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## CREDIT UNION BAY HEALTH

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### PROSPECTUS

-relating to-

the Offer of Debt Securities by Credit Union Bay Health  
Dated the 9<sup>th</sup> day of September 2013.

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Credit Union Bay Health

having offices at:

C/- HB District Health Board

Omahu Road

HASTINGS

Phone: (06) 878 8109 extn 2806

Facsimile: (06) 878 1346

## DIRECTORY

### CREDIT UNION

(and place where Register of Members is kept)

C/- HB District Health Board  
Omahu Road  
HASTINGS  
Telephone: (06) 878 8109 extn 2806  
Facsimile: (06) 878 1346

### SOLICITORS TO THE CREDIT UNION

Gifford Devine  
206 Queen Street East  
HASTINGS  
Telephone: (06) 873 0420  
Facsimile: (06) 876 0043

### PRUDENTIAL SUPERVISOR

Corporate Trust Limited  
Foundation Corporate Trust  
Level 6, AMP Chambers  
187 Featherston Street  
PO Box 25592  
Wellington 6140  
Telephone: (04) 901 4439  
Website:  
<http://www.foundationcorporatetrust.co.nz/>

### COMPANIES OFFICE

Ministry of Business, Innovation and  
Employment ("MBIE")  
Level 18, ASB Bank Centre  
135 Albert Street,  
Private Bag 92061, Auckland 1141  
Telephone: 0508 266726  
Facsimile: (09) 912 7787  
Email: [webmaster@companies.govt.nz](mailto:webmaster@companies.govt.nz)  
Website: [www.companies.govt.nz](http://www.companies.govt.nz)

### AUDITORS

PricewaterhouseCoopers New Zealand  
36 Munroe Street  
NAPIER  
Telephone: (06) 835 6144  
Facsimile (06): 835 0360

### BANKERS

NZACU Central Fund  
Level 3, 25 Teed Street,  
PO Box 9582, Newmarket,  
Auckland 1149  
Telephone: (09) 520 0451  
Facsimile: (09) 520 0472  
E-mail: [enquiries@nzacu.org.nz](mailto:enquiries@nzacu.org.nz)

Westpac Banking Corporation  
Corporate and Institutional Banking  
Level 15, 188 Quay Street  
PO Box 934  
Auckland:  
Telephone: (09) 367-3910  
Facsimile: (09) 376-3733

TSB Bank Limited  
Napier Branch  
Corner Hastings and Emerson Streets  
PO Box 486  
Napier  
Telephone: (06) 974-8100  
Facsimile: (06) 974-8109

### PLACE WHERE REGISTER KEPT

C/- HB District Health Board  
Omahu Road  
HASTINGS  
Telephone: (06) 878 8109 extn 2806  
Facsimile: (06) 878 1346

### COMPANIES OFFICE REGISTER OF FINANCIAL SERVICE PROVIDERS

[www.business.govt.nz/fsp](http://www.business.govt.nz/fsp)

This Prospectus is a continuous issue prospectus within the meaning of section 43D(3) of the Securities Act 1978.

## PROSPECTUS OF CREDIT UNION BAY HEALTH

This Prospectus is dated 9th September 2013.

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In registering this Prospectus, the Credit Union has relied on the exemptions contained in the:

Securities Act (Credit Unions) Exemption Notice 2010, whereby the Credit Union has been granted an exemption from compliance with sections 37A (1)(d), 51, 52 and 54 of the Securities Act 1978 and clauses 1 (3) and 12 of Schedule Two of the Securities Regulations 2009 and regulation 40 of the Securities Regulations 2009 (insofar as that regulation deems clause 1 (2) and 3 of the Schedule 15 of the Securities Regulations 2009 to be contained in the Credit Union's Trust Deed).

**The Deposit Takers (Credit Ratings Minimum Threshold) Exemption Notice 2009**, whereby the Credit Union has been granted an exemption from the requirement to have a credit rating pursuant to the Reserve Bank of New Zealand Act 1989. More details regarding the exemption are set out on page 17.

All legislation referred to within this document can be viewed at [www.legislation.govt.nz](http://www.legislation.govt.nz).

**The creditworthiness of the Credit Union is not rated by a rating agency approved by the Reserve Bank of New Zealand under section 157J of the Reserve Bank of New Zealand Act 1989.**

## KEY INFORMATION SECTION

*The following is a brief summary of information which will be important in making a decision to invest in the Credit Union. It is intended to assist you in reading the Prospectus only. It is not intended as a substitute for the information contained in the Prospectus.*

### Credit Union

The Credit Union is a financial co-operative offering financial services to its customers, who are called members.

Members who have accounts in the Credit Union are the owners of the credit union and they elect their board of directors.

The assets of the Credit Union are legally owned by a trustee, who is elected by the members of the Credit Union. The trustee holds the assets of the Credit Union for the use and benefit of the Credit Union and its members.

On 19<sup>th</sup> April 2013, the Credit Union appointed Corporate Trust Limited (trading as Foundation Corporate Trust) as statutory trustee of the offer under this Prospectus for the purposes of the Securities Act 1978. For more information concerning the role of the Statutory Supervisor refer to paragraph 8 (Provisions of Trust Deed and Other Restrictions on the Credit Union) of this Prospectus.

### Offer Terms

- This Prospectus provides important information concerning a secured offer of shares in the Credit Union.
- Shares are issued at \$1.00 and must be paid in cash.
- Shareholders of the Credit Union are termed 'members'.
- Shares are not transferrable. For more information concerning what happens to the shares on a member's death, and as to shares generally, see section 1.5 (Shares) of this Prospectus.
- While shares are usually available for withdrawal on call (unless the terms and conditions of a share account provide otherwise) the Friendly Societies and Credit Unions Act 1982 provides that a 60 day notice period for withdrawals may be required.
- No persons guarantee the repayment of the shares, or the payment of any returns on shares with the Credit Union.

### Benefits

- The rate of return on shares depends on the type of share account which you invest in, the terms and conditions of that share account, the rate of return currently offered on that account, the minimum amount of shares required to be held in that account, the term of the investment and the timing of repayment. The terms and conditions of share accounts are set out in the Fourth Schedule of the Prospectus.
- As a member you have a right to vote on certain matters relating to the Credit Union, for example the election of a director. On every matter determined by a vote, you will be entitled to one vote irrespective of the number of shares held by you.

## Key Risks and Other Matters

- **Credit Risk:** this is the risk of people to whom the Credit Union has lent money not repaying their loans or making interest payments on time.
- **Liquidity Risk:** this is the risk of the Credit Union not having sufficient cash to meet share repayment obligations to members. This risk requires the Credit Union to manage the maturity of loans and balance this with the anticipated need to repay members' shares. There has been historically and continues to be a liquidity mismatch between asset receivables and liabilities payable within one month.
- **Members' Returns:** the rate of return on members' shares depends on annual surpluses being earned through the ongoing profitability of the Credit Union. Should the Credit Union's profitability be threatened then the Credit Union may reduce the rate of return on members' shares, pay no return or reduce share value.
- **Industrial Credit Union:** the Credit Union is an industry-based Credit Union with its common bond centred around the health industry. As such, it is vulnerable to any downturn and consequent staff redundancies in this industry, or any adverse change in the working conditions.
- **Insolvency:** the Credit Union must remain solvent, meaning that its assets must exceed its liabilities and it must be able to meet its debts as they fall due.

The Credit Union could become insolvent and / or be wound up if a significant amount of the loans due for repayment remain unpaid for an extended period of time, or if the Credit Union is, for any reason, unable to pay its debts as they fall due.

- **General Market Risk:** the Credit Union will be affected by the state of the New Zealand and international economies. Economic slowdowns or recessions will have a negative impact on potential and existing members' saving and borrowing habits, which may have a consequential flow-on effect on the growth and profitability of the Credit Union.
- **Other Matters:** the Credit Union ran at a year to date loss for October, November and December 2012 and as there was no surplus available for distribution to members, the Credit Union had to obtain permission from the Prudential Supervisor to pay interest to its members. For further details of this and other material matters please see section 11 of this Prospectus.

## Costs

- You must pay for your shares in the Credit Union. You will receive one share for every \$1.00 paid by you.
- You must hold at least one share in the Credit Union.
- In addition to the cost of shares, you may be required to pay account and membership fees and charges. The types of fees and charges that may be payable by you to the Credit Union at the date of this Prospectus are set out in the Schedule 4 of this Prospectus.

## **1. MAIN TERMS OF OFFER**

### **1.1 Name and Address of the Credit Union**

Name of Credit Union: Credit Union Bay Health (the "Credit Union").  
 Registered Office: C/- HB District Health Board, Omaha Rd, Hastings  
 Postal Address: C/- HBDHB, Private Bag 9014, Hastings  
 Ordinary office Hours: Mon-Fri 9.00am – 4.00pm  
 Branch Offices and Service  
 Locations: Hastings, c/- HB District Health Board, Omaha Road, Hastings;  
 Agencies: Central Hawke's Bay Health Centre, 1 Cook Street, Waipukurau;  
 Wairoa Hospital, Kitchener Street, Wairoa.

### **1.2 Details of Registration**

The Credit Union is a financial co-operative registered as a credit union under the Friendly Societies and Credit Unions Act 1982 ("the Act"). The Credit Union was registered on 13<sup>th</sup> July 1981 (registration number 1802874). The 'Act' and all other legislation referred to in this Prospectus, are available on the New Zealand legislation website at [www.legislation.govt.nz](http://www.legislation.govt.nz). The Credit Union is also registered with the Financial Service Providers Register under registration number FSP 36183.

The Credit Union operates under rules prepared in accordance with the Act ("Rules") which are registered with the Registrar of Friendly Societies and Credit Unions ("Registrar").

### **1.3 The Offer**

This Prospectus contains important information about the offer to subscribe for \$1.00 fully paid-up redeemable shares ("shares") in the Credit Union. Shareholders in the Credit Union are called 'members'. The offer of the shares is an offer of debt securities under and subject to the terms of the Securities Act 1978.

This offer is made to a section of the public, it's 'common bond - being:

- (a) People working within Health Related Services and/or employees of Credit Union Bay Health (including past employees of either)
- (b) Any person who is a relative of a person referred to in paragraph (a) above
- (c) For the purposes of paragraph (b) above, the term "relative" in relation to any person, means:
  - (i) The spouse of that person, including any former spouse or de facto spouse;
  - (ii) Any lineal ancestor, lineal descendant, brother, sister, uncle, aunt, nephew, niece, or first cousin of that person or that person's spouse;
  - (iii) The spouse (including any former spouse or de facto spouse) of any relative specified in sub-paragraph (ii) hereof.

The Credit Union originally appointed Trustee Executors Limited as statutory trustee of the offer for the purposes of the Securities Act 1978. However, on the 19<sup>th</sup> April 2013, Trustees Executors Limited retired as statutory trustee and the Credit Union appointed Corporate Trust Limited (trading as Foundation Corporate Trust) as statutory trustee of the offer under this Prospectus for the purposes of the Securities Act 1978. Corporate Trust Limited (trading as Foundation Corporate Trust) is licensed to fulfil this role pursuant to the Securities Trustees and Statutory Supervisors Act 2011.

Please refer to the paragraph headed "Provisions of Trust Deed and Other Restrictions on the Credit Union" on page 13 for further details on this appointment.

### **1.4 Description of the Activities of the Credit Union**

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 the members' savings for their mutual benefit and the training and education of the members in the wise use of money and in the management of their financial affairs. The Credit Union's primary activity over the past five (5) years preceding the date this Prospectus was delivered to the Registrar of Financial Service Providers for registration ("the Specified Date"), has been to provide a co-operative saving facility for members to form a loan fund and to make loans to members from that fund.

The Credit Union's principal assets are its loan receivables generated by lending money to its members. These loan receivables are the principal assets that are charged as security pursuant to the Trust Deed. The Credit Union has not granted any other charges over the principal assets. The principal fixed assets of the Credit Union are the resident building, computer equipment, furniture, fittings and office equipment and office fit out. The fixed assets of the Credit Union are used solely for the purposes of furthering its objects described above. The principal assets are subject to an equitable assignment and a security interest in favour of the Prudential Supervisor as more particularly described on page 13.

## 1.5 Shares

### (a) Shares

Members contribute to the Credit Union by subscribing for shares. The shares offered under this Prospectus rank equally with all other shares issued or to be issued by the Credit Union, and pursuant to the Credit Union's Rules a member cannot have or claim any interest in shares of the Credit Union exceeding \$250,000.

The shares are issued for \$1.00 and cannot be allotted to a member until fully paid-up in cash. Payments of ~~shares not in whole dollar amounts~~ are credited to the member's account and are deemed to be an advance payment of subscription for additional shares.

The Credit Union can decide how members will pay for shares that they subscribe for. This may include payment by:

- Cash;
- Way of personal or bank cheque;
- Direct credit;
- Automatic payment; or
- Salary or wage deduction.

A member must hold at least one fully paid-up share and a member's shareholding cannot exceed 10% of the total tangible assets of the Credit Union. This maximum shareholding is contained in the Trust Deed.

The shares may be held by two or more members jointly. The person named first in the Credit Union's register of members will be deemed to be the member to whom the shares are allotted.

Shares in the Credit Union are not transferable. However a member may nominate a person to receive up to a maximum of \$2,000 of the member's shareholding on that member's death. This nomination must be in writing, signed by the member and sent to the Credit Union's registered office.

The Credit Union does not issue share certificates to members. On request, and not more than every six (6) months during the period of membership, the Credit Union will forward a statement of account to each member.

A member may use the Credit Union's internet service, cellular TXT service or telephone service to check the balance of their account. A member must obtain a log-in identification and password from the Credit Union to use the internet service.

### (b) Membership

Applications to subscribe for shares must be made on the Credit Union's standard application form which is available on request at the offices of the Credit Union. On application, the prospective member must provide proof of identity and pay for their initial share subscription. The application form together with the full amount of the subscription payable may be delivered or posted to the Credit Union. The Credit Union's contact details are included in the Directory.

The Credit Union will only accept applications from people who fall within the Credit Union's 'common' bond' and who meet the membership criteria described under "The Offer" above. The board of directors of the Credit Union ("Board") reserves the right to accept or decline any application without giving any reason for its decision.

The application form will also govern subsequent share subscriptions by the member.

**(c) Voting Rights**

Each member has only one vote, irrespective of the number of shares held by that member or as to whether the shares are held jointly with any other person(s). Where a share is held by two or more members jointly, the first person named on the register of the members of the Credit Union is the member entitled to vote. A member who is a charitable entity or an incorporated society may appoint a representative to vote on its behalf.

**(d) Types of Meetings**

- **Annual General Meeting**

To be held no later than 90 days after the balance date each year (currently 31 March). At this meeting, members may vote on matters which affect the Credit Union.

- **Special General Meeting**

The Chair of the Board of Directors must call a special general meeting on application of at least 100 members to consider the business set out by the members in their application. The Board or the Trustee may also resolve to call a special general meeting.

- **Meeting called by the Prudential Supervisor**

The Prudential Supervisor may call a meeting of members to raise and discuss any issue relating to the administrative affairs of the Credit Union.

- **Meeting called by Credit Union**

At the request in writing by the Prudential Supervisor or not less than one-tenth of the number of members, the Credit Union must summon a meeting of its members for the purpose of considering the financial statements of the Credit Union for its last preceding financial year or giving directions to the Prudential Supervisor in relation to the exercise of its powers.

Members must be given notice of any meeting as prescribed by the Rules, the Trust Deed and the Securities Act (Credit Unions) Exemption Notice 2010.

**(e) Cessation of Membership****Withdrawal, Expulsion or Non-Qualifying Members**

- **Withdrawal**

A member may withdraw from membership of the Credit Union at any time.

- **Expulsion**

A member may be expelled from membership by the Board, if in the Board's opinion, that member is guilty of conduct which is derogatory of or prejudicial to the interests of the Credit Union.

- **Non-Qualifying Members**

If a member ceases to fall within the Credit Unions' common bond, that member is deemed to be a "non-qualifying member". Subject to the Rules and the Act, a non-qualifying member may purchase shares and receive loans.

However, if the number of non-qualifying members exceeds 10% of the total membership of the Credit Union, the Board shall terminate the membership of as many non-qualifying members as is necessary to reduce the number of non-qualifying members back to 10% of the total members.

All amounts paid on shares, plus any returns owed and less all amounts due from the member to the Credit Union, will be paid to an expelled, withdrawing or non-qualifying member as funds become available.

The restrictions set out in the paragraph headed 'Withdrawals' on Page 10 will apply to payments made to withdrawing, expelled or non-qualifying members.

### Death, Bankruptcy or Insolvency

- Death

Where an individual member who was a sole holder of shares dies, the executors or administrators of the deceased member's estate will (subject to any applicable laws) be the only persons recognised by the Credit Union as having any right to the proceeds of that deceased member's shares.

When an individual member who was a joint holder of shares dies, the survivor or survivors of the joint shareholding will be the only persons recognised by the Credit Union as having title to the deceased member's interest in the shares.

- Bankruptcy

If an individual member becomes bankrupt, that member's shares will come under the control of the Official Assignee in bankruptcy.

There are restrictions on the amount that a bankrupt member can retain in his or her account and on a bankrupt member's ability to obtain credit.

- Insolvency

Where an incorporated society or a charitable entity member winds up or becomes insolvent shares will be dealt with in accordance with the constitutional documents of that incorporated society or charitable entity and otherwise as prescribed by law.

Amounts representing share entitlements will only be paid out following a member's death, bankruptcy or insolvency on production of such evidence of death and/or entitlement to share proceeds, as may be required by the Board and under generally applicable laws. The payment of such proceeds will also be subject to the terms set out in the paragraph headed "Withdrawals" on Page 10.

## 1.6 Share Accounts

A member's shareholding must be held in one or more of the share accounts operated by the Credit Union ("share accounts"). Applications to subscribe for shares must be made on the Credit Union's standard application form which is available on request at the offices of the Credit Union. The Credit Union's contact details are included in the Directory.

Each share account may offer differing terms and conditions as to

- dividend or interest return;
- the minimum amount of shares required to be purchased;
- the term of investment;
- the timing of repayment;
- method of subscription; and
- withdrawal and the fees and charges payable.

The Board of the Credit Union reserves the right (subject to any restriction contained in the Act, Trust Deed, Rules or otherwise at law) to vary the Terms and Conditions of the share accounts. Notice of any such variation will be included in the Credit Union's newsletter which is distributed to all members. Any changes to fees and charges will not come into force until they are notified to members.

### Types of Share Accounts

The Credit Union offers three types of share accounts, being

1. Term Share Accounts;
2. On Call Share Accounts; and
3. Notice of Withdrawal Share Accounts

Details of the share accounts currently operated by the Credit Union, at the date of this Prospectus, are set out in the Fourth Schedule.

It is the Credit Union's policy not to make repayments prior to maturity for Term Share Accounts. However, in the event of financial hardship or extraordinary circumstances, written application may be made to the Credit Union, which may exercise its discretion to repay the funds. Any returns will be subject

to adjustment in accordance with the terms of the share account.

#### 1.7 Payment of Returns

Returns payable on a members' shares will be credited to member's share accounts at such intervals as is provided in the terms and conditions of that accounts.

The rate of return is largely dependent upon annual surpluses being earned through the profitability of the Credit Union. The amount of any surplus available for distribution to members is subject to the obligation of the Credit Union to maintain a general reserve (at 5% of the total assets of the Credit Union) and prudential reserve (at 10% of the total assets of the Credit Union) and a risk-weighted capital ratio of not less than 10%. These Reserves cannot generally be used to pay returns.

#### 1.8 Withdrawals

Subject to the provisions of the Act, members operate their share accounts in a similar manner to bank accounts.

On Call Share Accounts are usually available to be withdrawn at call, however the Rules and the Act provide that the Credit Union has the right at any time to require a 60-day notice period for withdrawal. All requests for withdrawals must be made in writing and signed by the member, unless an alternative method of withdrawal is specified as an authorised method in the terms of the share account.

Any withdrawal which would put the member into overdraft will only be permitted at the Credit Union's discretion. No withdrawals into overdraft will be permitted for non-qualifying members.

The Credit Union is not legally able, to consent to any withdrawals when the Credit Union is unable to meet its debts as they fall due.

#### 1.9 Maturity

Term Share accounts will mature on their respective maturity dates (as described in the Fourth Schedule of this Prospectus or as varied from time to time by the board of the Credit Union). If a member has given instructions for any monies held in a term share account to be automatically reinvested at the end of the term, the reinvestment funds will earn the return applicable at the time of reinvestment to the share account nominated. The Credit Union will not be required to give a member notice of the reinvestment of their funds, unless the Credit Union has received notice in writing from the member that notice of reinvestment is required.

Shares in On Call or Notice of Withdrawal Accounts are available on call or on notice, as described in the Fourth Schedule, and do not have a maturity date.

#### 1.10 Taxation

The Credit Union is required by law, to deduct Resident Withholding Tax ("RWT") from any interest or dividends paid or credited to any person resident in New Zealand, and to account for this deduction to the Inland Revenue Department ("IRD"). Provided members supply the Credit Union with their IRD number and nominate the RWT rate at which they wish deductions to be made, RWT will be deducted at the rate nominated. In the event that:

- (a) a member omits to notify the Credit Union of their IRD number, the Credit Union is required at law, to deduct RWT at 33% (or such other amount as required by law);
- (b) a member has notified the Credit Union of their IRD number, but omits to nominate at which RWT rate they wish RWT to be deducted, RWT will be deducted at 17.5% or 33% depending on when the account was opened (or such other amount as required by law).

For members who are incorporated societies, the Credit Union will deduct RWT at 30%, or such other amount as required by law.

The Credit Union is not required to deduct RWT from any member who holds a valid Certificate of Exemption. Members who hold a Certificate of Exemption from RWT issued by the IRD are required to forward a copy to the Credit Union. Members who are charitable entities are exempt from income tax.

An investment in shares in the Credit Union will have taxation implications. The effect of taxation will vary according to each member's personal circumstances. Prospective and existing members are encouraged to

obtain independent professional advice on their personal circumstances. The above liabilities for taxation are as prescribed under current enactments.

#### 1.11 Loans

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. Loans to the members are subject to the terms of the Act, the Rules and the Trust Deed.

Loan applications must be made on the form prescribed by the Board of the Credit Union from time to time. The member will be required to detail in the application form the purpose of the loan, any security offered and such other information as the Board may require. The loan application form and details on the Credit Union's terms and conditions of lending can be obtained from the Credit Union's office.

The indebtedness of a member to the Credit Union must not exceed 10% of the total tangible assets of the Credit Union for secured loans, 5% of the total tangible assets of the Credit Union for unsecured loans or such lesser amount as the Board may from time to time determine as set out in the Credit Union's Rules. The current maximum loan limit set by the Board of the Credit Union is \$30,000.

The Board reserves the right to decline any application for a loan without giving any reason.

## **2. DETAILS OF REGISTRATION OF THE CREDIT UNION**

### 2.1 Registration

The Credit Union was originally registered on 13 July 1981 under The Friendly Societies Act 1909 and is now registered under The Friendly Societies and Credit Unions Act 1982. The Credit Union's registered number is 1802874. The Credit Union is also registered on the Financial Service Providers Register with registration number FSP 36183.

### 2.2 Rules of Operation of the Credit Union

The Credit Union operates under rules registered with the Registrar of Friendly Societies and Credit Unions. Any person may upon request, during normal business hours, at the registered office of the Credit Union listed in the Directory, inspect copies of the Credit Union's Rules. The Credit Union will not charge an inspection fee for producing or photocopying the Rules. Alternatively, any person may utilise the Companies Office website listed in the Directory to view such information about the Credit Union as the Companies Office makes available. Any information not available on-line can be obtained (a fee may be payable) by telephoning the Companies Office Contact Centre at the phone number shown in the Directory.

### 2.3 Register of Members

A register of the members of the Credit Union is kept at the registered office of the Credit Union listed in the Directory. The register is open to inspection during ordinary office hours by any member of the Credit Union. The Credit Union will not charge an inspection fee for producing the register.

### 2.4 Other Statutory Information

Application will not be made to the Stock Exchange for listing of any shares under this Prospectus.

## **3. DIRECTORATE AND ADVISERS**

### 3.1 Directors and Officers

The directors of the Credit Union serve voluntarily, and are required to be members of the Credit Union. The directors are elected by members at the annual general meeting of members and report to the members annually.

The directors serve a term of 2 years, retire by rotation, and are eligible for re-election.

The members elect 3 directors to be trustees of the Credit Union.

The directors elect from the Directorate the following officers: Chairperson, Deputy-Chairperson, Secretary, and Treasurer.

A list of the current directors and officers of the Credit Union is included in the Sixth Schedule. None are employees of the Credit Union.

### 3.2 Particulars of Trustees

In accordance with the Act, all property belonging to the Credit Union is vested in the trustees (the present trustees being named in the Sixth Schedule), for the use and benefit of all persons claiming through the members of the Credit Union according to the Credit Union's Rules.

Neither the directors, the trustees, nor any other persons, guarantee the repayment of the value of the shares, or the payment of any interest or dividends payable on shares held in the Credit Union.

### 3.3 Audit Committee

The following named persons were appointed under the Credit Union's Rules to act as the Audit Committee of the Credit Union: Carol Ann Priest and Christine Ruth Lord. The Audit Committee monitors the trustees' and directors' compliance with the Act, the Rules and all other applicable operating procedures and legislation.

### 3.4 Auditors

The Credit Union has appointed PricewaterhouseCoopers New Zealand (PWC) as the Credit Union's auditors. As at the date of the Prospectus the auditors have obtained a transitional registration and the audit partners have either a transitional license or a full license under the Auditor Regulation Act 2011. Other than in their capacity as auditors, they have no relationships with, or interests in the Credit Union. The auditors' contact details are included in the Directory.

A copy of the auditors' report is attached as the Second Schedule, along with its consent to the report appearing in this Prospectus.

### 3.5 Solicitors

The Credit Union's solicitors are Gifford Devine. Gifford Devine's contact details are included in the Directory.

### 3.6 Prudential Supervisor

The Prudential Supervisor's contact details are included in the Directory. The address of the Prudential Supervisor may change. The current address may be obtained by contacting the Prudential Supervisor or the Credit Union by calling their respective telephone numbers set out in the Directory.

### 3.7 Bankers

At the date of this Prospectus, the Credit Union's bankers are the New Zealand Association of Credit Unions Central Fund, Westpac Banking Corporation and TSB Bank Limited. The New Zealand Association of Credit Unions Central Fund facility is not a registered bank. The Credit Union's Bankers' contact details are included in the Directory.

## **4. RESTRICTIONS ON DIRECTORS' POWERS**

The directors of the Credit Union have specific duties and obligations placed upon them by the Credit Union's Rules, which are registered pursuant to the Act. These duties and obligations place certain restrictions on the directors' powers (see rule 30). The principal restriction imposed on the Directors is to comply with all relevant provisions of the Act. A copy of the Rules can be obtained directly from the Credit Union or from the Companies Office (as set out in section 10.2 of this Prospectus).

## **5. MATERIAL CONTRACTS**

Other than contracts entered into in the ordinary course of business of the Credit Union, in the two years prior to the date this Prospectus was registered, the following material contracts ("Material Contracts") were entered into by the Credit Union:

### Deed of Amendment to the Trust Deed dated 19 October 2012

A Deed of Amendment to the Trust Deed was entered into on 19 October 2012 between the trustees of the Credit Union and Trustees Executors Limited (the Prudential Supervisor at the time of execution) in order to modify the Trust Deed to include the authorised ownership of land and / or buildings for the purpose of conducting its business and to ensure compliance with the Friendly Societies and Credit Unions Amendment Act 2012 and the requirements of the Securities Amendment Regulations (No 2) 2011.

### Deed of Retirement and Appointment dated 19<sup>th</sup> April 2013

A Deed of Retirement and Appointment was entered into on 19<sup>th</sup> April 2013 between the trustees of the

Credit Union, Trustees Executors Limited and Corporate Trust Limited (trading as Foundation Corporate Trust) to provide for the retirement of Trustees Executors Limited from the position of Prudential Supervisor in respect of the Credit Union, and the appointment of Corporate Trust Limited as Prudential Supervisor.

Deed of Modification to the Trust Deed dated 19<sup>th</sup> April 2013

The Deed of Modification to the Trust Deed was entered into on 19<sup>th</sup> April 2013 between the trustees of the Credit Union and Corporate Trust Limited (in its capacity as Prudential Supervisor) in order to modify the Trust Deed to include certain matters authorised by an extraordinary resolution passed at a meeting of members pursuant to the Trust Deed. Those modifications related to the terms of the remuneration of the Prudential Supervisor, the addition of a power to remove the Prudential Supervisor and alterations to the provisions regarding appointment of a new Prudential Supervisor (described further on page 11 of this Prospectus).

**6. PENDING PROCEEDINGS**

There are no legal proceedings or arbitration's pending at the date this Prospectus that may materially affect in an adverse manner, the Credit Union.

**7. RANKING OF SECURITIES**

The aggregate amount of securities, being the shares issued by the Credit Union to its existing members, that ranked in point of security equally with the shares offered by the Credit Union to potential and existing members pursuant to this Prospectus, was \$5,215,980 as at 31 March 2013.

There are no securities that are secured by charge over the property of the Credit Union that rank in point of security ahead of the shares offered by the Credit Union to potential and existing members pursuant to this Prospectus. There is however, the settlement bond, more particularly referred to in clause 11 "Transactional Banking Facilities".

**8. PROVISIONS OF TRUST DEED AND OTHER RESTRICTIONS ON THE CREDIT UNION**

**8.1 Trust Deed**

The Credit Union has appointed the Prudential Supervisor the statutory trustee of the offer of shares detailed in this Prospectus for the purpose of the Securities Act 1978. The respective rights and obligations of the Credit Union and the Prudential Supervisor are recorded in the Trust Deed dated 4 July 2001 as modified by the Deed of Modification dated 29 October 2002 (the "2002 Deed of Modification"), the Deed of Modification dated 19 November 2010 (the "2010 Deed of Modification"), the Deed of Amendment dated 19 October 2012 (the "2012 Deed of Amendment") and the Deed of Modification dated 19 April 2013 (the "2013 Deed of Modification"). The Prudential Supervisor is licensed to fulfil this role pursuant to the Securities Trustees and Statutory Supervisors Act 2011. Corporate Trust Limited (trading as Foundation Corporate Trust) was appointed as the Prudential Supervisor by a Deed of Retirement and Appointment dated 19 April 2013. A copy of the Deed of Retirement and Appointment has been filed with the Registrar.

A full copy of the Trust Deed can be obtained from the Credit Union or the Companies Office (refer to the "Places of Inspection of Documents" on page 19 for further details). A summary of the main provisions of the Trust Deed is set out below.

The Trust Deed may be modified by agreement between the Credit Union and the Prudential Supervisor in the near future. No agreement as to new terms has yet been reached.

To secure the repayment of monies owing on members' shares, to the extent permitted by law, the Credit Union has granted the Prudential Supervisor a first ranking equitable assignment by way of security ("Equitable Assignment") over all of the Credit Union's property, including the Credit Union's present and future undertaking, property, assets and revenues, including the proceeds received for the subscription of shares and unpaid share capital (if any) ("Property").

The Credit Union may exercise all rights, powers and remedies in relation to the Property for any purpose in the course of its ordinary business. However, the Credit Union's right to deal with the Property will be revoked upon the occurrence of an Enforcement Event or Review Event (as defined in the Trust Deed).

The Credit Union has covenanted not to grant any charges or other security interests that rank ahead of, or equal to, the Equitable Assignment without the Prudential Supervisor's prior written consent.

The Credit Union has also granted the Prudential Supervisor a security interest over all its present and after-acquired personal property.

The Credit Union must maintain a prudential reserve at 10% of the total tangible assets of the Credit Union. The Credit Union must transfer an amount equal to 10% of the total Credit Union's gross income from interest receipts to the prudential reserve until the 10% is reached.

#### Financial Ratios

The Credit Union has further covenanted, subject to the terms and conditions contained in the Trust Deed and the 2010 Deed of Modification, not to:

- (a) permit its total liabilities to exceed 90% of its total tangible assets;
- (b) permit its secured liabilities to exceed 1% of its total tangible assets;
- (c) permit its liquid assets to be less than 8% of its total tangible assets;
- (d) permit the total amount of interest or dividends paid in cash over a six (6) month period or more, to exceed cash actually received over the same period;
- (e) fail to ensure that it has sufficient assets at times to discharge all debts as they fall due;
- (f) permit the aggregate of its secured investments, unsecured investments and listed securities, to exceed 15% of its total tangible assets;
- (g) permit the aggregate of its unsecured investments to exceed 1% of its total tangible assets.
- (h) fail to ensure that at all times its Capital Ratio is not less than 10% (ten per cent). This ratio is to be calculated by measuring the Credit Union's capital against specified weightings for credit, market and operational risks that the Credit Union is exposed to in the course of its business, in accordance with the requirements of the Deposit Takers (Credit Ratings, Capital Ratios and Related Party Exposures) Regulations 2010;
- (i) fail to ensure that its exposure to related parties does not exceed a maximum limit ratio of 15% of the Credit Union's capital. This ratio is calculated in accordance with the provisions of the Deposit Takers (Credit Ratings, Capital Ratios, and Related Party Exposures) Regulations 2010. Related parties to the Credit Union include directors, senior management and relatives of directors and senior managers.

Under the Trust Deed the Credit Union also gives other covenants to the Prudential Supervisor in order to better assure the performance of its obligations to its members. Some of the most important covenants which the Credit Union has given are:

- To comply with the Act;
- To meet all its registration, filing and reporting obligations;
- To provide copies of all communications to and from regulatory bodies to the Prudential Supervisor;
- To meet all obligations to security holders;
- To notify the Prudential Supervisor immediately it becomes aware that an event has occurred which would allow the Prudential Supervisor to review the Credit Union's compliance with the Trust Deed ("Review Event") or to enforce its rights under the Trust Deed ("Enforcement Event")
- To maintain its register of members, comply with all its obligations, pay its debts timorously and conduct its business in a proper and efficient manner;
- To comply with the Prudential Standards Manual prepared by the NZACU with the approval of the Prudential Supervisor;

- Not to declare dividends or (except with the consent of the Prudential Supervisor) issue shares while in breach of the Trust Deed or Securities Act 1978;
  - Not to change its rules without the prior consent of the Prudential Supervisor;
  - Not to acquire or dispose of any asset from or to, or engage the services of, any Associated Person (including directors and trustees of the Credit Union) other than for full market value, on an arms-length basis and in the ordinary course of the Credit Union's business and only after having given not less than 10 business days' notice of its intention to do so to the Prudential Supervisor;
  - To promptly provide to the Prudential Supervisor written notice of all present and after acquired serial numbered personal property and such other details as are necessary to enable the registration of a valid financing statement or financing change statement in respect of the Credit Union's personal property by the Prudential Supervisor;
- 
- At all times comply with a risk management programme that meets the requirements of the Reserve Bank of New Zealand Act 1989.

The Credit Union is also required to furnish the Prudential Supervisor with half-yearly unaudited financial statements and annual audited financial statements prepared in accordance with generally accepted accounting practice. The directors are also required to furnish the Prudential Supervisor with a quarterly certificate detailing the Credit Union's compliance with the ratios set out in the Trust Deed and whether any security interests have been created or permitted to exist in respect of the Credit Union's personal property, as well as with monthly internal accounts. The Prudential Supervisor is entitled to rely on a director's quarterly certificate to assess whether or not the Credit Union is complying with its covenants under the Trust Deed.

#### Prudential Supervisor's Obligations

The Prudential Supervisor is appointed to act in the interests of the members of the Credit Union, by monitoring the compliance by the Credit Union of its obligations under this Prospectus, its Rules, the Trust Deed and the Act. The Prudential Supervisor is under a duty to exercise reasonable diligence to ascertain whether or not the Credit Union has:

- (a) committed any breach of the Trust Deed or any of the conditions of issue of the shares, in which the Prudential Supervisor must do all the things that it is empowered to do to cause any breach of those terms to be remedied (except if it is satisfied that the breach will not materially prejudice the security (if any) of the shares or the interests of members); and
- (b) sufficient assets to meet its obligations to members, as they fall due.

The Trust Deed gives the Prudential Supervisor wide ranging powers to enforce the Credit Union's obligations under the Trust Deed, including the power to appoint a receiver, following an Enforcement Event (as defined in the Trust Deed).

#### Removal of Prudential Supervisor

The Credit Union may remove the Prudential Supervisor at any time, without giving any reason, by giving at least 30 days' written notice to the Prudential Supervisor (or a lesser period of notice as agreed by the Prudential Supervisor).

The members may, by extraordinary resolution, remove the Prudential Supervisor, by giving at least 30 days' written notice to the Prudential Supervisor (or a lesser period of notice as agreed by the Prudential Supervisor).

#### Appointment of new Prudential Supervisor

The trustees of the Credit Union have the power to appoint a new Prudential Supervisor upon the recommendation of the Audit Committee. If the trustees fail to appoint a new Prudential Supervisor within 60 days of receiving notice of the Prudential Supervisor's intention to retire or its removal from office (as the case may be), then the members may exercise such power by extraordinary resolution. In each case, the new Prudential Supervisor must hold a licence under the Securities Trustees and Statutory Supervisors Act 2011 that covers the shares in the Credit Union and must accept such appointment.

## 8.2 Prudential Supervisor's Statement

There is attached to the Fifth Schedule, a statement by the Prudential Supervisor that at the date of this Prospectus:

- (a) the offer of the shares in the Credit Union, complies with any relevant provisions of the Trust Deed;
- (b) the Prudential Supervisor does not guarantee repayment of the any monies that may become payable by the Credit Union to any member.

## 8.3 Other Restrictions on the Credit Union

The introduction of the Friendly Societies and Credit Unions Amendment Act 2012 has removed many of the legislative restrictions placed upon credit unions in the areas discussed below. However, some of these legislative restrictions are mirrored in the Rules and / or the Trust Deed and therefore the Credit Union must still comply with these restrictions unless the Rules and / or Trust Deed are amended.

Section 101(2) of the Act provides that a credit union may take no action or do anything which is not directly pursuant to or incidental to its objects or in furtherance of them or is in contravention of the Rules or the Act. The objects of the Credit Union are set out in paragraph 1.4 of this Prospectus under the heading "Description of Activities of the Credit Union".

The Credit Union may only borrow money in accordance with and is authorised by its Rules and Trust Deed. The Trust Deed restricts borrowing on terms and conditions approved by the Prudential Supervisor and to not more than 15% of paid up share capital and reserves.

Rule 41(f) of the Credit Union's Rules states that the trustees shall only borrow monies on such terms and conditions that are approved by the Board.

The Credit Union is therefore authorised to borrow money under the Rules, but it may not under the Trust Deed until such time as consent has been sought.

Section 110 provides that the Credit Union may make loans to members for such purposes and upon such security (or without security) and conditions as the Rules of the Credit Union may provide generally or specifically.

The Rules state that the Credit Union may make loans to members for such purposes and upon such security and conditions as shall be determined by the Board and the Trust Deed places certain restrictions on loans to members (clauses 5.2(1) and (m)).

The Credit Union may therefore make loans to members under its Rules provided it stays within the parameters set out in the Trust Deed.

A credit union is not incorporated. Section 112 of the Act provides that all the Credit Union's property vests in the trustees for the use and benefit of the Credit Union's members. The names of the current trustees of the credit union may be found in the Sixth Schedule.

Section 113 provides that the Credit Union may hold land or buildings if authorised by, and in accordance with, the Rules and Trust Deed. It may hold an interest in land as security for a loan for a member.

Under section 117 the Credit Union may invest its funds only if the investment is authorised by, and in accordance with, its Rules and Trust Deed, or with an Association of Credit Unions of which it is a member (in the Credit Union's case, the NZACU) or with a bank.

The Rules and Trust deed do not specifically state what investments are authorised. Therefore, as it stands, the Credit Union only has the ability to invest its surplus funds with an association of credit unions, or a bank, and not in any other investment.

## **9. OTHER TERMS OF OFFER AND SECURITIES**

Some provisions of the Act make an investment in a credit union unique. In addition to those sections listed under "Other Restrictions on the Credit Union" at 8.3 above, the following should also be noted:

### **Risks**

Risk is an integral part of investing. No undertaking is made to Members or prospective members about returns on their shares. If the risk factors set out below materially and adversely affect the Credit Union it is possible that members may lose some or all of the money they invested, they may not receive returns on their shares or the share value may fall.

The principal risks of investing in shares in the Credit Union are:

#### **(1) Members' returns**

The rate of return on members' shares is dependent on annual surpluses being earned through the ongoing profitability of the Credit Union. ~~The rate of return on the members' shares is therefore dependent on the ability of the board and senior management of the Credit Union 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 members' shares, pay no return on member's shares or reduce share value.

#### **(2) General market risk**

Like all businesses, the financial performance of the Credit Union may be affected by the state of the New Zealand and international economies. Economic slowdowns, as New Zealand is currently experiencing, will generally have a negative impact on demand for goods and services and thus, income, which may in turn adversely affect a member's ability to invest in shares in the Credit Union and to meet his or her loan payment obligations to the Credit Union. This in turn may affect the profitability of the Credit Union and returns paid to members. The Directors are aware of and will take the necessary action when, and if, required.

#### **(3) General political risk**

Further, policies and decisions of the Government and other regulatory bodies in New Zealand, may impact on the financial performance of the Credit Union and returns paid to members. For example, the imposition of direct taxation may reduce the Credit Union's profitability. A change of Government policy that affects the income of the Credit Union's members and thus the members' ability to invest in shares in the Credit Union and meet loan payment obligations, may reduce the Credit Union's profitability.

#### **(4) Security position risk**

The Credit Union may take security from a member for loan advances to him or her. To the extent that the Credit Union does not take security or takes security that ranks subsequent in priority to another party's security then, in a default situation:

- (a) The ability of the Credit Union to realise the member's assets may be restricted or prohibited by the terms of any prior ranking security; and
- (b) Where the member's assets are realised, the member may be unable to repay some or all of the funds advanced by the Credit Union.

The Credit Union may incur losses in the above circumstances, which may affect its profitability and returns payable to members. Notwithstanding this, the Credit Union makes provision for doubtful debts in its financial statements in accordance with industry standards to minimise this risk.

#### **(5) Security pricing risk**

Before making a loan the Credit Union assesses the debt servicing ability of the member and any security offered by him or her for a loan advance. Where security is taken for a loan advance, the value of securities taken may fluctuate due to market prices for the same. If the market price of a security has decreased then it is possible that the Credit Union will not recover all moneys owed to it by a member in a default situation where it seeks to realise that security.

#### **(6) Risk and return**

Before making an investment in shares, members and prospective members should consider the special trade factors and risks for that investment against the returns offered. Investors should be aware that there is a direct relationship between the risks of the investment and the return offered.

#### **(7) Competition**

Under the Act the Credit Union is restricted as to the persons it may accept as members. This restriction is

called the Credit Union's common bond, and is specified in the Credit Union's Rules. As the Credit Union is competing with banks, other Credit Unions and companies operating in the savings and loans market, restrictions on membership may affect the Credit Union's profitability and the returns payable to members.

**(8) Taxation**

An investment in shares in the Credit Union will have taxation implications. The effect of taxation will vary according to each member's personal circumstances. Prospective and existing members are encouraged to obtain independent professional advice on their personal circumstances.

**(9) Common Bond**

With a common bond centred around the health industry and geographic area, this Credit Union is particularly vulnerable to any downturn and consequent staff redundancies in this industry, or any adverse change in the working conditions of its membership or an economic downturn in the geographical region of its common bond.

**(10) Compliance**

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 members. In particular, the Credit Union has been impacted upon by costs of complying with the Financial Advisors Act 2008 and the Financial Service Providers (Registration and Dispute Resolution) Act 2008 and the Securities Amendment Act 2011.

The Credit Union will be impacted upon by the costs of complying with the Anti-Money Laundering and Countering Financing of Terrorism Act 2009 which provides (among other things) for the implementation of a compliance programme and a more rigorous customer due diligence process.

**(11) Insolvency**

The main risk to members in investing in shares in the Credit Union is if the Credit Union were to become insolvent. The Credit Union could become insolvent and/or be wound up if a significant amount of the loans due for repayment remain unpaid for an extended period of time, or if, the Credit Union is, for any reason, unable to pay its debts as they fall due.

If the Credit Union becomes insolvent:

- Members will not be required to pay any additional money, other than that already owing to the Credit Union;
- The Credit Union is legally obliged to reject all requests for withdrawals from members' share accounts, and shall not be entitled to make any further loans;
- All members' claims will rank equally (including those who invest under a later prospectus); and
- Some specific claims will rank ahead of members' claims, for example, employees' unpaid wages, insolvency costs and Prudential Supervisor's fees.

**(12) Winding Up**

On a dissolution or winding up of the Credit Union, members will receive no more than \$1.00 per share plus any returns owed. Members do not share in any surplus arising from the sale of the Credit Union's assets. Such surplus will be applied in accordance with the Rules and paid to either another Credit Union, the NZACU or, subject to members' votes, be applied to charitable purposes.

**(13) Surety and Insurance**

The Act requires that the Credit Union be insured against fraud or dishonesty and that the officers of the Credit Union give security for the proper performance of their duties. Both of these matters are covered by the Credit Union's insurance policy with Vero Insurance Liability Limited.

**Other Terms**

All the terms of the offer of shares in the Credit Union are set out in this Prospectus, other than those:

- (a) implied by law; or
- (b) set-out in a document that:
  - (i) is registered with a public official;
  - (ii) is available for public inspection; and
  - (ii) is referred to in this Prospectus.

**10. PLACES OF INSPECTION OF DOCUMENTS****10.1 Credit Union**

Each member and prospective member is entitled to obtain on request and free of charge, the most recent copies of:

- (a) the Credit Union's Rules;
- (b) this Prospectus, the Investment Statement, the Trust Deed, the 2002 Deed of Modification, the 2010 Deed of Modification, the 2012 Deed of Amendment, the 2013 Deed of Modification and the Deed of Retirement and Appointment dated 19 April 2013; and
- (c) the Credit Union's most recent audited financial statements.

The documents can be requested during normal office hours from the offices of the Credit Union. The Credit Union's contact details are included in the Directory.

The documents can also be inspected during normal office hours at the Credit Union's office. The Credit Union's contact details are included in the Directory.

**10.2 Companies Office**

Copies of:

- (a) the Credit Union's Rules;
- (b) this Prospectus, the Trust Deed, the 2002 Deed of Modification, the 2010 Deed of Modification, the 2012 Deed of Amendment, the 2013 Deed of Modification and the Deed of Retirement and Appointment dated 19 April 2013;
- (c) the Credit Union's audited financial statements; and
- (d) All other documents relating to the registration of the Credit Union are also filed on a public register at the Companies Office on the Register of Financial Service Providers and are available for inspection through the Register of Financial Service Providers website and also the Companies Office website [www.companies.govt.nz](http://www.companies.govt.nz) [under "Search Other Registers"]. Copies may also be obtained by telephoning the MED Business Service Centre on (0508) 266 726. Any information not available on-line can be obtained (a fee may be payable) by telephoning the Companies Office Contact Centre at the phone number shown in the Directory.

The Companies Office will not charge a fee for producing the Credit Union's file, but will charge a fee for each photocopy made of any part of the file.

**11. OTHER MATERIAL MATTERS**

- (a) The Credit Union is not a registered bank in terms of the Reserve Bank of New Zealand Act 1989;
- (b) There are no other material matters relating to the offer of shares under this Prospectus, other than those set out in this Prospectus (other than contracts entered into in the ordinary course of business).
- (c) **No Credit Rating**  
Under the Reserve Bank of New Zealand Act 1989, every deposit taker, including credit unions, is required to have a current rating of its creditworthiness given by an approved credit 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 the Credit Union will be operating on the basis of the exemption for that forthcoming year. Figures supporting the director's statement must be attached to the statement.
- (d) **2012 Financial Matters**  
The Credit Union ran at a year to date loss for October, November and December 2012. As there was no surplus available for distribution to members, accordingly, the Credit Union sought permission from Trustees Executors Limited (in its capacity as the Prudential Supervisor at the time) to pay interest to its members as follows:
  - On 10 October 2012, the Credit Union applied for permission to pay interest and dividends in excess of earnings, for the months of October and November 2012, and the consent was granted by Trustees

Executors Limited in a letter dated 23 October 2012.

- On 28 December 2012, the Credit Union applied for permission to pay distributions in excess of earnings for the month of December 2012, and the consent was granted by Trustees Executors Limited in a letter dated 28 December 2012.
- On 21 January 2013, the Credit Union applied for permission to pay distributions in excess of earnings for the month of January 2013 due to anticipated losses, and the consent was granted by Trustees Executors Limited in a letter dated 31 January 2013. The Credit Union resumed to a modest year to date surplus in January 2013.

(e) **Transactional Banking Facilities**

In December 2012 the Credit Union entered into various documents which allow the Credit Union to use the Mastercard brand and offer Mastercard services to its members.

The terms of the right to use such facilities were negotiated by the NZACU on behalf of the Credit Union. Under the documents the Credit Union has agreed to indemnify Westpac against any losses caused by the Credit Union to Westpac in connection with the Credit Union's use of the transactional banking facilities. The Credit Union is also required to lodge a settlement bond of a maximum sum of 3% of its total tangible assets with the NZACU to cover any losses by the NZACU or Westpac in connection with the facilities. This settlement bond will rank in priority ahead of members' deposits.

(f) **Previous Breach of Trust Deed**

Pursuant to the Friendly Societies and Credit Unions Amendment Act 2012 ("Amendment Act"), section 113(1)(b) of the Act now states that a credit union may, if authorised by and in accordance with its Rules and Trust Deed, purchase, hold, take lease, or otherwise provide, any land or building.

The Credit Union owns a building on a site owned by the Hawke's Bay Hospital and acquired the building prior to the Amendment Act being passed. The Credit Union's Rules and Trust Deed previously did not authorise the Credit Union to hold a building. Therefore, the Credit Union was holding a building without authorisation and was in breach of the Act.

Clause 5.1(b) of the Trust Deed states that the Credit Union shall at all times comply with all provisions of the Act. As the Credit Union was in breach of the Act, it was also in breach of the Trust Deed. Clause 5.2(b) states that the Credit Union must not, without the consent in writing of the Prudential Supervisor, offer or issue to the public any securities whilst in breach of the Trust Deed.

Trustees Executors Limited (as the Prudential Supervisor at the time) granted its consent to the offer and issue of securities under Clause 5.2(b) on 10 September 2012 on the condition that the Credit Union's Trust Deed be amended to comply with the Amendment Act within 90 days of the date of the letter. Trustees Executors Limited advised that the Credit Union's Rules may be amended at its next AGM in 2013.

The Credit Union is now authorised to hold land and to own the building. The Credit Union amended its Trust Deed pursuant to a Deed of Amendment to Trust Deed dated 19 October 2012 and an amendment to the Credit Union's Rules was registered on 5 July 2013. Accordingly the Credit Union is no longer in breach of its Trust Deed or its Rules.

## **12. GUARANTORS**

No persons guarantee the repayment of the value of the shares, or the payment of any returns payable on shares held in the Credit Union.

## **13. SUMMARY FINANCIAL STATEMENTS**

The summary of the financial statements of the Credit Union for the five years ended 31 March 2013, as required by clause 8 of Schedule 2 of the Securities Regulations 2009, where applicable, are set out in the First Schedule to this Prospectus.

## **14. FINANCIAL STATEMENTS**

The audited financial statements of the Credit Union for the year ending 31 March 2013 have been registered under and comply with the Financial Reporting Act 1993. The registered financial statements, registered 27 June 2013, include the information required by clause 17 of Schedule 2 of the Securities Regulations 2009.

## **15. ACQUISITION OF BUSINESS OR SUBSIDIARY**

The Credit Union has not acquired a business, nor did any body corporate become a subsidiary of the Credit Union, in the two (2) years proceeding the date this Prospectus was delivered to the Registrar of Financial Service Providers for registration.

**16. DIRECTORS STATEMENT**

The directors after due enquiry in relation to the period between the date of the latest balance sheet as at 31 March 2013 as attached to the Third Schedule, and the date of registration of this Prospectus, are of the opinion that no circumstances have arisen that materially adversely affect:

- (a) the trading or profitability of the Credit Union;
- (b) the value of the Credit Union's assets;
- (c) the ability of the Credit Union to pay its liabilities due within the next twelve (12) months.

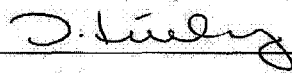
SIGNED BY the directors of Credit Union Bay Health



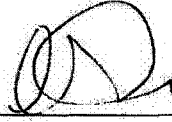
Carol Ann Priest



Christine Ruth Lord



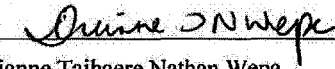
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Annette Louise Davis



Kim Ellen Henneker



Dianne Taihaere Nathan Wepa

**Index of Matters Required to be Disclosed by the  
Second Schedule of the Securities Regulations 2009**

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The "Borrowing Group" comprises only the Credit Union

**FIRST SCHEDULE**  
**SUMMARY FINANCIAL STATEMENTS**  
[Paragraph 8]

**Summary of Comprehensive Income Statement (in NZD\$000)**  
**For the year ended 31 March**

	2013	2012	2011	2010	2009
Operating Revenue					
- Interest Revenue	414	430	436	429	473
- Other income	84	88	107	85	70
	<u>499</u>	<u>518</u>	<u>543</u>	<u>514</u>	<u>543</u>
Operating Expenses					
- Total Dividends/Interest Expense	115	111	100	102	135
- Total Other Expenses	397	420	425	390	437
	<u>512</u>	<u>531</u>	<u>525</u>	<u>492</u>	<u>572</u>
Net (Loss) Surplus Before Appropriation	(13)	(13)	18	22	(29)
- Transfer to General Reserve	0	0	0	0	0
- Transfer to Asset Reserve	0	0	0	0	0
- Transfer to Education Fund	0	0	2	0	0
Retained Earnings for Period	<u>(13)</u>	<u>(13)</u>	<u>16</u>	<u>22</u>	<u>(29)</u>

**Summary of Changes in Equity (in NZD\$000)**  
**For the year ended 31 March**

	2013	2012	2011	2010	2009
Opening Equity	750	763	745	723	752
Total Comprehensive Income	(13)	(13)	18	22	(29)
Closing Equity	<u>737</u>	<u>750</u>	<u>763</u>	<u>745</u>	<u>723</u>

**Summary of Balance Sheet (in NZD\$000)**  
**As at 31 March**

	2013	2012	2011	2010	2009
Cash & Cash Equivalents	3,330	2,882	2,449	2,035	1,746
Trade and other receivables	21	21	19	16	8
Loans to members	2,388	2,353	2,619	2,624	2,825
Property, plant and equipment	215	229	239	254	265
Capital Notes	86	86	86	67	67
Total Assets	<u>6,040</u>	<u>5,571</u>	<u>5,412</u>	<u>4,998</u>	<u>4,911</u>
Total Tangible Assets	<u>6,040</u>	<u>5,571</u>	<u>5,412</u>	<u>4,998</u>	<u>4,911</u>
Trade and other payables	87	80	79	61	74
Member deposits	5,216	4,741	4,570	4,191	4,114
Total Liabilities	<u>5,303</u>	<u>4,821</u>	<u>4,649</u>	<u>4,252</u>	<u>4,188</u>
Total Equity	<u>737</u>	<u>750</u>	<u>763</u>	<u>745</u>	<u>723</u>

**Summary Cashflows (in NZD\$000)**  
For the year ended 31 March

	2013	2012	2011	2010	2009
Net cashflows from (or used in) operating activities	5	12	36	8	38
Net cashflows from (or used in) investing activities	32	251	(292)	(11)	(34)
Net cashflows from (or used in) financing activities	475	170	380	77	64
Total Net increase (decrease) in cash held	448	433	124	75	68
Cash at beginning of financial period	2882	2449	300	225	157
Cash at end of financial period	3330	2882	424	300	225

The Summary of Financial Statements are for the reporting entity, Credit Union Bay Health. These Summary Financial Statements were authorised for issue, by the Board, on the date of the Prospectus. The specific disclosures included in this Summary Financial Statements have been extracted from the full financial statements for each relevant period, which comply with and are registered under the Financial Reporting Act 1993.

The full financial statements for each relevant period have been audited and each auditor's report is unqualified.

The full financial statements have been authorised for issue as follows:

- a. for the year ended 31 March 2013 on 10 June 2013
- b. for the year ended 31 March 2012 on 01 June 2012
- c. for the year ended 31 March 2011 on 19 May 2011
- d. for the year ended 31 March 2010 on 5 June 2010
- e. for the year ended 31 March 2009 on 8 June 2009

The full financial statements have been prepared in accordance with NZ GAAP ("Generally Accepted Accounting Practice").

The Credit Union is a public-benefit entity and an individual entity.

The amounts stated for 2013 to 2009 have been taken from audited financial statements, with rounding to thousands and complied with NZ IFRS ("New Zealand equivalents to International Financial Reporting Standards") and other applicable Financial Reporting Standards as appropriate for public benefit entities.

The presentation currency is in New Zealand dollars.

The Summary Financial Statements do not include all of the disclosures required in the full financial statements and cannot be expected to provide as complete an understanding as provided by the full financial statements.

Please refer to the paragraph headed 'Places for Inspection of Documents' on page 19 for details on how to obtain a copy of the full financial statements.

The Summary Financial Statements have been prepared in accordance with *FRS-43 Summary Financial Statements*.

No amounts have been provided for or credited by way of taxation as the Credit Union income is exempt under Section CW 44 of the Income Tax Act 2007.

The equity method of accounting has not been used.

There are no contingent liabilities.

There have been no changes in accounting policies during the periods presented.

SECOND SCHEDULE  
AUDITORS REPORT



The Directors  
Credit Union Bay Health  
C/- Hawkes Bay District Health Board  
Private Bag  
Hastings

9 September 2013

Dear Directors

***Independent Auditors' Report for Inclusion in the Prospectus***

As auditors of Credit Union Bay Health ("the Credit Union") we have prepared this report pursuant to clause 22 of Schedule 2 of the Securities Regulations 2009 for inclusion in a prospectus issued by the Credit Union to be dated 9 September 2013 ("the Prospectus").

The Prospectus includes summary financial statements in the first schedule which comprise the summary balance sheet as at 31 March 2013, the summary statement of comprehensive income, the summary statement of changes in equity, and the summary statement of cash flows for the year then ended. The summary financial statements do not contain all the disclosures required for full financial statements under generally accepted accounting practice in New Zealand. Reading the summary financial statements, therefore is not a substitute for reading the audited financial statements of the Credit Union.

This report is made solely to the Directors of the Credit Union in accordance with clause 22 of Schedule 2 to the Securities Regulations 2009. Our work has been undertaken so that we might state to the Directors and the Credit Union as a body those matters we are required to state to them in a report from the auditor and for no other purpose. To the fullest extent permitted by law and subject to section 61 of the Securities Act 1978, we do not accept or assume responsibility to anyone other than the Directors and members of the Credit Union, as a body, for this report, or for the opinions we have formed. In addition, we take no responsibility for, nor do we report on, any part of the prospectus not specifically mentioned in our report.

***Directors' Responsibilities***

The Credit Union's Directors are responsible for the preparation and presentation of:

- (a) the financial statements prepared in accordance with generally accepted accounting practice in New Zealand which give a true and fair view of the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and prepared in accordance with the Financial Reporting Act 1993;
- (b) the summary financial statements of the Credit Union for the years ended 31 March 2009, 2010, 2011, 2012 and 2013 as required pursuant to clause 8 of Schedule 2 of the Securities Regulations 2009; and



- (c) disclosure of acquisitions of businesses or subsidiaries as required pursuant to clause 9 of Schedule 2 of the Securities Regulations 2009; and
- (d) the ranking of securities of the Credit Union as at 31 March 2013 as required pursuant to clause 13 of Schedule 2 of the Securities Regulations 2009.

***Auditors' Responsibilities***

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The scope of our audit of the financial statements is defined in our engagement letter dated 14 February 2013.

We are also responsible for reporting, in accordance with clause 22(1)(h) of Schedule 2 of the Securities Regulations 2009, on the following matters which have been prepared and presented by the Directors:

- (a) the amounts included in the summary financial statements for the years ended 31 March 2009, 2010, 2011, 2012 and 2013; and
- (b) amounts disclosed as required pursuant to clause 9 (2) and (3) of Schedule 2 of the Securities Regulations 2009 where there has been an acquisition of a business or subsidiary; and
- (c) the amounts included in the ranking of securities as at 31 March 2013 as required pursuant to clause 13 of Schedule 2 of the Securities Regulations 2009.

We have undertaken procedures pursuant to clause 22(1)(h) of Schedule 2 of the Securities Regulations 2009. Our engagement has been conducted to provide reasonable assurance that, in all material respects, the amounts set out in the summary financial statements included in the Prospectus have been correctly taken from the audited financial statements of the Credit Union.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other than in our capacity as auditors we have no relationships with or interests in the Credit Union.

***Opinion on the Financial Statements***

Our audit of the financial statements for the year ended 31 March 2013 was completed on 10 June 2013 and our unmodified opinion was issued on that date. We have not undertaken any additional audit procedures in relation to those financial statements from the date of the completion of our audit.

***Opinion on the Summary Financial Statements***

In our opinion, and pursuant to clause 22(1)(h) of Schedule 2 of the Securities Regulations 2009, the summary financial statements and applicable disclosures in the first schedule of the Prospectus and taken from the audited financial statements of the Credit Union for the years ended 31 March 2009, 2010, 2011, 2012 and 2013:

- are consistent, in all material respects, with those audited financial statements; and
- have been correctly taken from the audited financial statements of the Credit Union for those years from which they were extracted.

**Opinion on the Ranking of Securities**

In our opinion, and pursuant to clause 22(1)(h) of Schedule 2 of the Securities Regulations 2009, the ranking of securities, on page 13 of the Prospectus and taken from the audited financial statements of the Credit Union for the year ended 31 March 2013:

- are consistent, in all material respects, with those audited financial statements; and
- have been correctly taken from the audited financial statements of the Credit Union for the year ended 31 March 2013 from which they were extracted.

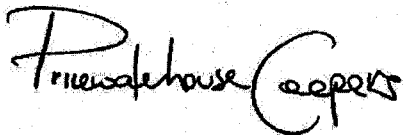
**Other Matter**

Pursuant to clauses 9(2) and 9(3) of Schedule 2 of the Securities Regulations 2009 there are no disclosures on which to report.

**Restriction on Use**

This report has been prepared for inclusion in the prospectus for the purpose of clause 22 of Schedule 2 to the Securities Regulations 2009. We disclaim any responsibility for reliance on this report or the amounts included in the summary financial statements, for any purpose other than that for which they were prepared.

Yours faithfully



Chartered Accountants  
9 September 2013

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**THIRD SCHEDULE FINANCIAL  
ACCOUNTS**

**CREDIT UNION BAY HEALTH**

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 MARCH 2013**

	Note	2013 \$	2012 \$
<b>TOTAL OPERATING REVENUE</b>		499,119	518,208
Interest revenue	2	413,941	430,010
Interest expenditure	2	<u>114,137</u>	<u>111,248</u>
<b>NET INTEREST REVENUE</b>		<b>299,804</b>	<b>318,762</b>
Other Income	2	<u>83,913</u>	<u>88,198</u>
		<b>383,717</b>	<b>406,960</b>
<b>EXPENDITURE</b>			
Bad & doubtful debts / (Recovery)	2	(4,795)	9,826
Employee benefits		184,919	183,458
Occupancy		5,060	5,520
Depreciation	2	14,408	15,779
Other expenditure	2	<u>197,414</u>	<u>205,784</u>
<b>TOTAL EXPENDITURE</b>		<b>397,006</b>	<b>420,367</b>
<b>OPERATING (LOSS) / PROFIT</b>		<b><u>(13,289)</u></b>	<b><u>(13,407)</u></b>
Other Comprehensive Income		-	-
<b>TOTAL COMPREHENSIVE INCOME</b>		<b><u><u>(13,289)</u></u></b>	<b><u><u>(13,407)</u></u></b>

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

## CREDIT UNION BAY HEALTH

### STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2013

	Retained Earnings	Other Reserves	Total Members Funds
	\$	\$	\$
<b>Balance at 1 April 2011</b>	411,435	352,000	763,435
Comprehensive Income	<u>(13,407)</u>	<u>-</u>	<u>(13,407)</u>
<hr/>			
Transfers to and from reserves:			
- general reserve	(50,000)	50,000	-
Retained earnings			
<b>Balance at 31 March 2012</b>	<u>4</u> <u>348,028</u>	<u>402,000</u>	<u>750,028</u>
<b>Balance at 1 April 2012</b>	348,028	402,000	750,028
Comprehensive Income	<u>(13,289)</u>	<u>-</u>	<u>(13,289)</u>
Transfers to and from reserves:			
- general reserve	-	-	-
Retained earnings			
<b>Balance at 31 March 2013</b>	<u>4</u> <u>334,739</u>	<u>402,000</u>	<u>736,739</u>

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

# CREDIT UNION BAY HEALTH

## BALANCE SHEET AS AT 31 MARCH 2013

	Note	2013	2012
		\$	\$
<b>MEMBERS' FUNDS</b>			
Retained earnings	4	334,739	348,028
Other reserves	4	402,000	402,000
<b>TOTAL MEMBERS FUNDS</b>		<b>736,739</b>	<b>750,028</b>
<b>ASSETS</b>			
Cash & Cash Equivalents	5	2,695,072	1,892,073
Deposits at NZACU	5	635,000	990,000
Trade & other receivables	6	20,641	20,866
Loans to members	7-8	2,387,666	2,352,686
Property, plant & equipment	9	215,081	229,019
NZACU Capital Notes	10	86,281	86,281
<b>TOTAL ASSETS</b>		<b>6,039,741</b>	<b>5,670,925</b>
<b>LIABILITIES</b>			
Trade & other payables	11	87,022	80,194
Members' deposits	12	5,215,980	4,740,703
<b>TOTAL LIABILITIES</b>		<b>5,303,002</b>	<b>4,820,897</b>
<b>NET ASSETS</b>		<b>736,739</b>	<b>750,028</b>

These Financial Statements are authorised for issue by:

Coral Priest  
Director

10 June 2013

[Signature]  
Director

10 June 2013

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

# CREDIT UNION BAY HEALTH

## CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2013

	Note	2013 \$	2012 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest received		414,166	425,403
Fees and commissions received		-	-
Bad loans recovered		1,265	-
Other income		83,913	90,538
Payments to suppliers and employees		(494,702)	(504,241)
Net cash provided by operating activities	23	<u>4,642</u>	<u>11,700</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net movement in members' loans		(31,450)	256,826
Payments for property, plant and equipment		(470)	(5,818)
Net cash provided by/(used in) investing activities		<u>(31,920)</u>	<u>251,008</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net movement in member deposits		475,277	170,306
Net cash provided by financing activities		<u>475,277</u>	<u>170,306</u>
Total net increase in cash held		447,999	433,014
Cash at the beginning of the period		<u>2,882,073</u>	<u>2,449,059</u>
Cash at the end of the period	5	<u><u>3,330,072</u></u>	<u><u>2,882,073</u></u>

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



# CREDIT UNION BAY HEALTH

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

### *General Information*

#### *Reporting Entity*

The Credit Union is a financial institution that is registered 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 are required to be registered to keep the current prospectus current and have also been prepared in accordance with New Zealand Generally Accepted Accounting Principles ("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. Compliance with NZ IFRS ensures that the financial statements also comply with International Financial Reporting Standards ("IFRS").

#### *Nature of Business*

The purpose of the 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.

It operates primarily in the Hawke's Bay region of New Zealand and is incorporated in New Zealand with its registered office at Hawke's Bay Hospital, Hastings. As the Credit Union is providing a community and social benefit, it is designated a public benefit entity.

#### *Trust Deed*

To meet the requirements of The Securities Act 1978 a Trust Deed was entered into on the 4th July 2001 between the Trustees of the Credit Union and Trustees Executors Limited. Trustees Executors Limited 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.

References in these financial statements to the "Prudential Supervisor" are to Trustees Executors Limited in respect of the period up to (and including) the date of its retirement on 19 April 2013, and to Corporate Trust Limited (trading as Foundation Corporate Trust) in respect of the period after that date.

## 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*

The financial statements have been prepared on a going concern basis in accordance with the historical concept. The presentation currency used in the financial statement is the New Zealand dollar (\$NZ).

#### *(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) 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 income statement on the effective interest basis.

## CREDIT UNION BAY HEALTH

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

#### **(d) Financial Instruments Recognition**

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

#### **Financial assets at fair value through profit and loss**

Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

#### **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 costs using the effective interest rate method.

#### **Held-to-maturity Investments**

Capital Notes are defined as held to maturity investments. The capital notes are measured at cost as their fair value could not be measured reliably as there is no active market for this investment.

#### **Available for Sale Financial Assets**

The 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 payment 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 the future, with a requirement to record at fair value. The Credit Union assesses at each balance sheet 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 in the Statement of Comprehensive Income.

#### **Financial liabilities**

The Credit Union has no financial liabilities held at fair value and accounted for through the income statement as defined in NZ IAS 39.

#### **(e) Revenue**

##### **Loans Interest Revenue**

Loan interest is calculated on the daily loan balance outstanding and is charged in arrears to the members loan account on the repayment date. Loan interest is recognised in the income statement using the effective interest rate method.

##### **Investment Interest Revenue**

Investment interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

##### **Fees & Commissions Revenue**

Fees and commission are brought to account on an accrual basis when the service has been provided.

##### **Loan Origination Fees Revenue**

Loan origination fees where material, are deferred and amortised as a component of the calculation of the effective interest rate in relation to originated loans. They therefore reduce the interest recognised in relation to this portfolio of loans.

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 (CCFA).

#### **(f) Interest Expense**

Interest on members' shares is recognised as an expense in the period that it relates to using the effective interest method, which allocates the interest expense over the term of the members' shares to which they relate.

#### **(g) Impairment - Loans and Advances**

An assessment is made at each balance date whether there is objective evidence that loans are impaired. A loan is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the loan and can be reliably estimated. Objective evidence that a mortgage receivable is impaired includes observable data that comes to the attention of the directors about the following loss events:

- \* significant financial difficulty of the member;
- \* a breach of contract, such as a default or delinquency in interest or principle repayments;
- \* a concession granted to the borrower that the lender would not otherwise consider for economic or legal reasons relating to the borrower's financial difficulty; or
- \* it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation.

## CREDIT UNION BAY HEALTH

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

The amount provided for impairment of loans is determined by management and the directors. The Prudential Standards issued by NZACU enable the minimum provision to be based on specific percentages of the loan balance, contingent upon the length of time the repayments are in arrears, and the security held. This approach is adopted by the Credit Union. In addition, the directors make a provision for loans in arrears where the collectability of the debts is considered doubtful by estimation of expected losses in relation to loan portfolios where specific identification is impracticable.

Loans which are known to be uncollectible are written off as an expense in the statement of comprehensive income. Such loans are written off after all the necessary procedures have been completed and the amount of the loss is determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtors credit rating), the previously recognised impairment loss is reversed by adjusting the allowance amount, with the reversal being recognised in the statement of comprehensive income.

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 based on the length of time the loan is in arrears.

"Restructured loans" are 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.

"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 or similar facilities in arrears when a member has failed to make payment when contractually due which are not impaired loans. 90 day past due loans are loans which have not been operated by the member within its' key terms for at least 90 days and which are not impaired loans.

#### **(h) Goods and Services Tax**

The Credit Union is registered for GST in relation to its rental and commission sales activities and recovers GST on expenditure related to that income. Irrecoverable GST is included in the amounts recognised as expenses and assets.

#### **(i) Income Tax**

No amounts have been provided for Income Tax as the Credit Union's income from members is exempt under section CW 37 of the Income Tax Act 2004. Income derived other than from members does not produce a taxable profit.

#### **(j) Property, plant and equipment ("PPE")**

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, adjusted for any accumulated depreciation and impairment losses. The carrying amount of property, plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount of these assets. The recoverable amount is assessed on the basis of expected net cash flows that will be received from the assets employment and subsequent disposal. Any decrement in the carrying amount is recognised as an impairment expense in the Income Statement in the reporting period in which the impairment loss occurs. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

## CREDIT UNION BAY HEALTH

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

#### **Depreciation**

The depreciable amount of all property, plant and equipment including buildings is depreciated over their useful lives to the Credit Union commencing from the time the asset is held ready for use.

Property, plant and equipment is depreciated on a straight-line basis. A summary of the rates used is:

Plant and Equipment	7.15 - 33%
Buildings	4%

Assets under \$250 are not capitalised.

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the Income Statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

#### **(k) Impairment Testing of Assets (excluding PP&E and Loans & Advances)**

At each reporting date, the Credit Union reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, 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 Income Statement.

#### **(l) Leases**

Leases of property, plant and equipment, other than operating leases, 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 equal to 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 values. 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.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and are amortised on a straight-line basis over the life of the lease term.

#### **(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 plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made if material.

#### **(n) Cash and Cash Equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term, highly liquid investments with original maturities of 3 months or less, and bank overdrafts repayable on demand.

#### **(o) 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" 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 the 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.

## CREDIT UNION BAY HEALTH

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

#### *Netting of Cash flows*

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 the members rather than those of the Credit Union. These include members' loans and borrowings.

#### *(p) New Zealand Association of Credit Unions Capital Notes*

Investments in New Zealand Association of Credit Unions Capital Notes provide equity for the Association to enable it to provide essential services to Credit Unions. They are held as "available for sale assets" under NZ IAS 39. This classification recognises that they do not meet the definition of "loans and receivables" or "held to maturity" investments because they do not have a fixed or determinable interest or dividend rate attached to them.

#### *(q) Critical Estimates, Judgements and Assumptions in Applying the Accounting Policies*

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. This has an impact on the one critical estimate, being the impairment provision for doubtful loans.

The Credit Union makes estimates and assumptions concerning the future when assessing the impairment provision on loans. The Credit Union reviews its loan portfolio to assess impairment at least monthly. The impairment provision is adjusted based on evidence relating to borrowers circumstances including the period that the loan is in arrears. The resulting accounting estimates will seldom equal related actual results and there is a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year. Also the Credit Union has used judgement concerning the future discounted cash flows of the New Zealand Association of Credit Unions Group when assessing whether there is any impairment loss on the New Zealand Association of Credit Unions Capital Notes.

#### *(r) 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 31 March 2013.

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.

NZ IFRS 13 Fair Value Measurement (effective for period beginning on or after 1 January 2013) NZ IFRS 13 explains how to measure fair value and aims to enhance fair value disclosures. The group does not use fair value measurements extensively. It is therefore unlikely that the new rules will have a significant impact on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 31 March 2014.

The XRB Board and the NZASB have issued a package of new standards that will apply to public sector public benefit entities from the 2014/15 financial year. This is the second package of standards to be issued as part of the implementation of the new Accounting Standards Framework issued by the XRB Board in April 2012.

The package of Standards issued consists of the following:

- Standard XRB A1 Accounting Standards Framework (For-profit Entities plus Public Sector Public Benefit Entities Update) that will apply to all reporting entities.
- A suite of 39 Standards comprising both PBE Standards and PBE Standards Reduced Disclosure Regime (PBE Standards RDR) that will apply to public sector PBEs in Tier 1 and Tier 2 respectively.
- The Public Benefit Entities (conceptual) Framework.
- A revised Explanatory Guide (EG A1 (FP Entities + PS PBEs Update) to assist entities understand and apply Standard XRB A1 (FP Entities + PS PBEs Update) is also included in the package.
- Feedback Statements on the Boards' responses to submissions on the EDs for the Standards.

The standards and pronouncements in the package are effective for reporting periods beginning on or after 1 July 2014. The Standards require comparative information for the previous financial year, which for most public sector entities will be the year beginning 1 July 2013.

# CREDIT UNION BAY HEALTH

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

### 2 REVENUE AND EXPENDITURE

	2013	2012
<b>Interest Revenue</b>	\$	\$
Interest on Loans	307,568	338,116
Interest on Investments	106,373	91,894
<b>Total Interest Revenue</b>	<b>413,941</b>	<b>430,010</b>
<b>Interest Expenditure</b>		
Interest on Members Call Shares	34,195	67,627
Interest on Members Term Shares	79,942	43,621
<b>Total Interest Expenditure</b>	<b>114,137</b>	<b>111,248</b>
<b>Net Interest Revenue</b>	<b>299,804</b>	<b>318,762</b>
<b>Other Income</b>	\$	\$
Loan Application Fees	24,870	25,480
Commissions	6,226	10,691
Other Income	52,817	52,027
<b>Total Other Income</b>	<b>83,913</b>	<b>88,198</b>
<b>Other Expenditure</b>	\$	\$
Auditors Remuneration		
External Audit:		
Audit of Financial Statements	9,539	12,678
Internal Audit:		
Directors Expenses and Training	2,094	3,738
Donations Made / Community Support	-	975
Other Expenses	185,781	188,393
<b>Total Other Expenditure</b>	<b>197,414</b>	<b>205,784</b>
<b>Bad and Doubtful Loans</b>		
Bad Loans Written Off	(15)	16,383
Provision for Loan Impairments	(3,515)	(6,557)
Bad Debts Recovered	(1,265)	-
<b>Total Bad and Doubtful Loans</b>	<b>(4,795)</b>	<b>9,826</b>
<b>Depreciation Expenditure</b>		
Buildings	8,557	8,588
Computer Hardware	4,322	2,882
Office Furniture and Equipment	1,529	4,309
<b>Total Depreciation Expenditure</b>	<b>14,408</b>	<b>15,779</b>

## CREDIT UNION BAY HEALTH

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

#### 3 INTEREST EXPENDITURE

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. Interest rates applied to members' deposits for the period were:

	2013	2012
Ordinary, Special Purpose and Travel Club Shares	0.0%	0.5%
Loan Provider Shares and Life Cover Saving Shares	1.5%	2%
Christmas Club and Jimmy Jumper Shares	3%	3%
<b>Term Shares</b>		
Term Deposit (1 Year)	4.70%	4.70%
Term Deposit (3 months)	3.50%	3.50%
Term Deposit (5 months)	4.00%	4.00%
Term Deposit (6 months)	4.00%	4.00%
Term Deposit (9 months)	4.50%	4.50%

#### 4 RESERVES

Reserves at 31 March 2013

	Retained Earnings	General Reserve	Other Reserves	Education Fund	Total Members' Reserves
Balance brought forward	348,028	325,000	75,000	2,000	750,028
Operating loss for the period	(13,289)	-	-	-	(13,289)
Transfer to/from reserves			-	-	-
Balance carried forward	334,739	325,000	75,000	2,000	736,739
The Reserve % to Total Assets	6%	5%	1%	0%	12%

Reserves at 31 March 2012

	Retained Earnings	General Reserve	Other Reserves	Education Fund	Total Members' Reserves
Balance brought forward	411,435	275,000	75,000	2,000	763,435
Operating loss for the period	(13,407)	-	-	-	(13,407)
Transfer to/from reserves	(50,000)	50,000	-	-	-
Balance carried forward	348,028	325,000	75,000	2,000	750,028
The Reserve % to Total Assets	6%	6%	1%	0%	13%

##### Retained Earnings

Reserve arising from retained profits accumulated from operations.

##### General Reserve

A General Reserve has been established in accordance with S119 of the Friendly Societies and Credit Unions Act 1962 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.

##### Education Fund

An Education Fund has been established for the purpose of providing funding for professional and personal education for members which benefit both the member and the wider community in which the Credit Union operates.

##### Total Reserves

The Trust Deed requires that the total reserves, including retained earnings, of the Credit Union amount to at least 10% of the total assets of the Credit Union.

## CREDIT UNION BAY HEALTH

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

#### 5 CASH AND BANK EQUIVALENTS

	Interest Rates	2013	2012
		\$	\$
Cash & Bank	Various%	270,072	217,073
TSB Bank	3.10 - 3.50%	2,425,000	1,675,000
Deposits at New Zealand Association of Credit Unions	3.17 - 3.50%	635,000	990,000
		<u>3,330,072</u>	<u>2,882,073</u>

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 NZACU'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. All balances are available within 3 months.

#### 6 TRADE AND OTHER RECEIVABLES

	2013	2012
	\$	\$
Accrued Interest	20,641	20,866
Sundry Debtors	-	-
	<u>20,641</u>	<u>20,866</u>

#### 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.

##### (a) Loans to members comprises:

	2013	2012
	\$	\$
Neither Past Due nor Impaired	2,297,562	2,272,070
Past due > than 90 days but not impaired	83,938	60,127
Past due < 90 days but not impaired	26,166	15,835
Impaired Individually	-	-
Impaired - Collectively	2,231	10,401
Gross Loans	<u>2,389,897</u>	<u>2,358,433</u>
Less:		
Allowance for impairment individually	-	-
Allowance for impairment collectively	2,231	5,747
Net	<u>2,387,666</u>	<u>2,352,686</u>

##### (b) Credit quality - Security dissection

	2013	2012
	\$	\$
Secured by mortgage over real estate	-	-
Secured by members shares	198,869	36,859
Total	<u>198,869</u>	<u>36,859</u>

There are no loans secured by mortgage over real estate.

## CREDIT UNION BAY HEALTH

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

#### LOANS TO MEMBERS - Continued

##### (c) Credit quality - Concentration of loans

i) Loans to individual or related groups of members which exceed 10% of member funds in aggregate	Nil%	Nil%
ii) Loans to members are concentrated to individuals employed in the health related industry	100%	100%
iii) Loans to members are concentrated solely in New Zealand and principally within the common bond of the Credit Union	100%	100%
iv) Loans drawn down by member type:		
Loans to natural persons		
Residential loans and facilities	-	-
Personal loans and facilities	2,389,897	2,358,433
Business loans and facilities	-	-
Loans to Charitable Trusts and Incorporated Societies	-	-
TOTAL	<u>2,389,897</u>	<u>2,358,433</u>

#### 8 IMPAIRMENT OF LOANS AND ADVANCES

##### (a) Provision for impairment

	2013	2012
	\$	\$
Balance as at 1 April	5,747	12,304
Addition / (reduction) in provision	(3,516)	(6,557)
Bad Debts written off to provision	-	-
Balance at 31 March	<u>2,231</u>	<u>5,747</u>

##### (b) Provision for impairment Calculation

Provision per Prudential Standards (impaired collectively)	2,231	5,747
Additional Specific Provision (impaired individually)	-	-
Closing Balance	<u>2,231</u>	<u>5,747</u>

<i>Period of Impairment</i>	<i>% of Balance</i>
31 days to 90 days	20%
91 days to 180 days	40%
181 days to 270 days	60%
271 days to 365 days	80%
Over 365 days	100%
Unauthorised O/D Savings	100%

## CREDIT UNION BAY HEALTH

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

#### IMPAIRMENT OF LOANS AND ADVANCES - Continued

##### *Key assumptions in determining the provision for impairment*

In the course of the preparation of the annual report 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 is required to estimate the potential impairment using the length of time the loan is in arrears and the historical losses arising in past years. Given the relatively small number of impaired loans, the circumstances may vary for each loan over time resulting in higher or lower impairment losses. An estimate is based on the period of impairment.

This provision is checked to impaired loans and an additional provision is made if the impaired loans are greater than the provision. In identifying the impairment likely from these events the credit union is required to estimate the potential impairment using the length of time the loan is in arrears and the historical losses arising in past years. Given the relatively small number of impaired loans, the circumstances may vary for each loan over time resulting in higher or lower impairment losses. An estimate is based on the period of impairment.

##### *(c) Impaired Loans Disclosure*

	2013	2012
<i>Impaired loans as at balance date</i>	\$	\$
Balance of impaired loans	2,231	10,401
Estimated value of impaired loans which are secured	-	4,357

##### *Analysis of loans that are individually impaired*

Loans individually impaired are based on the age of the loans and the evidence that the members is unable to repay the debt in full, such as notice of bankruptcy or default notice being issued.

There were no loans where real estate or other assets were acquired through the enforcement of security at 31 March 2013 (2012: 1).

There were no non accrual loans (where interest was not being accrued) as at 31 March 2013 (2012: Nil).

There were no restructured loans with no provision for impairment as at 31 March 2013 (2012: Nil).

##### *(d) Loans with repayments past due but not impaired*

The total of past due loans (which were overdue by between 1 and 30 days) at balance date was \$52,534 (2012: \$60,127). Loans over 30 days in arrears are treated as impaired loans.

##### *(e) Loans renegotiated*

Loans that were past due or impaired that have been renegotiated by the Credit Union are nil as at 31 March 2013 (2012: \$Nil)

## CREDIT UNION BAY HEALTH

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

#### 9 PROPERTY, PLANT AND EQUIPMENT

	2013	2012
<b>Buildings</b>		
At cost or fair value at transition	198,441	207,029
Subsequent additions at cost	-	-
Accumulated depreciation	(8,557)	(8,588)
	<u>189,884</u>	<u>198,441</u>
<b>Plant &amp; Equipment</b>		
At cost	30,579	31,952
Subsequent additions	469	5,818
Accumulated depreciation	(5,851)	(7,191)
	<u>25,197</u>	<u>30,579</u>
<b>Total Property, Plant &amp; Equipment</b>	<u>215,081</u>	<u>229,020</u>

#### (b) Movements in Carrying Amounts

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

	2013			2012		
	Buildings	Plant & Equipment	Total	Buildings	Plant & Equipment	Total
Balance at the Beginning of the period	\$ 198,441	\$ 30,579	\$ 229,020	\$ 207,029	\$ 31,952	\$ 238,981
Additions	-	469	469	-	5,818	5,818
Disposals	-	-	-	-	-	-
Depreciation Expense	8,557	5,851	14,408	8,588	7,191	15,779
Carrying amount for end of the financial period	<u>189,884</u>	<u>25,197</u>	<u>215,081</u>	<u>198,441</u>	<u>30,579</u>	<u>229,020</u>

#### (c) Impairment Losses

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

#### 10 CAPITAL NOTES

New Zealand Association of Credit Unions (NZACU) Capital Notes are classified as "available for sale" financial assets and are issued by the NZACU Business Services Division as Trust Base Capital Notes (Capital Notes). These represent monies invested with the NZACU Business Services Division Trust for an open-ended 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. Capital Notes may only be sold or transferred to another Credit Union that is a member of the NZACU Business Services Division Trust and with the consent of the Business Services Division Trust Board of Directors. The Capital Notes are redeemable in full, with five years notice, by the Association. There is no active market for these securities which have no guaranteed interest rate return. Dividends are payable on a six monthly basis subject to the profitability of the Business Services Division Trust. Capital Notes are non current assets.

As a result of past losses incurred by the New Zealand Association of Credit Unions Group in the past two years, the net tangible assets of the Group have reduced, resulting in the net tangible asset backing for the Capital Notes falling below par. This is an indicator of potential impairment for these Capital Notes. However, an analysis of arms length transactions of Capital Notes over the past 13 months supports the view that the Capital Notes are appropriately valued at their face value and it is determined that no impairment loss has arisen at balance date. Consequently, the carrying value of the Capital Notes approximates their fair value at balance date.

The Credit Union's investment in these Capital Notes enables the 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.

	2013	2012
NZACU Capital Notes at Cost	\$ 86,281	\$ 86,281
	<u>86,281</u>	<u>86,281</u>

## CREDIT UNION BAY HEALTH

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

#### 11 TRADE AND OTHER PAYABLES

	2013	2012
	\$	\$
Accrued Interest Payable	35,983	32,907
Resident Withholding Tax	11,258	11,603
Sundry Creditors and Accrued Expenses	12,302	11,861
Employee Entitlements	11,858	10,898
Access / ATM / EFT-POS Card Settlement	14,875	12,087
Bereavement Fund	966	928
	<u>87,022</u>	<u>80,194</u>

#### 12 MEMBERS' DEPOSITS

	2013	2012
	\$	\$
<i>Call Shares</i>		
Savings Accounts	1,797,387	1,493,209
Christmas Club	272,141	271,718
Loan Provider Account	1,251,738	1,259,424
Total Ordinary Shares	3,321,266	3,024,351
<i>Term Shares:</i>		
<i>Original Maturity Terms:</i>		
0-3 months	75,003	119,934
6 months	172,648	241,328
9 months	218,264	224,260
12 months	1,428,799	1,130,830
Greater than 12 months	-	-
Total Term Shares	1,894,714	1,716,352
<b>Total Members' Deposits</b>	<u><b>5,215,980</b></u>	<u><b>4,740,703</b></u>

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 are 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 way of security over the whole of the Credit Union's present and future undertaking, property, assets and revenues, including proceeds received for the subscription of shares and unpaid capital (if any). The equitable assignment by way of security was granted in favour of Trustees Executors Limited, the Prudential Supervisor of the Credit Union, under a Trust Deed dated 4th July 2001, which has been registered with the Registrar of Companies.

The Credit Union has also granted to Trustees Executors Limited a security interest in all its present and after-acquired personal property as additional security for the members' shares. Trustees Executors 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 15 October 2002, which has been registered with the Registrar of Companies.

#### 13 COMMITMENTS

The following details commitments associated with Credit Union Bay Health.

Lease Commitments: Credit Union as Lessee.

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	2013	2012
	\$	\$
Within one year	\$0	\$4,140
Later than one year but not later than five years	\$0	\$0
Later than five years	\$0	\$0
<b>TOTAL</b>	<u><b>\$0</b></u>	<u><b>\$4,140</b></u>

## CREDIT UNION BAY HEALTH

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

At balance date there were contracts for purchases of property, plant and equipment to the value of Nil (2012: \$Nil).

#### (a) Outstanding Loan Commitments

Loans and credit facilities approved but not funded or drawn at the end of the financial year \$13,115 (2012: \$1,626).

#### 14 CONTINGENT LIABILITIES

There are no material contingent liabilities not provided for in the financial statements (2012: \$Nil).

#### 15 SEGMENTAL REPORTING

The Credit Union operates in the New Zealand financial services industry with a concentration of members and activity in Hawke's Bay.

#### 16 EVENTS OCCURRING AFTER BALANCE DATE

There are no known events subsequent to balance date which would materially affect these financial statements. (2012: \$Nil).

#### 17 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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 and Hedging Policy**

The Credit Union is not exposed to currency risk, and other price risk. 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 1 - 8% of the difference between loans and members deposits. The gap is measured monthly to identify any large exposures to the 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's exposure to interest rate risk is set out in Note 24 which details the contractual interest change profile.

Based on the calculations as at 31 March 2013, the net profit impact for a 1% movement in interest rates on members loans would be +/- \$3,172 (2012 +/- \$3,381), and the impact on equity would be the same amount. The net profit impact for a 1% movement in interest rates on members shares would be +/- \$1,141 (2012 +/- \$1,112), and the impact on equity would be the same amount. The net profit impact for a 1% movement in interest rates on the NZACU deposits would be +/- \$635 (2012 +/- \$919), and the impact on equity would be the same amount.

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 repricing between the members' loans and the 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 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
- The term deposits would all reprice 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 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

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.

## CREDIT UNION BAY HEALTH

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

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 repricing between the members' loans and the 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 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
- The term deposits would all reprice 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 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

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.

#### **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. There is a concentration of credit risk with respect to loans and receivables as the Credit Union has a large number of customers dispersed in areas of employment in the health related industry. The credit policy is that loans and investments are only made to members that are credit worthy.

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

An internal audit policy has been instigated as at 1 April 2008.

The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken.

The Credit Union has a concentration in the retail lending for members who comprise employees and family in the Health related industry. This concentration is considered acceptable on the basis that the Credit Union was formed to service these members, and the employment concentration is not exclusive. Should members leave the industry the loans continue and other employment opportunities are available to the members to facilitate the repayment of the loans. The details of the geographical and industry concentrations are set out in Note 20.

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, external consultants are engaged to conduct recovery action once the loan is over 90 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 are 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 investments, with the placement of investments with the NZACU and registered banks. The credit policy is that investments are only made to institutions that are credit worthy. Directors have established policies that a maximum of 100% can be invested with any one financial institution at a time.

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.

The NZACU has a BB+ credit rating. All other investments must be with New Zealand registered Banks.

The policies of the Board allow investments outside the NZACU.

# CREDIT UNION BAY HEALTH

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

### 18 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 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.

2013	On Call	1-3 Months	3 - 6 Months	6 - 12 Months	1-2 years	2-5 years	Over 5 years	Total
<b>Monetary Assets Receivable</b>								
Cash and Cash Equivalents	2,320,072	375,000	-	-	-	-	-	2,695,072
Deposits at NZACU	435,000	200,000	-	-	-	-	-	635,000
Trade and other receivables	20,841	-	-	-	-	-	-	20,841
Loans to members	78,462	158,265	227,249	408,305	622,640	684,238	212,808	2,388,897
Capital Notes	-	-	-	-	-	-	86,281	86,281
<b>Total Monetary Assets Receivable</b>	<b>2,854,205</b>	<b>731,265</b>	<b>227,249</b>	<b>408,305</b>	<b>622,640</b>	<b>684,238</b>	<b>299,089</b>	<b>5,826,861</b>

2013	On Call	1-3 Months	3 - 6 Months	6 - 12 Months	1-2 years	2-5 years	Over 5 years	Total
<b>Monetary Liabilities Payable</b>								
Trade and other payables	51,059	-	-	-	-	-	-	51,059
Members Deposits	3,621,112	298,184	398,838	898,845	-	-	-	5,216,879
Interest on Deposits	35,963	-	-	-	-	-	-	35,963
<b>Total Monetary Liabilities Payable</b>	<b>3,708,134</b>	<b>298,184</b>	<b>398,838</b>	<b>898,845</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,303,001</b>

2012	On Call	1-3 Months	3 - 6 Months	6 - 12 Months	1-2 years	2-5 years	Over 5 years	Total
<b>Monetary Assets Receivable</b>								
Cash and Cash Equivalents	917,073	975,000	-	-	-	-	-	1,892,073
Deposits at NZACU	290,000	700,000	-	-	-	-	-	990,000
Trade and other receivables	20,868	-	-	-	-	-	-	20,868
Loans to members	75,462	142,374	208,258	375,697	574,658	740,892	243,364	2,358,433
Capital Notes	-	-	-	-	-	-	86,281	86,281
<b>Total Monetary Assets Receivable</b>	<b>1,303,401</b>	<b>1,817,374</b>	<b>208,258</b>	<b>375,697</b>	<b>574,658</b>	<b>740,892</b>	<b>329,675</b>	<b>5,347,653</b>

2012	On Call	1-3 Months	3 - 12 Months	6 - 12 Months	1-2 years	2-5 years	Over 5 years	Total
<b>Monetary Liabilities Payable</b>								
Trade and other payables	48,381	-	-	-	-	-	-	48,381
Members Deposits	3,269,381	463,054	307,140	701,118	-	-	-	4,740,703
Interest on Deposits	32,307	-	-	-	-	-	-	32,307
<b>Total Monetary Liabilities Payable</b>	<b>3,348,069</b>	<b>463,054</b>	<b>307,140</b>	<b>701,118</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,819,381</b>

## CREDIT UNION BAY HEALTH

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

#### 19 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 Balance Sheet.

**(b) Concentrations 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 Counter-parties	
	Assets	Liabilities
Greater than 100% of equity	-	-
Between 90% and 100% of equity	-	-
Between 80% and 90% of equity	-	-
Between 70% and 80% of equity	-	-
Between 60% and 70% of equity	-	-
Between 50% and 60% of equity	-	-
Between 40% and 50% of equity	-	-
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.

**(d) Loans to Members**

Loans can only be made to Credit Union members. Loan interest rates range from 7% to 15% p.a. (2012: 7% to 15% 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 20 Years.

The proportion of loans with repayments in arrears in excess of three months is 1% (2012:1%).

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

**Loans to Members**

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 \$3,670 (2012: \$3,025).

The proportion of loans owed in aggregate by the debtors who owe the six largest amounts is 6.78% (2012: 6.66%).

There are no other monetary asset receivables that exceed the individual value of these six largest loans.

The Credit Union does not offer an overdraft facility.

## CREDIT UNION BAY HEALTH

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

#### 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 Hawke's Bay and from within the Health Related Industry. The funding from members is recorded as Members' Shares in the Balance Sheet.

#### 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 the 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.

	2013			2012		
	Fair Value	Book Value	Variance	Fair Value	Book Value	Variance
	\$	\$	\$	\$	\$	\$
<b>FINANCIAL ASSETS</b>						
Cash and Bank	2,695,072	2,695,072	-	1,892,073	1,892,073	-
Deposits at NZACU	635,000	635,000	-	990,000	990,000	-
Trade and other receivables	20,641	20,641	-	20,866	20,866	-
Loans to members	2,387,666	2,387,666	-	2,352,666	2,352,666	-
Capital Notes	86,281	86,281	-	86,281	86,281	-
<b>Total Financial Assets</b>	<b>5,824,660</b>	<b>5,824,660</b>	<b>-</b>	<b>5,341,906</b>	<b>5,341,906</b>	<b>-</b>
<b>FINANCIAL LIABILITIES</b>						
Trade and other payables	87,022	87,022	-	80,194	80,194	-
Deposits from members	5,215,980	5,215,980	-	4,740,703	4,740,703	-
<b>Total Financial Liabilities</b>	<b>5,303,002</b>	<b>5,303,002</b>	<b>-</b>	<b>4,820,897</b>	<b>4,820,897</b>	<b>-</b>

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 estimated realisable value after providing for impairments. 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 Cash Equivalents*

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.

##### *Capital Notes*

NZACU Capital Notes cannot be traded easily and returns fluctuate depending on the NZACU Group returns, therefore fair value is impractical to determine with precision. Fair value is assumed to be their carrying value.

## CREDIT UNION BAY HEALTH

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

#### FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES - Continued

##### *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 way of security over the whole of the Credit Union's present and future undertaking, property, 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 Trustees Executors Limited, the Prudential Supervisor of the Credit Union, under Trust Deed dated 4th July 2001 which has been registered with the Registrar of Companies.

The Credit Union has also granted to Trustees Executors Limited a security interest in all its present and after-acquired personal property as additional security for the members' shares. Trustees Executors 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 4th July 2001 which has been registered with the Registrar of Companies.

##### *Other Liabilities*

Accounts Payable are carried at fair value.

## 22 RELATED PARTY DISCLOSURE

#### Remuneration of key management personnel (KMP)

Key management personnel 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.

Key management personnel has 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.

Key management remuneration for the year ended 31 March 2013 was \$79,560 (2012: \$81,081)

	2013		2012	
	Directors	Other KMP	Directors	Other KMP
(a) short-term employee benefits	\$ -	\$ 79,560	\$ -	\$ 81,081
(b) post-employment benefits - superannuation contributions	-	-	-	-
(c) other long-term benefits - net increases in long service leave provision	-	-	-	-
(d) termination benefits	-	-	-	-
(e) share-based payment	-	-	-	-
<b>Total</b>	<b>-</b>	<b>79,560</b>	<b>-</b>	<b>81,081</b>

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.

# CREDIT UNION BAY HEALTH

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

### RELATED PARTY DISCLOSURE - Continued

The Directors received no fees or honoraria for their services

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

	2013	2012
	\$	\$
Directors' and Key Management Personnel holdings at balance date are:		
Owing to Directors and Key Management Personnel (Shares)	5,108	4,758
Owing from Directors and Key Management Personnel (Loans)	45,896	42,116

There are no shares from directors exceeding 12 months and all directors loans are repayable upon demand.

### 23 RECONCILIATION OF CASHFLOW FROM OPERATING ACTIVITIES WITH OPERATING PROFIT

	2013	2012
	\$	\$
Operating (loss)/profit	(13,289)	(13,407)
<b>Non Cash Items</b>		
Revenue from Base Capital Notes	-	-
Depreciation	14,408	15,779
Bad Debts	(15)	16,383
Provision for Loan Impairment	(3,515)	(6,557)
Other non-cash accruals	-	-
<b>Changes in Assets and Liabilities</b>		
Movements in Accounts Receivable	225	(2,267)
Movements in Accounts Payable	6,828	1,769
Net Cash Provided by / (Used in) Operating Activities	<u>4,642</u>	<u>11,700</u>

### 24 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

The following financial assets are required to be disclosed

	2013	2012
	\$	\$
Classified as "loans and receivables"	5,738,379	5,255,625
Classified as "available for sale"	86,281	86,281
	<u>5,824,660</u>	<u>5,341,906</u>
Total of financial liabilities classified as "financial liabilities measured at amortised cost"	<u>5,303,002</u>	<u>4,820,897</u>

**CREDIT UNION BAY HEALTH**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2013**

**25 INTEREST RATE RISK**

The Credit Union's exposure to interest rate risk, which is the 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:

	Repricing period at 31 March 2013																				Weighted average effective interest rate*					
	Floating interest rate		Fixed Interest Rate Maturing in:												Non-interest sensitive		Set six monthly in arrears		Total							
			0 to 3 months		3 to 6 months		6 to 12 months		1 to 2 years		2 to 5 years		Over 5 years													
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012			2013	2012		
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	2013	2012		
<b>Monetary Assets</b>																										
Cash and Cash Equivalents	2,320	917	375	975	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,695	1,892	0.5-3.5%	0.5-3.5%	
Deposits at NZACU	435	290	200	700	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	635	990	3.40%	3.34%	
Trade and other receivables	21	21	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	21	21	N/A	N/A	
Loans to members	78	75	156	142	227	206	408	375	823	575	684	741	213	244	-	-	-	-	-	-	-	2,390	2,358	13.52%	13.60%	
Capital Notes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	86	86	86	86	-	-	86	86	N/A	N/A
<b>Total Monetary Assets</b>	<b>2,854</b>	<b>1,303</b>	<b>731</b>	<b>1,817</b>	<b>227</b>	<b>206</b>	<b>408</b>	<b>375</b>	<b>823</b>	<b>575</b>	<b>684</b>	<b>741</b>	<b>213</b>	<b>244</b>	<b>-</b>	<b>-</b>	<b>86</b>	<b>86</b>	<b>5,827</b>	<b>5,347</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>		
<b>Monetary Liabilities</b>																										
Deposits	3,821	3,269	299	463	399	307	897	701	-	-	-	-	-	-	-	-	-	-	-	-	-	5,216	4,740	2.32%	2.66%	
Other payables	51	46	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	51	48	N/A	N/A	
Provision for interest	36	33	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	36	33	-	-	
<b>Total Monetary Liabilities</b>	<b>3,708</b>	<b>3,348</b>	<b>299</b>	<b>463</b>	<b>399</b>	<b>307</b>	<b>897</b>	<b>701</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,303</b>	<b>4,819</b>	<b>0</b>	<b>0</b>	

\* The weighted average effective interest rate has been calculated on the interest sensitive financial instruments in each category. N/A - Not Applicable.

(e) Capital notes do not have any pre determined 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 4.65% (2012: 5.77% per annum).





## ***Independent Auditors' Report***

### ***Report on the Financial Statements***

We have audited the financial statements of Credit Union Bay Health on pages 1 to 25, which comprise the balance sheet as at 31 March 2013, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information.

### ***Director's Responsibility for the Financial Statements***

The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the credit union's preparation of financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the credit union's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other than in our capacity as auditors we have no relationships with, or interests in, Credit Union Bay Health

## ***Independent Auditors' Report***

### ***Opinion***

In our opinion, the financial statements on pages 1 to 25:

- (i) comply with generally accepted accounting practice in New Zealand;
- (ii) comply with International Financial Reporting Standards; and
- (iii) give a true and fair view of the financial position of the Credit Union as at 31 March 2013, and its financial performance and cash flows for the year then ended.

### ***Report on Other Legal and Regulatory Requirements***

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 March 2013:

- (i) we have obtained all the information and explanations that we have required; and
- (ii) in our opinion, proper accounting records have been kept by the Credit Union as far as appears from an examination of those records.

### ***Restriction on Distribution or Use***

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

*PricewaterhouseCoopers*

Chartered Accountants  
10 June 2013

Napier

**FOURTH SCHEDULE**  
**SCHEDULE OF ACCOUNTS**  
**[Paragraph 1.2 ("Share Accounts")]**

**Term Share Accounts**

Name: Term share deposits.  
Term 1 – 12 months  
Interest Rates (or method of calculation), various rates, interest calculated daily. Early repayment interest rate is 1% below the lowest term deposit rate offered by the Credit Union.  
Minimum shareholdings - \$500.00  
Timing of repayments: Upon maturity  
Fees and Charges – nil,  
Terms and conditions of account.  
Minimum term of investment is one month.

**On Call Share Accounts**

**On Call Accounts**

Name: Share Account  
Interest Rate (or method of calculation): 0.0% + bonuses  
Minimum Shareholdings: \$1.00  
Timing of Repayments: N/A  
Fees and Charges: See table of maximum fees and charges that apply below

Terms and Conditions of Account: Funds may be withdrawn at any time

**Christmas Club Account**

Name: Christmas Club Account  
Term: N/A  
Interest Rate (or method of calculation): 2% + bonuses  
Minimum Shareholdings: 0.00  
Timing of Repayments: N/A  
Fees and Charges: Nil

Terms and Conditions of Account: This account runs from 1 December to 30 November. If a withdrawal is made during the year, the account must be closed and no interest is paid on it. The account cannot be reopened again until 1 December.

**Notice of Withdrawal Account**

**Loan Provider Accounts**

Name: Loan Provider Account  
Term: N/A  
Interest Rate (or method of calculation): 1.5% + bonuses  
Minimum Shareholdings: \$0.00  
Timing of Repayments: N/A  
Fees and Charges: See table of maximum fees and charges that apply below

Terms and Conditions of Account: Two weeks notice of withdrawal of funds to be given. In an emergency, funds may be withdrawn but there is an early withdrawal fee of \$35.00

(i) **Maximum Fees and Charges**

	<b>Maximum Fee or Charge \$</b>	
Accesscard – EFTPOS	Per transaction	2.00
Accesscard – ATM Withdrawal	Per transaction	3.00
Accesscard – card issue	Per card	15.00
Accesscard – replacement card	Per card	20.00
Accesscard – replacement pin	Per pin	5.00
Accesscard – monthly account fee	Per member	10.00
Cheque dishonour/stop	Per cheque	50.00
Direct Debit dishonour/stop	Per direct debit	50.00
Loan Provider A/c-Early Withdrawal Fee	Per withdrawal	50.00
Loan/Line of Credit (LOC) Application Fee	Per approved loan/loc	150.00
Fasttrack Line of Credit Application Fee	Per approved fasttrack loc	50.00
Delinquency Charges		
1 <sup>st</sup> phone call/letter	Per phone call/letter	Free
2 <sup>nd</sup> phone call/letter	Per phone call/letter	30.00
3 <sup>rd</sup> phone call/letter	Per phone call/letter	50.00
4 <sup>th</sup> & subsequent calls/letters	Per phone call/letter	100.00
Transaction Search	Per hour (or pro rata)	50.00
Automatic Payment (AP) or Direct Debit (DD)		
Set Up	Per form	2.00

FIFTH SCHEDULE  
Prudential Supervisor's Statement  
(Paragraph 7)

**Foundation**  
CORPORATE  
TRUST

9 September 2013

The Trustees and Members  
Credit Union Bay Health  
C/- HB District Health Board  
Omahu Road  
HASTINGS

**PRUDENTIAL SUPERVISOR STATEMENT FOR PROSPECTUS DATED 9 SEPTEMBER 2013**

In accordance with the requirements of clause 14(3) of Schedule 2 to the Securities Regulations 2009 we confirm that in the Prudential Supervisor's opinion, the offer of debt securities (the 'Offer') as set out in this prospectus complies with the relevant provisions of the Trust Deed.

In connection with this opinion note that:

1. The Issuer is responsible for the content of the disclosures in the Prospectus.
2. Our responsibility is to express an opinion on the of the Offer's compliance with the provisions of the Trust Deed, based on our supervisory role under the Securities Act 1978 (the Act). Our supervisory role involves supervision of the issuer's performance of its statutory functions and any other functions set out in the Trust Deed. We do not provide any guarantees or assurances about the repayment of any Securities or the payment of interest thereon.
3. We have obtained sufficient assurance from undertaking our supervisory activities to provide a basis for our opinion. However, there are inherent limitations in performing a supervisory role and we cannot provide an absolute assurance regarding the Offer's compliance with the Trust Deed.
4. We have disregarded any matter which we consider to be immaterial to investors in the debt securities.
5. Corporate Trust Limited trading as Foundation Corporate Trust was appointed as Prudential Supervisor by Deed of Retirement and Appointment dated 19 April 2013.

The inclusion of this Prudential Supervisor's statement in the Prospectus should not be taken to imply that the Prudential Supervisor has responsibility for the material in this Prospectus other than the Prudential Supervisor's statement.

Yours sincerely



Stephanie McGreevy  
Regional Manager - Southern  
FOUNDATION CORPORATE TRUST

**Corporate Trust Ltd**

Level 6, AMP Chambers, 187 Featherston Street, P O Box 25592, Featherston Street, Wellington 6146, Phone 04 901 4439  
[www.foundationcorporatetrust.co.nz](http://www.foundationcorporatetrust.co.nz)

**SIXTH SCHEDULE  
DIRECTORATE  
[Paragraph 3.1]**

Director's Name and Address	Title	Current Role and Qualifications	Experience
Dale Littley 6 Amner Place Havelock North	Director Secretary	HBDHB Team Secretary for Dept of General Surgery  New Zealand Certificate in Quantity Surveying,  National Certificate in Business Administration and Computing,  Diploma in Management	Board Administrator's Assistant HBDHB  Various Team Secretary and Personal Assistant roles within HBDHB  Administration support for the HBDHB Clinical Council
			Board Member and Chairperson - Nelson Park School Board of Trustees  NZACU Certificate in Credit Union Governance Modules
Annette Louise Davis 26 Freyberg Avenue Tamatea Napier	Director	HBDHB Register Co-ordinator for the National Cervical Screening Programme HB  Certificate in Management	Chair & Board of Trustees – Port Ahuriri & Napier City Children's Centres  Owner – small business
Carol Ann Priest 15 Stanley Street Flaxmere Hastings	Director Chairperson Chair – Trustees Audit Committee	HBDHB IT Support Analyst	Board of Directors for Credit Union Bay Health since 1999  Member of Credit Union Institute of New Zealand  Completed numerous development and governance training modules.
Christine Ruth Lord 4 Moana Place Napier	Director Vice Chairperson Chair – Audit Committee Treasurer	HBDHB Corporate Communications Manager,  Master of Communications Honours with Distinction Victoria University of Wellington	Trustee - Oliver Smales Memorial Trust  Previously Chair Trustees – Credit Union Bay Health  Board of Directors – Credit Union Bay Health since 2003
Kim Ellen Henneker 930 Riverslea Road South Longlands Hastings	Director Trustee	HBDHB Associate Clinical Manager  Masters of Health Sciences	10 years Board experience with Health Regulatory Authorities and NZ Health Authorities Combined Health Boards  Chair – Health Faculties AUT and EIT
Dianne Taihaere Nathan Wepa 77 Ngatarawa Road R D 5 Hastings	Director Trustee	HBDHB Senior Clinical Workforce Co-ordinator – Maori Health  BSW, MPhil	Chairperson – Board of Trustees – Kahungunu Health Services Charitable Trust  Director – Furniture Lease Company