Union has the ability and intention to hold these investments to maturity. The Credit Union has no available held-to-maturity investments.

Available for Sale Financial Assets

Capital Notes held as available-for-sale assets are initially recognised at cost price, which is their fair value at the date of acquisition.

Dividend income from available-for-sale assets is separately recognised in the Statement of Comprehensive Income as part of other income when the Credit Union's right to receive payments is established (ex-dividend date)

Available for sale financial assets are normally carried at fair value in subsequent periods with changes in fair value being recognised in the Statement of Comprehensive Income as part of other comprehensive income. However, as the Capital Notes are equity instruments, do not have a quoted market price in an active market and the fair value cannot be measured reliably, they are measured at cost price in terms of the accounting standard NZ IAS 39. Note that this concession is likely to be removed in future, with a requirement to record at fair value.

The Credit Union assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of Capital Notes classified as available-for-sale, a significant or prolonged decline in the fair value of the investment below its cost is considered in determining whether the investment is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value is recognised and removed from equity and recognised in profit or loss.

d) Financial Liabilities

Financial liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2011

1. SIGNIFICANT ACCOUNTING POLICIES CONT...

e) Revenue Recognition

Loans Interest Revenue

Loan interest is calculated on the daily loans balance outstanding and is charged at each payment date. Loan interest is recognised in the Statement of Comprehensive Income using the effective interest rate method.

Investment Interest Revenue

Investment interest revenue is recognised on a time-proportion basis using the effective interest rate method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is a rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Dividend Revenue

Dividend income is recognised when the right to receive payment is established.

Fees & Commissions Revenue

Fees and commission are brought to account on an accrual basis once a right to receive consideration has been attained.

Loan Origination Fees Revenue

Where loan origination fees are not material these are taken to revenue when the loan is drawn down. Fees collected represent reimbursement of costs incurred as specified by the Credit Contracts and Consumer Finance Act 2003 (CCCFA). Loan application fees where material, are deferred and amortised as a component of the calculation of the effective interest rate in relation to originated loans.

f) Impairment of Financial Assets

Financial assets, other than those at fair value through profit and loss, are assessed for indicators of impairment at each balance date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investment have been impacted.

For Capital Notes classified as available-for-sale, a significant or prolonged decline in revenue received on the Capital Notes is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables and loans to members, assets that are not individually assessed for impairment, are assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include Credit Union's past experience of collecting payments, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and loans to members, where the carrying amount is reduced through the use of an allowance account. When a trade receivable or loan to members is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amounts of the allowance account are recognised in profit or loss.

If in a subsequent year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2011

1. SIGNIFICANT ACCOUNTING POLICIES CONT...

Key assumptions in determining the allowance for impairment

In the course of the preparation of the financial statements the Credit Union has determined the likely impairment loss on loans which have not maintained loan repayments in accordance with the loan contract, or where there is other evidence of potential impairment such as industrial restructuring, job losses or economic circumstances.

In identifying the impairment likely from these events the Credit Union has estimated the potential impairment using the length of time the loan is in arrears. Impairment losses may differ from these estimates.

The various components of impaired assets are as follows:

- "Individually Impaired Loans" are loans and advances for which there is reasonable doubt that the Credit Union will be able to collect all amounts of principal and interest in accordance with the terms of the agreement and for which an individual assessment of impairment is made.
- "Collectively Impaired Loans" are loans and advances that are not individually assessed for which a collective assessment of impairment is made. Individually assessed loans that are found not to be impaired are also included as part of the collective assessment.
- "Restructured Loans" are impaired loans where the original contractual terms have been modified to provide for concessions of interest, principal or repayment for reasons related to financial difficulties of the member.
- "Financial assets acquired through the enforcement of security" are assets acquired in full or partial settlement of a loan or similar facility through the enforcement of security arrangements.
- "Past-due Loans" are loans where the repayments are past due between 1 and 30 days and no allowance for impairment has been made against them. Loans that are past due over 30 days are included under "Individually Impaired Loans" or "Collectively Impaired Loans".

g) Goods & Services Tax

The Credit Union is not registered for GST. GST is therefore included in the amounts recognised as expenses, assets and liabilities.

h) Income Tax

No amounts have been provided for Income Tax as the Credit Union's income from members is exempt under section CW 44 of the Income Tax Act 2007. Income derived other than from members does not produce a taxable profit.

i) Property, Plant and Equipment (PP&E)

Each class of plant and equipment is carried at cost less, where applicable, adjustments for any accumulated depreciation and impairment losses.

Plant and Equipment

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

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 (i.e. if the asset is impaired).

Depreciation

The depreciable amount of all plant and equipment is depreciated over their useful lives to the Credit Union commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired term of the lease or the estimated useful life of the improvements.

Plant and Equipment is depreciated on a straight-line basis. A summary of the rates used are:

- | | |
|----------------------------|---------|
| • Computer Equipment | 3 years |
| • Plant & Equipment | 3 years |
| • Leasehold Improvements | 3 years |
| • Leased Plant & Equipment | 3 years |

Assets under \$500 are not capitalised.

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance date. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in profit or loss.

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2011

1. SIGNIFICANT ACCOUNTING POLICIES CONT...

j) Impairment of Non-Financial Assets cont/-

At each reporting date, the Credit Union reviews the carrying values of its tangible and intangible assets to determine whether those assets have been impaired. If impaired, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the assets carrying value. Any excess of the assets carrying value over its recoverable amount is expensed to the Statement of Comprehensive Income.

k) Leases

Leases of property, plant and equipment, where substantially all the risks and benefits incidental to ownership of the asset, but not the legal ownership, are transferred to the Credit Union are classified as finance leases.

Finance leases are capitalised recording an asset and a liability being the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual value. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over their estimated useful lives.

Leased payments for operating leases net of any incentives received from the lessor, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

l) Members' Deposits

Members' term deposits are brought to account at cost. Interest on deposits is brought to account on an accrual basis, interest accrued at balance date is shown as a part of other payables.

m) Employee Benefits

Provision is made for the liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made.

n) Statement of Cash Flows

The Statement of Cash Flows is prepared using the direct approach.

Definitions of Terms Used in the Statement of Cash Flows:

"Cash & Cash Equivalents" includes coins and notes, demand deposits and other highly liquid investments readily convertible into cash and includes at call borrowings such as bank overdrafts, used by the organisation as part of their day-to-day cash management.

"Investing Activities" are those activities relating to the acquisition and disposal of current and non-current investments and any other non-current assets.

"Financing Activities" are those activities relating to changes in size and composition of the capital structure of the Credit Union.

"Operating Activities" include all transactions and other events that are not investing or financing activities.

Certain cash flows have been netted in order to provide more meaningful disclosure, as many of the cash flows are received and disbursed on behalf of members and reflect the activities of members than the Credit Union.

o) Accounting Judgements, Estimates & Assumptions

The preparation of the financial statements requires the use of management judgements, estimates and assumptions that affect reported amounts and the application of policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revision to accounting estimates are recognised in the year in which the estimates are revised and in any future years affected.

Management have made judgements when applying the Credit Union's accounting policies with respect to the classification of financial instruments.

The details of the critical accounting estimates and assumptions are set out in note 8 for the impairment provisions for loans.

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2011

1. SIGNIFICANT ACCOUNTING POLICIES CONT...

p) Standards, Interpretations and Amendments to Published Standards that are not yet effective

Various new and amended standards, amendments and interpretations have been issued by the Accounting Standards Review Board but have not been adopted by the Credit Union as they are not yet effective for the period ended 30 September 2011.

These are:

NZ IAS 24: Related Party Disclosures (revised 2009) (effective for periods beginning 1 January 2011)

The amendment to the standard affected primarily the definition of a related party. Whilst the change to that definition is significant, application of the amended criteria would not have resulted in identification of any further parties related to the Credit Union. Also, the amended disclosure requirements include commitments. The existing process of identification of related party transactions within the Credit Union has not included a review of commitments. The frequency of such transactions occurring is likely to be low. All the other disclosures required in the amended standard are already being made by the Credit Union.

NZ IFRS 9: Financial Instruments Phase 1: Classification and Measurement (effective for periods beginning after 1 January 2013)

The new standard simplifies the classification criteria for financial assets, comparing to the current requirements of IAS 39, which results in a reduced number of categories of financial assets and some consequential amendments to disclosures required by IAS 1 Presentation of Financial Statements and IFRS 7 Financial Instruments: Disclosures. The Credit Union's financial assets currently fall into the category of Loan receivables within IAS 39 classification. If IFRS 9 was adopted, these assets would have met the definition of the category of Financial assets measured at amortised cost. However, their measurement and disclosure would not have been affected. The group would not have any transactions to disclose under the new IAS 1 and IFRS 7 disclosure requirements relating to gain or loss arising on derecognition of financial assets measured at amortised cost.

It is not expected that any of the above standards and interpretations will have a significant impact on the accounting policies or the recognition and measurement of assets, liabilities, equity, income and expenses of the Credit Union. All relevant standards and interpretations will be adopted by the Credit Union on their effective dates.

A number of other new standards and amendments and interpretation to existing standards are not yet effective for the year ended 30 September 2011 and have not been applied by the Credit Union in preparing these financial statements. The other standards and interpretations in issue not yet adopted are not expected to have an impact on the Credit Union's financial statements.

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2011

2. REVENUE AND EXPENDITURE

	Note	2011 \$	2010 \$
REVENUE			
Interest Revenue			
Interest on Loans		1,646,297	1,377,570
Interest on Investments		109,277	109,125
Total Interest Revenue		1,755,574	1,486,695
Other Revenue			
Revenue from Rendering of Services			
Loan Application Fees		1,471,982	1,417,942
Commissions		46,681	48,108
Total Revenue from Rendering of Services		1,518,663	1,466,050
Other Revenue			
Transaction Fees		3,713,639	3,225,041
Bad Debts Recovered		14,156	18,706
Dividends		-	2,650
Dividends External			
Dividend Revenue		19,640	20,421
NZACU Stabilisation Fund Payout		20,551	38,435
Total Other Revenue		3,767,986	3,305,253
TOTAL REVENUE		7,042,223	6,257,998
EXPENDITURE			
Finance Costs			
Interest on Members Call Shares		193,919	189,936
Interest on Members Term Shares		119,124	77,432
Hire Purchase Interest		14,070	11,148
Total Finance Costs		327,113	278,516
Loan Impairment Expenses			
Bad Debts Written Off		123,891	91,155
Movement in allowance for impaired loans		427,008	221,858
Total Loan Impairment Expenses		550,899	313,013

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2011

2. REVENUE AND EXPENDITURE CONT ...

	Note	2011 \$	2010 \$
Employee Benefits			
Salaries & Wages		2,091,401	1,813,395
ACC Levies		7,964	11,473
Total Employee Benefits		2,099,365	1,824,868
Occupancy			
Rent & Rates		526,804	498,724
Security		32,805	62,238
Other Occupancy Expenses		135,612	131,990
Total Occupancy		695,221	692,952
Depreciation Expenditure			
Leasehold Improvements		179,105	120,725
Plant and Equipment		97,824	175,122
Computer Equipment		33,053	43,792
Leased Plant and Equipment		49,501	24,838
Total Depreciation Expenditure		359,483	364,477
Other Expenditure			
Auditors Remuneration			
Audit of Financial Statements - Staples Rodway		32,088	30,500
Audit Related Services - Staples Rodway		18,724	11,500
Internal audit:			
Internal Audit - Grant Thornton NZ Audit Partnership		12,699	5,600
Data Processing		369,767	310,256
Profit on Disposal of Plant & Equipment		(5,442)	
Directors Fees		110,014	112,101
Directors Expenses and Training		3,156	9,261
Donations Made/Community Support		50,304	26,457
Transactions Costs		1,050,761	1,042,956
Advertising		208,899	170,948
Printing & Stationery		164,538	190,498
Advisory Costs-Consultant		90,062	200,599
Telephone Expenses		87,041	128,029
Other Expenses		503,719	433,790
Total Other Expenditure		2,696,330	2,672,495
TOTAL EXPENDITURE		6,728,411	6,146,321

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2011

3. INTEREST PAID

Interest is paid to depositing members and relates to the Credit Union's ability to pay the interest. At times during the period the Credit Union may offer depositors special accounts that have a pre-set interest rate. All Interest is calculated monthly on the Minimum Monthly Balance (MMB) held in the account over the month. Interest rates applied to members' deposits for the period were:

		2011	2010
Savings Accounts			
Cash Account	All balances	0.00%MMB	0.00%MMB
Serious Saver Account and Children's Account	Up to \$499	2%MMB	2%MMB
	\$500 to \$999	3% MMB	3% MMB
	Over \$1,000	4% MMB	4% MMB
Loan Provider	All balances	2% MMB	2% MMB
Christmas Account	All balances	5% MMB	5% MMB
Education Account	Up to \$499	2% MMB	2% MMB
	\$500 to \$999	3% MMB	3% MMB
	Over \$1,000	6% MMB	4% MMB
Primary	All balances	2% MMB	2% MMB
Special Savings	All balances	2% MMB	2% MMB
Special Purpose	All balance	2% MMB	2% MMB
Term Shares			
		3%	3.5%
11 Term Deposit (1 month)		4%	4%
13 Term Deposit (3 months)		5.25%	5.25%
16 Term Deposit (6 months)		5%	5%
19 Term Deposit (9 months)		7%	6.5%
112 Term Deposit (12 months)		8.1%	7.89%
124 Term Deposit (24 months)			

4. RESERVES

2011	Retained Earnings	General Reserve	Total Members' Reserves
Balance brought forward	2,268,784	809,364	3,078,148
Profit for the Year	313,812	-	313,812
Other Comprehensive Income	-	-	-
Transfer to General Reserve	(65,636)	65,636	-
Balance Carried Forward	2,516,960	875,000	3,391,960
The Reserve % to Total Assets	14.58%	5.07%	19.65%
2010	Retained Earnings	General Reserve	Total Members' Reserves
Balance brought forward	2,157,107	809,364	2,966,471
Profit for the Year	111,677	-	111,677
Other Comprehensive Income	-	-	-
Balance Carried Forward	2,268,784	809,364	3,078,148
The Reserve % to Total Assets	15.09%	5.38%	20.48%

Retained Earnings

Reserves arising from retained profits accumulated from operations.

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2011

4. RESERVES CONT ...

General Reserve

A General Reserve has been established in accordance with S119 of the Friendly Societies and Credit Unions Act 1982 which requires the Credit Union to transfer 5% of gross earnings to the General Reserve until the General Reserve is the equivalent of 5% of total assets, and thereafter maintained at 5% of total assets. The reserve may not be distributed until the Credit Union is being wound up or dissolved, but may be applied for the following purposes:

- To offset losses made by the Credit Union on loans to members', and
- To such persons of such amounts in such special circumstances, as the Registrar, on application, may approve.

Total Members' Reserves

The Trust Deed requires that the total members' reserves, including retained earnings, of the Credit Union amount to at least 8% of the total assets of the Credit Union.

5. CASH, CASH EQUIVALENTS & SHORT TERM DEPOSITS

	Term	Interest Rates	2011 \$	2010 \$
Cash & Bank	On call		654,621	346,297
Credit Union ATM Cash Float	On call		516,170	488,310
TOTAL CASH & CASH EQUIVALENTS			1,170,791	834,607
Deposits at NZACU Central Banking	30 – 365 days	3.71%	2,140,000	1,740,000
Deposits at Australia & New Zealand Bank	30 – 365 days	4.60%	1,500,000	1,000,000
Balance Cash, Cash Equivalents & Term Deposits Carried Forward			4,810,791	3,574,607

The Credit Union does not hold tradeable securities. Effective interest rates are the original contracted values. Movements in market rates will not affect the recorded value of investments. The deposits with the NZ Association of Credit Union's Central Banking facility are excess funds held by the Credit Union. The NZACU minimises its exposure to credit risk by maintaining a diversified portfolio with controls over maturity, counter party and concentration of investment risks.

6. TRADE AND OTHER RECEIVABLES

	2011 \$	2010 \$
Accrued Interest	82,541	96,065
Prepayments	60,712	73,671
Other Receivables	85,458	514
	228,711	170,250

7. LOANS TO MEMBERS

Loans are made in accordance with the lending policy of the Credit Union and are repayable on demand. A provision for impairment has been made at the end of the reporting period. Bad loans are written off against the provision for impairments. All loans that have been placed with a collection agency are assessed for impairment individually and provided for in full as there is no realisable collateral held.

a) Loans to Members Comprises:

	2011 \$	2010 \$
Neither Past Due nor Impaired	9,032,242	9,031,816
Past due but not impaired	53,309	36,206
Individually assessed impaired assets (loans to members through another financial institution)	2,379,668	1,034,676
Collectively assessed impaired assets	303,808	200,589
Gross Loans	11,769,027	10,303,287
Less:		
Allowance for Impairment - Individually assessed	(535,357)	(159,207)
- Collectively assessed	(182,307)	(131,448)
Net Loans to Members	11,051,363	10,012,632

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2011

7. LOANS TO MEMBERS CONT ...

b) Credit Quality – Security Dissection

	2011	2010
	\$	\$
Secured by First Mortgage over Real Estate	1,025,012	941,197
Secured by Motor Vehicles	434,829	567,785
Secured by Members Shares	6,353,040	5,963,145
Guaranteed by Third Party (refer below)	2,379,668	1,025,469
Unsecured	1,576,478	1,805,691
Gross Loans	11,769,027	10,303,287

It is impractical to provide a valuation of the security held against loans due to the large number of assets to be valued to arrive at the amount. A breakdown of the quality of the security on a portfolio basis is as follows:

	2011	2010
	\$	\$
Security held as First Mortgage against Real Estate is on the basis of:		
- Loan to Valuation Ratio of less than 80%	591,972	502,161
- Loan to Valuation Ratio of more than 80% but Mortgage Insured	433,040	439,036
- Loan to Valuation Ratio of more than 80% but not Mortgage Insured	-	-
TOTAL	1,025,012	941,197

c) Credit Quality – Concentration of Loans

	2011	2010
	\$	\$
(i) Loans to individual or related groups of members which Exceed 10% of member funds in aggregate	1	-
(ii) Loans to members are concentrated solely in New Zealand and principally within the common bond of the Credit Union	100%	100%
(iii) Loans by member type (purpose)		
Loans to natural persons		
Residential loans and facilities	1,025,012	941,197
Personal loans and facilities	8,364,347	8,336,621
Loans to other financial institutions		
Loans Guaranteed by Third Party	2,379,668	1,025,469
TOTAL	11,769,027	10,303,287

In the 2010, the Credit Union initiated an arrangement with another financial institution whereby the financial institution introduces loans to the Credit Union, and provides a guarantee as to the performance of the introduced loans. In addition, under the arrangement, the financial institution is responsible for collecting loan payments from the members, and remitting payments to the Credit Union at an accelerated term of 2 years and an interest rate of 15%. While the individual underlying loans represent a contractual relationship with the Credit Union, the existence of the guarantee and accelerated payment terms results in the arrangement being recognised as a single exposure, as opposed to a portfolio of individual loans. At 30 September 2011, the facility has been capped at a maximum of \$2.4 million and an impairment provision of \$509,010 (2010: \$159,207) has been raised against this arrangement.

8. IMPAIRMENT OF LOANS AND ADVANCES

a) Allowance for Impairment

	2011	2010
	\$	\$
Balance at 1 October	(290,655)	(68,797)
Addition / (Reduction) in allowance	(550,900)	(313,013)
Bad Debts Written off to allowance	123,891	91,155
Balance at 30 September	(717,664)	(290,655)

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2011

8. IMPAIRMENT OF LOANS AND ADVANCES CONT ...

	2011 \$	2010 \$
b) Individually assessed impaired loans		
Balance as at the beginning of the year	1,034,676	-
Additions	1,344,992	1,034,676
Deletions	-	-
Write-offs	-	-
Balance as at the end of the year	2,379,668	1,034,676
Impairment Provision-individually assessed	(535,357)	(159,207)
Net Individually assessed impaired loans	1,844,311	875,469

	2011 \$	2010 \$
c) Collectively assessed loans		
Balance as at the beginning of the year	200,589	104,342
Additions	227,110	187,402
Deletions	-	-
Write-offs	(123,891)	(91,155)
Balance as at end of year	303,808	200,589
Impairment provision-collectively assessed	(182,307)	(131,448)
Net collectively assessed Loans	121,501	69,141
Net assessed Loans	1,965,812	944,610

d) Interest and Other Revenue recognised and foregone

There is no interest and other revenue recognised and foregone

e) Fair value of Assets Acquired

There are no assets acquired through the enforcement of security

f) Loans with Repayments Past-Due but not impaired

The total past past-due loans (which were overdue between 1 and 30 days) but not impaired as at 30 September 2011 was \$46,042 (2010 \$28,904.)

AOTEAROA CREDIT UNION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2011

9. PROPERTY, PLANT AND EQUIPMENT

a) Classes of Property, Plant & Equipment

	2011 \$	2010 \$
Leasehold Improvements		
At Cost	843,595	754,667
Accumulated Depreciation	(670,749)	(491,644)
	172,846	263,023
Plant and Equipment		
At Cost	1,161,993	1,091,001
Accumulated Depreciation	(687,370)	(589,546)
	474,623	501,455
Computer Equipment		
At Cost	402,078	357,554
Accumulated Depreciation	(315,764)	(282,711)
	86,314	74,843
Leased Plant & Equipment		
At Cost	202,567	149,164
Accumulated Depreciation	(119,592)	(70,091)
	82,975	79,073
Total Plant & Equipment	816,758	918,394

b) Movements in Carrying Amounts

Reconciliations of the carrying amounts of each class of plant and equipment between the beginning and end of the current financial year as set out below.

2011	Plant & Equipment \$	Computer Equipment \$	Leasehold Improvements \$	Leased Plant and Equipment \$	Total \$
Balance at the Beginning of the period	501,455	74,843	263,023	79,073	918,394
Additions	71,751	45,293	88,928	68,508	274,480
Disposals	(759)	(769)	-	(15,105)	(16,633)
Depreciation Expense	(97,824)	(33,053)	(179,105)	(49,501)	(359,483)
Carrying amount at the end of the financial period	474,623	86,314	172,846	82,975	816,758

2010	Plant & Equipment \$	Computer Equipment \$	Leasehold Improvements \$	Leased Plant and Equipment \$	Total \$
Balance at the Beginning of the period	430,149	58,403	258,496	53,970	801,018
Additions	264,183	65,029	125,252	49,941	504,405
Disposals	(17,755)	(4,797)	-	-	(22,552)
Depreciation Expense	(175,122)	(43,792)	(120,725)	(24,838)	(364,477)
Carrying amount at the end of the financial period	501,455	74,843	263,023	79,073	918,394

c) Impairment Losses

There was no impairment loss in respect of plant and equipment.

10. NEW ZEALAND ASSOCIATION OF CREDIT UNIONS CAPITAL NOTES

New Zealand Association of Credit Unions Capital Notes are classified as "available for sale" financial assets and are issued by the New Zealand Association of Credit Unions Business Services Division as Trust Base Capital Notes (Capital Notes). These represent monies invested with the New Zealand Association of Credit Unions Business Service Division Trust for an open-ended

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2011

10. NEW ZEALAND ASSOCIATION OF CREDIT UNIONS CAPITAL NOTES CONT...

term. The Capital Notes constitute unsecured obligations of the Business Services Division Trust and rank equally and without priority or preference among themselves. The Capital Notes rank after creditors in the event of the winding up of the Business Services Division Trust and with the consent of the Business Services Division Trust's Board of Directors. The Capital Notes may only be sold or transferred to another credit union that is a member of the Business Services Division Trust. The Capital Notes are redeemable in full, with five years notice, by NZACU. However, the Credit Union has no intention of redeeming the investments in the foreseeable future.

There is no active market for these securities which have no guaranteed rate of return.

Dividends are payable on a six monthly basis subject to the profitability of the Business Services Division Trust. Capital Notes are classified as non-current assets.

Based on the recent financial performance of the New Zealand Association of Credit Unions Group and recent issue of Capital Notes to a number of Credit Unions in the last 12 months at face value, the Directors have determined that there is no impairment in the carrying value of the Capital Notes at balance date. In addition, the directors have determined that the fair value of the Capital Notes cannot be reliably measured. As a result, the Capital Notes are carried at cost.

The Credit Union's investment in these Base Capital Notes enables NZACU to provide the Credit Union with essential services such as the core operating system, a central bank and treasury function, debit card facilities and insurance products.

	2011 \$	2010 \$
Capital Notes at Cost	352,688	352,688
	352,688	352,688

11. TRADE AND OTHER PAYABLES

	Note	2011 \$	2010 \$
Trade Payables		276,349	230,804
Accrued Interest payable		60,624	26,213
Resident Withholding Tax		-	32,346
Sundry Creditors and Accrued Expenses		95,304	129,192
Employee Entitlements		406,297	250,207
Hire Purchase	13	121,481	94,570
ACCESSCARD Settlement		206,012	396,001
Total Trade and Other Payables		1,166,067	1,159,333

12. MEMBERS' DEPOSITS

	2011 \$	2010 \$
Ordinary Shares		
Savings Accounts	2,293,885	2,211,303
Christmas Club	303,304	262,054
Loan Provider Account	6,983,712	6,939,827
Total Ordinary Shares	9,580,901	9,413,184
Term Shares		
Original Maturity Terms		
0-3 Months	527,404	678,094
6 Months	202,051	291,619
9 Months	552,099	75,829
12 Months	533,612	247,919
Greater than 12 Months	1,306,217	84,445
Total Term Shares	3,121,383	1,377,906
Total Members' Deposits	12,702,284	10,791,090

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2011

13. COMMITMENTS

a) Future Capital Commitments

The Credit Union has not entered into any contracts for the purchase of Property, Plant & Equipment not recognised as a liability (2010: NIL).

b) Finance Lease Commitments

	Minimum future lease payments		Present Value of minimum lease payments	
	2011	2010	2011	2010
Financial Leases Due				
Within a Year	42,413	31,163	22,609	21,246
Between one and two years	39,152	40,224	32,573	33,334
Between two and five years	73,789	50,787	66,300	43,707
Minimum future lease payments	155,354	122,174	121,482	98,286
Less future finance charges	(33,873)	(27,604)	(25,690)	(23,858)
Present value of minimum lease payments	121,481	94,570	95,792	82,856

c) Operating Lease Commitments

The Credit Union leases various branch outlets and offices under non-cancellable operating lease agreements. All property leases are non-cancellable with three to six year terms. Rent is payable monthly in advance. Options exist to renew the leases at the end of each term.

	2010	2009
	\$	\$
Non cancellable operating leases contracted for but not capitalised in the financial statements, payable:		
Not longer than 1 Year	397,651	479,218
Longer than 1 and not longer than 5 Years	749,969	833,797
Longer than 5 Years	56,705	-
	1,204,325	1,313,015

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2011

14. CONTINGENT LIABILITIES

There are no contingent liabilities disclosed in the financial statements (2010: NIL).

15. EVENTS OCCURRING AFTER BALANCE DATE

After the year end, the Credit Union provided bridging finance to a member of the Credit Union. This advance, together with the existing loan, increased the Credit Union's largest exposure to a single member of the Credit Union to 27.6% of the Credit Union's equity at 30 September 2011.

16. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The board has endorsed a policy of compliance and risk management to suit the risk profile of the Credit Union.

Key risk management policies encompassed in the overall risk management framework include:

- Market risk management
- Credit risk management
- Liquidity risk management
- Operations risk management
- Capital adequacy management

The Credit Union has undertaken the following strategies to minimise the risks arising from financial instruments:

Market Risk Policy

The Credit Union is not exposed to currency risk or other price risks. The Credit Union does not trade in the financial instruments it holds on its books.

The Credit Union is exposed to interest rate risk arising from changes in market interest rates.

The policy of the Credit Union to manage the risk is to maintain a balanced "on book" strategy by ensuring the net interest rate gaps between members loans and members shares are not excessive. The measured gap in each 3 month range to be maintained is between 11 – 12% of the difference between loans and members deposits. The gap is measured monthly to identify any large exposures to interest rate movements and to rectify the excess through targeted fixed rate interest products available through investment assets, and term deposits liabilities to rectify the imbalance to within acceptable levels. The policy of the Credit Union is not to undertake derivatives to match the interest rate risks.

The Credit Union performs sensitivity analysis to measure market risk exposures. The method used in determining the sensitivity was to evaluate the profit based on the timing of the interest re-pricing between the members' loans and members' deposits for the next 12 months. In doing the calculation the assumptions applied were that:

- The interest rate change would be applied equally over to the loan products and term deposits.
- The rate change would be as at the beginning of the 12 month period and no other rate changes would be effective during the period.

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2011

16. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES CONT...

Market Risk Policy/-

- The term deposits would all re-price to the new interest rate at the term maturity, or be replaced by deposit with similar terms and rates applicable.
- All loans would be repaid in accordance with the current contractual repayment terms.
- The value and mix of call savings to term deposits will be unchanged.
- The value and mix of personal loans to mortgage loans will be unchanged.

Interest Rate Risk Sensitivity

2011	Carrying Amount (\$)	Profit & Equity (\$)	Profit & Equity (\$)
Financial Assets		-1%	+1%
Bank deposits	3,640,000	-31,900	31,900
Loan receivables	10,531,998	-105,320	105,320
Financial Liabilities		-137,220	137,220
Members deposits	11,746,687	-117,467	117,467
Total Increase / (Decrease)		19,753	-19,753

2010	Carrying Amount (\$)	Profit & Equity (\$)	Profit & Equity (\$)
Financial Assets		-1%	+1%
Bank deposits	2,740,000	-33,250	33,250
Loan receivables	10,026,921	-93,343	93,343
Financial Liabilities		-126,593	126,593
Members deposits	10,791,090	-110,113	110,113
Total Increase / (Decrease)		-16,480	16,480

There has been no change to the Credit Union's exposure to market risk or the way the Credit Union manages and measures market risk in the reporting period. The Credit Union exposure to interest rate risk is set out in Note 20 which details the contractual interest rate risk profile.

Credit Risk – Loans

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the Credit Union incurring a financial loss. This usually occurs when debtors fail to settle their obligations owing to the entity.

The Credit Union has established policies or procedures over the:

- Credit assessment and approval of loans and facilities covering acceptable risk assessment and security requirements.
- Limits of exposure over the value to individual borrowers, non mortgage secured loans, and concentrations to geographic and industry groups considered at high risk of default.
- Reassessing and review of the credit exposures on loans and facilities.
- Establishing appropriate provisions to recognise the impairments of loans.
- Debt recovery procedures.
- Review of compliance with the above policies.

Regular reviews of compliance are conducted as part of the internal audit scope.

The Credit Union has a concentration in the retail lending for members who are within the territory of the Te Tai Tokerau, Tamaki Makaurau, Hauraki-Waikato, Waiariki, Te Tai Hauauru, Ikaroa Rawhiti, electoral districts and the main centres of the Te Tai Tonga electorate.

Daily reports monitor the loan repayments to detect delays in repayments and recovery action is undertaken after 7 days if not rectified. For loans where repayments are doubtful, recovery action commences when the loan is over 7 days in arrears. The exposures to losses arise predominantly in the non secure personal loans and facilities.

The significant accounting judgements are related to the determination of the provision for impairment of loans which is set out in Note 8.

Credit Risk – Liquid Investment

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the Credit Union incurring a financial loss. This usually occurs when debtors fail to settle their obligations owing to the Credit Union.

There is a concentration of credit risk with respect to investment receivables with the placement of investments in NZACU. The credit policy is that investments are only made to institutions that are credit worthy.

The risk of losses from the liquid investments undertaken is reduced by the nature and quality of the independent rating of the investee and the limits to concentration on one entity.

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2011

16. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES CONT ...

Credit Risk – Equity Investments

The Credit Union does not have investments in equity investments.

Liquidity Risk

Liquidity risk is the risk that the Credit Union may encounter difficulties raising funds to meet commitments associated with financial instruments, e.g. borrowing repayments. It is the policy of the Board of Directors that the Credit Union maintains adequate cash reserves and committed credit facilities so as to meet the member withdrawal demands when requested.

The Credit Union manages liquidity risk by:

- Continuously monitoring forecast and actual daily cash flows.
- Reviewing the maturity profiles of financial assets and liabilities.
- Maintaining adequate reserve, liquidity support facilities and reserve borrowing facilities.

The Credit Union has a \$200,000 standby borrowing facility with the NZACU to provide support to the Credit Union if necessary at short notice (undrawn at 30 September 2011 \$Nil).

The Credit Union's policy is to maintain at least 10% of total assets as liquid assets capable of being converted to cash within 7 days (liquidity ratio at balance date 28% (2010 : 24%) Should the liquidity ratio fall below this level, the management and board are to address the matter and ensure that the liquid funds are obtained from new deposits or borrowing facilities available.

The maturity profile of the financial liabilities, based on the contractual repayment terms, are set out in the specific note 19. Due to the nature of the member's deposits, the Credit Union is unable to reliably estimate the actual maturities.

Operational Risk

Operations risks relate to those risks arising from a number of sources including legal compliance, business continuity, data infrastructure and outsourced services failures and employee errors.

These risks are managed through the implementation of policies and systems to monitor the likelihood of the events and minimise the impact. A system of internal controls is enhanced through:

- The segregation of duties between employee duties and functions, including approval and processing duties.
- Documentation of the policies and procedures, employee job descriptions and responsibilities, to reduce the incidence of errors and inappropriate behaviour.
- Implementation of the whistleblowing policies to promote a compliant culture and awareness of the duty to report exceptions by staff.

Capital Management

The Credit Union is regulated under the Friendly Societies and Credit Union Act 1982. There is a statutory requirement over the minimum reserves required to be maintained at 5% of total assets recorded as \$875,000(2010 \$809,364) In addition the Credit Union operates under a trust deed which requires the minimum reserves to be held by the Credit Union to be 8% of total assets. The Credit Union reserves as at the end of the reporting period are stated in note 4.

The Credit Union's capital is determined as follows:

	2011 \$	2010 \$
Retained earnings & other revenue reserves	2,516,960	2,268,784
General Reserve	875,000	809,364
Total Reserves	3,391,960	3,078,148

To manage the Credit Union's capital, which can be affected by excessive growth and by changes in total assets, the Credit Union reviews the capital adequacy ratio monthly and monitors major movements in the asset levels. Policies have been implemented to require reporting to the board and the trustee if the capital ratio falls below 8%. Further, an annual capital budget projection of the capital level is maintained annually to address how strategic decisions or trends may impact on the capital level.

During the year, the Trust Deed was amended to require the Credit Union to report to the Trustee on a monthly basis (previously quarterly basis). Up until 31st May 2011, the Credit Union was in breach of this Trust Deed reporting requirement. The Trustee subsequently agreed that the Breach was procedural in nature, and agreed to waive its rights under the Trust Deed in relation to the Breach.

Trust and Fiduciary Activities

The Credit Union does not undertake any trust or fiduciary activities (2010 : Nil)

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2011

17. MATURITY PROFILE OF FINANCIAL ASSETS AND LIABILITIES

Monetary assets and liabilities have differing maturity profiles depending on the contractual term and in the case of loans the repayment amount and frequency. The associated table shows the period in which different monetary assets and liabilities held will mature and be eligible for renegotiation or withdrawal. In the case of loans, the table shows the period over which the principal outstanding plus interest will be repaid based on the remaining period to the repayment date assuming contractual repayments are maintained. For term loans the above dissection is based upon contractual conditions of each loan being strictly complied with and is subject to change in the event that current repayment conditions are varied. Future interest receivable and future interest payable represent the expected future interest cash flows arising from the contractual obligations of the underlying monetary assets and liabilities respectively.

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2011

17. MATURITY PROFILE OF FINANCIAL ASSETS AND LIABILITIES CONT ...

2011	On Call	< 1mth	1-3 mth	3-6 mth	6-12 mth	1-2 year	2-5 year	> 5 year	Total
Monetary Assets Receivable									
Cash & Cash equivalents	1,170,791								1,170,791
Short Term Deposits	800,000		2,090,000	750,000					3,640,000
Trade & Other Receivables		167,999							167,999
Loans to Members		767,373	1,465,650	1,896,514	3,039,488	3,340,713	588,033	671,256	11,769,027
Future Interest Receivable		114,283	208,865	261,089	365,218	289,260	184,948	436,152	1,859,815
Capital Notes								352,688	352,688
Total Monetary Assets Receivable	1,970,791	1,049,655	3,764,515	2,907,603	3,404,706	3,629,973	772,981	1,460,096	18,960,320
Monetary Liabilities Payable									
Trade & Other Payables		1,044,586							1,044,586
Members Deposits	2,597,189	6,983,712	527,404	202,051	1,085,711	1,306,217			12,702,284
Future Interest on Members Deposits		8,592	12,519	26,871	51,087	93,477			192,546
Hire Purchase		1,787	3,624	5,627	11,823	25,442	73,178		121,481
Total Monetary Liabilities Payable	2,597,189	8,038,677	543,547	234,549	1,148,621	1,425,136	73,178		14,060,897

2010	On Call	< 1mth	1-3 mth	3-6 mth	6-12 mth	1-2 year	2-5 year	> 5 year	Total
Monetary Assets Receivable									
Cash & Cash equivalents	834,607								834,607
Short Term Deposits	400,000		1,840,000	500,000					2,740,000
Trade & Other Receivables		96,579							96,579
Loans to Members		638,608	1,205,759	1,620,414	2,678,421	2,824,138	615,220	735,017	10,317,577
Future Interest Receivable		114,283	208,749	260,522	361,188	287,982	194,503	494,810	1,922,037
Capital Notes								352,688	352,688
Total Monetary Assets Receivable	1,234,607	849,470	3,254,508	2,380,936	3,039,609	3,112,120	809,723	1,582,515	16,263,488
Monetary Liabilities Payable									
Trade & Other Payables		1,064,763							1,064,763
Members Deposits	2,701,765	6,939,827	449,686	291,619	323,748	84,445			10,791,090
Future Interest on Members Deposits		5,068	10,888	17,751	16,728	13,809			64,244
Hire Purchase		2833	8499	8499	16,998	32,475	52,870		122,174
Total Monetary Liabilities Payable	2,701,765	8,012,491	469,073	317,869	357,474	130,729	52,870		12,042,271

The Credit Union is unable to reliably estimate the expected maturity of the members deposits as they are regularly rolled over, however, the Rules allow the Trustees, at their discretion, to restrict a member access to their shares if the withdrawal of shares would reduce the member's deposits in the Credit Union to an amount less than the member's total liability to the Credit Union. The Credit Union has the discretion to defer payment of the shares for up to 60 days.

18. OTHER CREDIT RISKS

a) Maximum Credit Risk Exposure

The Credit Union's maximum credit risk exposure, without taking into account the value of any collateral or other security, in the event other parties fail to perform their obligations under financial instruments in relation to each class of recognised financial asset, is the carrying amount of those assets as indicated in the Statement of Financial Performance.

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2011

18. OTHER CREDIT RISKS CONT ...

b) Concentration of Credit Risk

The Credit Union minimises concentrations of credit risk in relation to loans by undertaking transactions with a large number of customers. Credit risk is currently managed in accordance with the Prudential Standards to reduce the Credit Union's exposure to potential failure of counterparties to meet their obligations under the contract or arrangement.

c) Large Counterparties

The Credit Union has exposure to counter-parties as follows:

	Number of Counterparties
Greater than 100% of equity	-
Between 90% and 100% of equity	-
Between 80% and 90% of equity	-
Between 70% and 80% of equity	1
Between 60% and 70% of equity	1
Between 50% and 60% of equity	-
Between 40% and 50% of equity	1
Between 30% and 40% of equity	-
Between 20% and 30% of equity	-
Between 10% and 20% of equity	1

In relation to loans to members, where a member has shares as security or deemed security, the security has not been taken into account when calculating the percentage of exposure.

Counter-parties include cash and cash equivalents and short term deposits held with the NZACU and ANZ Bank. In addition, large counterparties include a portfolio of loans guaranteed by Profile Finance Limited, a personal loan facility provider.

d) Loans to Members

Loans can only be made to Credit Union members. Loan interest rates range from 9% to 17% p.a. (2010; 5.5 % to 17 % p.a.). The Credit Union has a lending policy that requires various levels and types of security for loans and includes that a portion of loans may be secured over the borrowing members shares.

The Friendly Societies and Credit Unions Act 1982 limits the risk of any one member and provides, along with the loan agreement that any and all shares might be used to offset an individual loan to the limit of their liability. Under section 110 of the Act, the maximum indebtedness and repayment terms of a member shall not, without the prior consent of the Registrar, exceed the following limits:

- Unsecured Loan 5% of the value of the assets of the Credit Union and 5 Years
- Secured Loan 10% of the value of the assets of the Credit Union and 10 Years

The Registrar of Friendly Societies and Credit Unions has approved an extension of the secured loan term from 10 to 30 years.

The proportion of loans with repayments in arrears in excess of three months is:

	2011	2010
	2.11%	0.89%

Other than loans, there are no other monetary assets in arrears.

Loans are for varying terms but the standard loan contract includes an "on demand" clause. The monthly repayments on the loans for the past period represent an average loan of:

	2011 Months	2010 Months
	11.01	9.70

The proportion of loans owed in aggregate by the debtors who owe the six largest amounts is:

	2011	2010
	29.8%	19.19%

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2011

19. INTEREST RATE RISK

The Credit Union's exposure to interest rate risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rate on classes of financial assets and financial liabilities is as follows:

	Fixed Interest Rate Maturing in:															
	Floating Interest Rate		0 – 3 months		3 – 6 months		6 – 12 months		1 – 2 years		Interest sensitive		Set six-monthly in arrears		Total	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Monetary Assets																
Cash & Bank	-	-	-	-	-	-	-	-	-	-	1,171	835	-	-	1,171	835
Bank Deposits	800	400	2,090	1840	750	500	-	-	-	-	-	-	-	-	3,640	2,740
Trade & other receivables	-	-	-	-	-	-	-	-	-	-	168	96	-	-	168	96
Loans to Member	9,207	9,138	-	-	-	-	-	-	1,844	875	-	-	-	-	11,051	10,013
Capital Notes (a)	-	-	-	-	-	-	-	-	-	-	-	-	353	353	353	353
Total Monetary Assets	10,007	9,538	2,090	1,840	750	500	-	-	1,844	875	1,339	931	353	353	16,383	14,037
Monetary Liabilities																
Deposits	9,580	9,413	527	678	202	292	1,087	324	1,306	84	-	-	-	-	12,702	10,791
Other Payables	-	-	-	-	-	-	-	-	-	-	1,166	1,159	-	-	1,166	1,159
Borrowings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Monetary Liabilities	9,580	9,413	527	678	202	292	1,087	324	1,306	84	1,166	1,159	-	-	13,868	11,950

*The weighted average effective interest rate has been calculated on the interest sensitive financial instruments in Note 5.

(a) Capital notes do not have any predetermined rate of interest. Interest is payable on a six monthly basis in arrears subject to the profitability of the NZACU Business Services Division Trust. The last interest payment was at 5.83% per annum (2010: 5.79%per annum).

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2011

20. CONCENTRATION OF FUNDING

The Credit Union's source of funding is members' deposits. Accordingly, the funding is concentrated in and limited to the area of the "common bond" and consequently the Credit Union funding is almost exclusively from individuals residing within Auckland, Hamilton, Wanganui, Porirua and their satellite towns. The funding from members is recorded as Members' Shares in the Statement of Financial Position.

21. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value has been determined on the basis of the present value of expected future cash flows under the terms and conditions of each financial asset and financial liability. Significant assumptions used in determining the cash flows are that the cash flows will be consistent with the contracted cash flows under the respective contracts. The information is only relevant to circumstances at balance date and will vary depending on the contractual rates applied to each asset and liability, relative to market rates and conditions at the time. No assets held are regularly traded by the Credit Union. There is no active market to assess the value of the capital notes.

The net fair value estimates were determined by the following methodologies and assumptions:

Financial Assets

Loans to Members

As detailed in the accounting policies, loans are carried at amortised cost less impairment. The directors believe that any differences between carrying value and fair value are not material because the loan periods are relatively short and can be changed to "on demand" by the trustees. In addition, interest rate differences between lending dates and balance date are not significant.

Cash and Bank

The reported amount is equal to fair value.

Receivables

The reported amount takes into account the likelihood of collecting the amounts owed. The Directors believe these amounts reflect their fair value.

Investments

Investments are disclosed on the basis of the value at the time of purchase. Any variance between market value and cost price is not material.

Financial Liabilities

Deposit from Members

Deposits from members are accepted on the basis of a fixed value of \$1 per share. Deposits not in whole dollars are deemed to be advance subscriptions for shares. Dividends not paid in cash, and reinvested by members, are deemed to be subscriptions for shares and add to the members' share balance in the Credit Union. The Directors believe the reported values reflect fair value.

Members' shares are secured by a first ranking equitable assignment by the way of security over the whole of the Credit Union's present and future undertaking, assets and revenues, including the proceeds received for the subscription shares and unpaid capital (if any). The equitable assignment by way of security was granted in favour of Perpetual Trust Limited, the Prudential Supervisor of the Credit Union, under a Trust Deed dated 18th October 2001, which has been registered with the Registrar of Companies.

The Credit Union has also granted to Perpetual Trust Limited a security interest in all its present and after-acquired personal property as additional security for the members' shares. Perpetual Trust Limited has registered a financing statement under the Personal Property Securities Act 1999 in respect of the same. The grant of this security interest was recorded in a Deed of Modification to Trust Deed dated 31 October 2002, which has been registered with the Registrar of Companies.

Other Liabilities

Accounts Payable is carried at amortised cost which approximates fair value due to their short payment terms.

Fair Value Estimation

The Credit Union holds an equity interest in NZACU as a result of its holding of NZACU Capital Notes. For these instruments the Credit Union has determined that there is no active market and that fair value cannot be reliably measured. As such they have been carried at cost at 30 September 2011 (2010: cost). With respect to financial instruments not at fair value, the carrying amount approximates their fair value.

22. DISCLOSURES ON DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL

a) Remuneration of Key Management Persons (KMP)

Key management persons are those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, directly or indirectly, including any director (whether executive or otherwise) of that entity. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2011

22. DISCLOSURES ON DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL CONT...

Key management persons (KMP) have been taken to comprise the directors and the 1 member of the executive management responsible for the day to day financial and operational management of the Credit Union.

No Directors are employed by the Credit Union. Directors fee are disclosed in note 2.

b) Remuneration of Key Management Persons (KMP)

The aggregate compensation of **key management persons** during the year comprising amounts paid or payable or provided for was as follows:

	2011 Other KMP \$	2010 Other KMP \$
Short-term employee benefits	254,839	255,304
Total	254,839	255,304

In the above table, remuneration shown as short term benefits means (where applicable) **wages, salaries, paid annual leave and sick leave, profit-sharing and bonuses, value of fringe benefits received**, but excludes out of pocket expense reimbursements.

The Credit Union deals with Directors and Trustees on the same terms and conditions applied to all members.

Directors Holdings	2011 \$	2010 \$
Directors' holdings at balance date are:		
Owing to Directors (Shares)	28,300	23,928
Owing from Directors (Loans)	(108,152)	(60,102)

23. CATEGORISATION OF FINANCIAL ASSETS AND LIABILITIES

	Note	Available for Sale	Loans and Receivables	Other Amortised Cost	Total Carrying Amount
As at 30 September 2011		\$	\$	\$	\$
Financial Assets					
Cash and Cash equivalents			1,170,791		1,170,791
Deposits at NZACU (>3 mths)			2,140,000		2,140,000
Deposits at Banks (> 3 mths)			1,500,000		1,500,000
Trade and other receivables (excluding prepayments)			167,999		167,999
Loans to Members			11,051,363		11,051,363
Capital Notes		352,688			352,688
Total		352,688	16,030,153		16,382,841
Financial Liabilities					
Trade and other payables				1,166,067	1,166,067
Deposits from Members				12,702,284	12,702,284
Total				13,868,351	13,868,351

	Note	Available for Sale	Loans and Receivables	Other Amortised Cost	Total Carrying Amount
As at 30 September 2010		\$	\$	\$	\$
Financial Assets					
Cash and Cash Equivalents			834,607		834,607
Deposits at NZACU (>3mths)			1,740,000		1,740,000
Deposits at Banks (> 3 mths)			1,000,000		1,000,000
Trade and other receivables (excluding prepayments)			96,579		96,579
Loans to Members			10,012,632		10,012,632
Capital Notes		352,688			352,688
Total		352,688	13,683,818		14,036,506

CATEGORISATION OF FINANCIAL

AOTEAROA CREDIT UNION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2011

ASSETS AND LIABILITIES CONT...

Financial Liabilities

Trade and other payables

1,159,333

1,159,333

Deposits from Members

10,791,090

10,791,090

Total

11,950,423

11,950,423