

**CREDIT UNION LAKELAND
("Issuer")**



10062276780

**CERTIFICATE PURSUANT TO
SECTION 37A(1A) OF THE SECURITIES ACT 1978**

This certificate relates to the registered Credit Union Lakeland prospectus dated 18 December 2013 and registered on 20 December 2013 ("*Prospectus*").

It is the opinion of all the directors of the Issuer, after due enquiry by them that:

1. The financial position shown in the balance sheet as at 30 June 2013 for the Credit Union referred to in the Prospectus has not materially and adversely changed during the period from 30 June 2013 to the date of this certificate; and
2. The Prospectus is not, at the date of this certificate, false or misleading in a material particular by reason of failing to refer, or give proper emphasis, to adverse circumstances.

Attached to this certificate are financial statements for the Credit Union for the six month period ended 31 December 2013.

These financial statements have been prepared in accordance with the Securities Regulations 2009 as if they were required to be contained or referred to in a registered prospectus for those securities. These financial statements have not been audited.

DATED this 18th day of March 2014

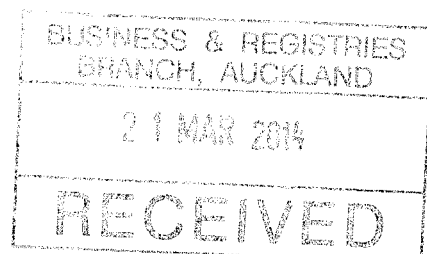
SIGNED for and on behalf of all the directors of **CREDIT UNION LAKELAND** by:

Director's signature

Director's signature

Name of Director

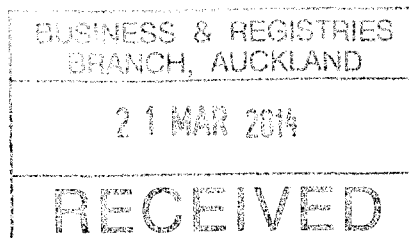
Name of Director



CREDIT UNION LAKELAND

FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2013
AND UNAUDITED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2012



CREDIT UNION LAKELAND

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FOR THE HALF YEAR ENDED 31 DECEMBER 2013

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CREDIT UNION LAKELAND

DIRECTORY

FOR THE HALF YEAR ENDED 31 DECEMBER 2013

Board of Directors	Chair	Chris Anderson
	Vice Chair	Paul O'Connor
	Secretary	Cheryl Hayman
	Treasurer	Ailsa Morgan
	Directors	John Smale Kathy Hulton Rose Nahu
Trustees		Kathy Hulton John Smale Chris Anderson
Senior Management	General Manager	Philippa Wills
	Lending Manager	Anne Hunter
	Retail Banking Manager	Adrienne Lutui
Auditors	PricewaterhouseCoopers	
Bankers	New Zealand Association of Credit Unions	
Affiliations	New Zealand Institute of Credit Union Directors	
	Australasian Mutual Institute	
	New Zealand Association of Credit Unions	

CREDIT UNION LAKELAND

STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF YEAR ENDED 31 DECEMBER 2013

	Note	Year 31-Dec-13	Year 31-Dec-12
OPERATING REVENUE		\$000	\$000
Interest revenue	2 (a)	734	717
Other income	2 (b)	551	537
TOTAL INCOME		1,285	1,254
EXPENDITURE			
Interest expenditure	2 (c)	243	257
Loan impairment expenses	2 (f)	(38)	27
Employee benefits	2 (d)	401	314
Occupancy - operating lease		104	105
Depreciation	2 (g)	24	24
Other administration expenditure	2 (e)	490	438
TOTAL EXPENDITURE		1,224	1,165
Operating surplus for the period		61	89
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO MEMBERS		61	89

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

CREDIT UNION LAKELAND

STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 31 DECEMBER 2013

	Note	Retained Earnings \$000	General Reserve \$000	Total Reserves \$000
Balance at 1 July 2013		2,448	-	2,448
Operating surplus		61	-	61
Total comprehensive income for the period		61	-	61
		2,509	-	2,509
Transfers (to) and from reserves				
Transfer from general reserve to retained earnings		-	-	-
Balance at 31 Dec 2013	4	2,509	-	2,509
% Of Total Assets		15.32%	0.00%	15.32%
Balance at 1 Jul 2012		1,556	750	2,306
Operating surplus		89	-	89
Total comprehensive income for the period		89	-	89
		1,645	750	2,395
Transfers (to) and from reserves				
General reserve		750	(750)	-
Balance at 31 Dec 2012	4	2,395	-	2,395
% Of Total Assets		14.89%	0.00%	14.89%

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

CREDIT UNION LAKELAND

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013

	Note	31-Dec-13	30-Jun-13	31-Dec-12
		\$000	\$000	\$000
MEMBERS' FUNDS				
Retained earnings	4	2,509	2,448	2,395
General reserve	4	-	-	-
TOTAL MEMBERS FUNDS		2,509	2,448	2,395
CURRENT ASSETS				
Cash and cash equivalents	5(a)	1,345	831	1,050
Deposits at New Zealand Association of Credit Unions and Awahi Credit Union	5(b)	2,100	2,350	2,300
Trade and other receivables	6	49	92	51
Loans to members	7	12,355	12,624	12,166
NON CURRENT ASSETS				
New Zealand Association of Credit Unions - Capital Notes	10	368	368	368
Property, plant & equipment	9	158	167	146
TOTAL ASSETS		16,375	16,432	16,081
CURRENT LIABILITIES				
Trade and other payables	11	607	541	459
Members' deposits	12	13,259	13,443	13,227
TOTAL LIABILITIES		13,866	13,984	13,686
NET ASSETS		2,509	2,448	2,395

These financial statements are authorised for and on behalf of the Board by:

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

CREDIT UNION LAKELAND
STATEMENT OF CASH FLOWS
 FOR THE HALF YEAR ENDED 31 DECEMBER 2013

	Note	31-Dec-13	31-Dec-12
CASH FLOWS FROM OPERATING ACTIVITIES			
		\$000	\$000
Interest received		737	725
Other income		636	586
Bad debts recovered		39	31
Interest paid		(253)	(245)
Payments to suppliers and employees		(1,057)	(851)
Net cash provided by operating activities	24	102	246
CASH FLOWS FROM INVESTING ACTIVITIES			
Net movement in members' loans		268	(496)
Payments for property, plant and equipment		(15)	(2)
Net cash (used in) provided by investing activities		253	(498)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net movement in member deposits		(91)	980
Net cash provided by financing activities		(91)	980
Total net (decrease) increase in cash and cash equivalents held		264	728
Cash and cash equivalents at the beginning of the period		3,181	2,622
Cash and cash equivalents at the end of the period		3,445	3,350
Represented by:			
Cash and cash equivalents	5 (a)	1345	1050
Deposits at New Zealand Association of Credit Unions	5 (b)	2100	2300
Total cash and cash equivalents		3,445	3,350

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

CREDIT UNION LAKELAND
Notes to the Financial Statements
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

1 General information

Reporting Entity

The Credit Union is a financial institution that is registered as a credit union under the Friendly Societies and Credit Unions Act 1982. The purpose of the Credit Union is to promote savings among its members and to use those savings for their mutual benefit. It operates primarily in the North Island of New Zealand and is incorporated in New Zealand with its registered office at 1214 Ranolf Street, Rotorua. As the Credit Union is providing a community and social benefit, it is designated a public benefit entity.

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.

Trust Deed

To meet the requirements of The Securities Act 1978 a Trust Deed was entered into on the 9 February 2001 between the Trustees of the Credit Union and Trustees Executors Limited. During 2013 a new Trustee, Foundation Corporate Trust, was appointed to act as Trustee from 23 April 2013. Foundation Corporate Trust 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 committed any breach of the Trust Deed or any of the conditions of issue of the shares; and sufficient assets to meet its obligations to members, as they fall due.

2 STATEMENT OF ACCOUNTING POLICIES

The following are the material accounting policies adopted by the Credit Union in the preparation of the financial statements. Except where stated, the accounting policies have been consistently applied to all periods presented.

(a) Basis of Preparation

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 the Securities Regulations 2009.

See Statement of Financial Position for details of when these statements were authorised for issue.

These financial statements are required to be registered to keep the prospectus current and have been prepared in accordance with New Zealand Generally Accepted Accounting Practice. They comply with the New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS'), International Financial Reporting Standards ('IFRS') and other applicable Financial Reporting Standards as appropriate for public benefit entities. The comparative figures are audited.

The financial statements have been prepared in accordance with the historical cost convention. Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The application of NZ IFRS required management to make judgements, estimates and assumptions about the carrying values of assets and liabilities not readily available from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

The presentation and functional currency is New Zealand dollars and figures are rounded to the nearest thousand dollars (\$000) unless otherwise stated.

(b) Revenue Recognition

Interest Revenue on Loans

Interest revenue on loans is calculated on the daily loan balance outstanding and is charged at each payment date. This is the effective interest method which allocates the interest over the term of the loans to which they

CREDIT UNION LAKELAND
Notes to the Financial Statements
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

relate. Interest income on impaired loans is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Investment Revenue

Investment interest revenue is recognised on an effective interest method which allocates the interest over the period that it relates to. Dividends on the New Zealand Association of Credit Unions Capital Notes are recorded as income once an entitlement to the income is notified to the Credit Union.

Fees & Commissions Revenue

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

Loan Origination Fees Revenue

Loan processing fees represent a recovery of costs to process the loan and do not form part of the effective interest rate on loans. Fees collected represent reimbursement costs incurred as specified by the Credit Contracts and Consumer Finance Act.

(c) Expense Recognition

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.

Other expenses

Other expenses are recorded in the period to which they relate.

(d) Income Tax

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

(e) Goods & Services Tax (GST)

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

(f) Leases

Leases of property, plant and equipment are operating leases as the substantial risks and benefits incidental to ownership of the asset, are retained by the legal owner. Lease payments for operating leases are charged as expenses in the periods in which they are incurred on a straight line method.

(g) Cash and cash equivalents

Cash and cash equivalents

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

Deposits at New Zealand Association of Credit Unions

Deposits at the New Zealand Association of Credit Unions are recorded at cost, less any impairment losses.

(h) Trade and Other Receivables

These amounts represent amounts due for interest owing and other services performed by the Credit Union prior to the end of financial period which are not received. The amounts are expected to be received within a year of recognition. They are initially recorded at fair value and subsequently measured at cost less any impairment provision.

(i) Loans to Members

Loans to members are loans which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at fair value plus transaction costs and subsequently measured at amortised cost, using the effective interest method, less provision for impairment.

CREDIT UNION LAKELAND
Notes to the Financial Statements
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

(j) Impairment of Loans

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 principal payments;
- a concession granted to the borrower that the lender would not otherwise consider for economic or legal reasons relating to the borrower's financial difficulty; or
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

The amount provided for impairment of loans is determined by management and the Directors. The Prudential Standards issued by the New Zealand Association of Credit Unions 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 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.

The Credit Union first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. If the Credit Union determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Comprehensive Income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient the Credit Union may measure impairment on the basis of an instrument's fair value using an observable market price.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (that is, on the basis of the Credit Union's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors).

Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows for a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Credit Union and historical loss experience for assets with credit risk characteristics similar to those in the Credit Union. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Credit Union and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Credit Union to reduce any differences between loss estimates and actual loss experience.

Loans which are known to be uncollectible are written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

CREDIT UNION LAKELAND
Notes to the Financial Statements
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

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.

(k) 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 the 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 rates attached to them.

(l) Plant and Equipment

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

Plant and Equipment

Plant and equipment are measured on the historical cost basis, less accumulated depreciation and impairment losses. Historical cost includes expenditure directly attributable to the acquisition of the items. Subsequent costs are included in the assets carrying amount as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Credit Union and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they are incurred.

Depreciation

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

Plant and equipment is depreciated on a straight-line basis. A summary of the current and prior year rates used are:

Leasehold Improvements	10%
Motor Vehicles	20%
Computer Equipment	33.3%
Furniture and Equipment	20%

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the Statement of Comprehensive Income.

CREDIT UNION LAKELAND
Notes to the Financial Statements
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

(m) Impairment Testing Assets (excluding property, plant and equipment and loans)

At each reporting date, the Credit Union reviews the carrying values of its tangible 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 asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the Statement of Comprehensive Income.

(n) Trade and Other Payables

These amounts represented liabilities for goods and services provided to the Credit Union prior to the end of the financial period which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(o) Employee Benefits

Liabilities for wages and salaries, including non monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable. The liability for employee entitlements is carried at the present value of the estimated future cash flows. 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.

(p) Members' Deposits

Members' deposits are the members' shares in the Credit Union. For the purposes of financial reporting, members' shares are recognised as debt instruments. They are recorded initially at fair value and subsequently at amortised cost. 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 the number of shares held. Interest on deposits is recognised on an accrual basis and is presented as part of trade and other payables.

(q) Financial Instruments Recognition

Financial instruments are initially measured at fair value on trade date, which includes transactions costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Financial assets at fair value through profit or loss

A financial asset is classified in this category only when the Credit Union becomes a party to the contractual provisions of the financial asset and if acquired principally for the purpose of selling in the short term or if so designated by management. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the Statement of Comprehensive Income 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

These investments have fixed maturities, and it is the Credit Union's intention to hold these investments to maturity. Any held-to-maturity investments held by the Credit Union are stated at amortised cost using the effective interest rate method.

Available-for-sale financial assets

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

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

Available-for-sale financial assets are normally carried at fair value in subsequent periods with changes in fair value being recognised in the Statement of Comprehensive Income as part of other comprehensive income. However, as the Capital Notes are equity instruments, do not have a quoted market price in an active market and the fair value cannot be measured reliably, they are measured at cost price in terms of the accounting standard

CREDIT UNION LAKELAND
Notes to the Financial Statements
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

NZ IAS 39. Note that this concession is likely to be removed in future, with a requirement to measure capital notes at fair value subsequent to initial recognition. The Credit Union assesses at each reporting date whether there is objective evidence that a financial asset or a 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

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation using the effective interest rate method. This category includes members' deposits and other payables. Members' deposits meet the definition of financial liabilities under NZ IAS 32 as they are secured by a first ranking registered Trust Deed over the Credit Union's assets and revenue.

(r) Statement of Cash Flows

Definitions of terms used in the Statement of Cash Flows:

Cash includes coins and notes, demand deposits and other highly liquid investments with original maturities of three months or less and includes at call borrowings such as bank overdrafts, used by the organisation as part of its 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. They include loans to members and repayments of loans by members.

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.

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.

(s) 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 (refer Note 8).

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 loans are in arrears. The resulting accounting estimates will seldom equal the related actual results and there is a significant risk of causing a 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.

(t) Standards, Interpretations and Amendments to Published Standards that are not yet effective.

The following new and amended standards, amendments and interpretations have been issued by the Accounting Standards Review Board (now replaced by External Reporting Board) but have not been adopted by the Credit Union as they are not yet effective for the half year ended 31 December 2013.

These are:

NZ IFRS 9: Financial Instruments (effective for periods beginning after 1 January 2015)

The new standard simplifies the classification criteria for financial assets, comparing to the current requirements of NZ IAS 39, which results in a reduced number of categories of financial assets and some consequential amendments to disclosures required by NZ IAS 1 Presentation of Financial Statements and NZ IFRS 7 Financial Instruments: Disclosures. The Credit Union's financial assets currently fall into the category of Loan receivables

CREDIT UNION LAKELAND
Notes to the Financial Statements
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

within NZ IAS 39 classification. If NZ IFRS 9 was adopted, these assets would have met the definition of the category of financial assets measured at amortised cost. However, their measurement and disclosure would not have been affected. The Credit Union would not have any transactions to disclose under the new NZ IAS 1 and NZ IFRS 7 disclosure requirements relating to gain or loss arising on derecognition of financial assets measured at amortised cost.

Other than an impact on the value of the NZACU Capital Notes as mentioned in (r) there will be no impact on the Credit Union's accounting for financial liabilities, as the new requirement only affects the accounting for financial liabilities that are designated as at fair value through the profit and loss and the Credit Union does not have any such liabilities.

XRB Package for Public Benefit Entities

The Minister of Commerce has approved a new Accounting Standards Framework developed by the External Reporting Board (XRB). Under this Accounting Standards Framework, the credit union is classified as a public benefit entity and it is expected that it will be required to apply the new PBE Standards as applicable for private not-for-profit entities. These standards are being developed by the XRB based on current International Public Sector Accounting Standards (IPSAS). The effective date for the new standards for private not-for-profit entities is expected to be for reporting periods beginning on or after 1 April 2015. This means the credit union expects to transition to the new standards in preparing its 30 June 2016 financial statements. As the PBE Standards as applicable for private not-for-profit entities are still under development, the credit union is unable to assess the implications of the new Accounting Standards Framework at this time.

Due to the change in the Accounting Standards Framework for public benefit entities, the XRB has effectively frozen the financial reporting requirements for public benefit entities up until the new Accounting Standard Framework is effective. Therefore all new NZ IFRS and amendments to existing NZ IFRS issued after 1 June 2011 will not be applicable to public benefit entities. Accordingly, no disclosure has been made about new or amended NZ IFRS that exclude public benefit entities from their scope.

(u) Comparative Figures

The comparative figures in the financial statements and related notes are for the half year ended 31 December 2012.

CREDIT UNION LAKELAND
Notes to the Financial Statements
 FOR THE HALF YEAR ENDED 31 DECEMBER 2013

2 REVENUE AND EXPENDITURE

REVENUE	31-Dec-13	31-Dec-12
	\$000	\$000
(a) Interest Revenue		
Interest on loans	680	666
Interest on investments	54	51
Dividends on New Zealand Association of Credit Unions Capital Notes	-	-
Total interest revenue	734	717
(b) Other Income		
Loan application fees	61	54
Cost recovery fees	391	378
Commissions earned	40	7
Other income	59	98
Total other income	551	537
Total operating revenue	1,285	1,254

EXPENDITURE

(c) Interest Expenditure		
Interest on members' call shares	60	61
Interest on members' term shares	179	193
Interest on overdraft from New Zealand Association of Credit Unions	4	3
Total interest expenditure	243	257
(d) Employee Benefits		
Salaries and wages	350	295
Kiwisaver contributions	6	3
Accident compensation	1	1
Staff training	8	9
Staff uniforms	8	6
Total employee benefits	401	314

CREDIT UNION LAKELAND
Notes to the Financial Statements
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

2 REVENUE AND EXPENDITURE (continued)

	31-Dec-13	31-Dec-12
	\$000	\$000
(e) Other Administration Expenditure		
Auditors' remuneration - External audit - PricewaterhouseCoopers	11	8
Internal audit	1	1
Bank charges	46	41
Credit Union Insurance - loan and savings insurance	19	17
Directors' fees	-	-
Directors' expenses and training	7	7
Loan expenses	23	31
NZACU fees	25	25
Marketing expenses	61	31
Transaction processing costs	212	202
Postage	9	7
Printing and stationery	10	8
Statutory Compliance	16	23
Other expenses	50	37
Total other expenditure	490	438
(f) Loan Impairment Expenses		
Bad debts written off	78	43
Bad debts recovered	(39)	(31)
Movement in allowance for impaired loans	(77)	15
Total loan impairment expenses	(38)	27
(g) Depreciation		
Leasehold improvements	11	11
Computer equipment	9	4
Furniture fittings and equipment	4	9
Total depreciation expenditure	24	24

3 INTEREST PAID

Interest is paid to depositing members and relates to the Credit Union's ability to pay the interest. At times during the period the Credit Union may offer depositors special accounts that have a pre-set interest rate. Interest rates applied to members' deposits for the period were (% per annum):

	31-Dec-13	31-Dec-12
Ordinary shares	0-4.5%	0-4.5%
Christmas club	2.0%	2.0%
Loyalty	0-1.5%	0-1.5%
Term shares	3.5 - 5.0%	4.0 - 5.6%

CREDIT UNION LAKELAND
Notes to the Financial Statements
 FOR THE HALF YEAR ENDED 31 DECEMBER 2013

4 RESERVES

Retained Earnings

Reserve arising from retained surpluses accumulated from operations.

General Reserve

In past years a general reserve was established in accordance with Section 119 of the Friendly Societies and Credit Unions Act 1982 which required the Credit Union to transfer 5% of gross earnings to the general reserve until the general reserve was the equivalent of 5% of total assets, and thereafter maintained at a minimum of 5% of total assets. Following the enactment of the Friendly Societies and Credit Union Amendment Act 2012 there is no longer a requirement to maintain a general reserve. Accordingly, this reserve will be transferred to retained earnings in the future.

Total Reserves

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

5 CASH AND CASH EQUIVALENTS

	Average Interest Rate p. a.	31-Dec-13 \$000	30-Jun-13 \$000
5 (a) Cash and Cash Equivalents			
Cash on hand	0%	414	456
Bank balances	0.00 to 1.00%	931	594
Total cash and cash equivalents		1,345	1,050

5 (b) Deposits at New Zealand Association of Credit Unions and Awhi Credit Union

	Average Interest Rate p. a.	31-Dec-13 \$000	30-Jun-13 \$000
Term deposits	2.76 to 4.4%	2,100	2,300
Total deposits		2,100	2,300

The Credit Union does not hold tradeable securities. Effective interest rates are the original contracted values. 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 majority of investments with deposits in banks and money market securities. Movements in market rates will not affect the recorded values of these investments.

6 TRADE AND OTHER RECEIVABLES

	31-Dec-13 \$000	31-Dec-12 \$000
Accrued interest	21	23
Prepayments	16	12
Other receivables	12	16
Total trade and other receivables	49	51

CREDIT UNION LAKELAND
Notes to the Financial Statements
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

7 LOANS TO MEMBERS

Loans are made in accordance with the lending policy of the Credit Union and are repayable on demand. An allowance for impairment has been made at the end of the reporting period. Bad loans are written off against the allowance for impairments.

(a) Loans to Members Comprise of:

	31-Dec-13	31-Dec-12
	\$000	\$000
Neither past due nor impaired	10,869	10,579
Past due but not impaired		
1 to 30 days	656	1,128
31 to 90 days	-	-
over 90 days	-	-
Impaired loans		
Restructured loans	133	139
Impaired individually	665	553
Impaired collectively	230	52
Gross Loans	12,553	12,451
Less:		
Allowance for impaired individually	136	216
Allowance for impaired collectively and restructured	62	69
Net loans to members	12,355	12,166

(b) Credit quality - Security dissection

Secured by first mortgage over real estate	7,011	6,837
Secured by motor vehicles and other collateral	3,501	3,473
Secured by members shares	1,320	1,484
Unsecured	721	657
Gross loans to members	12,553	12,451

It is impracticable to provide a valuation of the collateral security held against loans due to the large number of loans the Credit Union has at any one time. A breakdown of the quality of the security on a portfolio basis is as follows:

Security held as mortgage against real estate is on the basis of:

- loan to valuation ratio of less than 80%	6,791	5,876
- loan to valuation ratio of more than 80% but mortgage insured	126	864
- loan to valuation ratio of more than 80% but not mortgage insured	94	97
Total mortgages	7,011	6,837

CREDIT UNION LAKELAND
Notes to the Financial Statements
 FOR THE HALF YEAR ENDED 31 DECEMBER 2013

7 LOANS TO MEMBERS (continued)

(c) Credit quality - Concentration of loans	31-Dec-13	31-Dec-12
(i) Loans to individual or related groups of members which exceed 10% of member funds in aggregate	2	2
(ii) Loans to members concentrated to individuals employed in any particular industry	NIL	NIL
(iii) Loans to members concentrated solely in New Zealand and principally within the common bond of the Credit Union	100%	100%

8 IMPAIRMENT OF LOANS AND ADVANCES

(a) Provision For Impairment

	31-Dec-13	31-Dec-12
	\$000	\$000
Opening balance	270	270
Increase (decrease) for provision for impairment	(72)	15
Total loan impairment expenses	198	285

Key assumptions in determining the allowance for impairment

In the first instance, and where practical, the likely impairment is calculated on an individual basis taking into account the ability of the member to continue making payments and the value of the security. Thereafter, on the balance of loans not assessed as impaired individually, a collective provision is made using the Prudential Standards issued by the NZACU. The circumstances may vary for each loan over time resulting in higher or lower impairment losses. The collective assessment of impairment includes an estimate based on the length of time the loan is in arrears. The impairment provision on collectively impaired loans is based on the following formula plus an additional provision for loans in the 1 to 30 days overdue category.

Period of Impairment	% of Balance
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%
Unauthorized overdrawn savings	100%
Authorised overdrafts	1%

CREDIT UNION LAKELAND
Notes to the Financial Statements
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8 IMPAIRMENT OF LOANS AND ADVANCES (continued)

(a) Impairment of Loans

	Restructured Loans	Individually Impaired Loans	Loans Collectively Provisioned	Total
Gross Receivables	\$000	\$000	\$000	\$000
Gross carrying amount at 1 July 2013	141	716	230	1,087
Additions to class	9	580	1,881	2,470
Written off	(1)	(77)	-	(78)
Deletions from class	(16)	(554)	(1,881)	(2,451)
Gross carrying amount at 31 Dec 2013	133	665	230	1,028
Allowance for Impairment				
Provision at 1 July 2013	7	201	67	275
Additions to class	3	215	132	349
Written off	(1)	(78)	-	(79)
Deletions from class	(6)	(202)	(140)	(347)
Provision at end of period	3	136	59	198
Net loans at 31 Dec 2013	130	529	171	830

	Restructured Loans	Individually Impaired Loans	Loans Collectively Provisioned	Total
Gross Receivables	\$000	\$000	\$000	\$000
Gross carrying amount at 1 July 2012	163	537	63	763
Additions to class	5	470	2,071	2,546
Written off	-	(43)	-	(43)
Deletions from class	(29)	(411)	(2,082)	(2,522)
Gross carrying amount at 31 Dec 2012	139	553	52	744
Allowance for Impairment				
Provision at 1 July 2012	13	194	63	270
Additions to class	4	174	145	743
Written off	-	(43)	-	(43)
Deletions from class	-	(109)	(156)	(265)
Provision at end of period	17	216	52	285
Net loans at 31 Dec 2012	122	337	-	459

CREDIT UNION LAKELAND
Notes to the Financial Statements
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

8 IMPAIRMENT OF LOANS AND ADVANCES (continued)

	31-Dec-13	31-Dec-12
(c) Interest and Other Revenue recognised and foregone	\$000	\$
Interest revenue on non-accrual and restructured loans	-	-
Interest foregone on non-accrual and restructured loans	-	-
Revenue on real estate acquired	-	-
Revenue on other assets acquired	-	-
Totals	-	-
(d) Fair Value of Assets Acquired		
Assets acquired through the enforcement of security	-	4
Assets acquired through the enforcement of security used by the Credit Union in its operations	-	-
Total fair value of assets acquired	-	-

The policy is to sell the assets via auction at the earliest opportunity after measures to assist the member to repay the debts are exhausted.

(e) Loans with repayments past due but not impaired

The total of past due loans (which were overdue by between 1 day and 30 days at 31 December 2013 but not impaired was \$656,217 (31 Dec 2012: \$1,127,607). All 90 days past due assets are included in the individually impaired and collectively impaired loan categories.

9 PROPERTY PLANT AND EQUIPMENT

(a) Movement in Carrying Amounts

31 December 2013	Leasehold Improvements \$000	Computer Equipment \$000	Furniture and Equipment \$000	Motor Vehicles \$000	Total \$000
Cost					
Cost brought Forward	219	318	294	25	856
Additions	-	15	-	-	15
Disposals (refunds)	-	-	-	-	-
Closing cost 31 Dec 13	219	333	294	25	871
Accumulated Depreciation					
Opening Accumulated Depreciation	128	276	260	25	689
Depreciation for the period	11	9	4	-	24
Loss on disposals	-	-	-	-	-
Closing accumulated depreciation 31 Dec 13	139	285	264	25	713
Net book value at 31 Dec 2013	80	48	30	-	158

CREDIT UNION LAKELAND
Notes to the Financial Statements
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

9 PROPERTY PLANT AND EQUIPMENT (continued)

31 December 2012	Leasehold Improvements	Computer Equipment	Furniture and Equipment	Motor Vehicles	Total
	\$000	\$000	\$000	\$000	\$000
Cost					
Cost brought forward	210	277	290	25	802
Additions	-	2	1	-	3
Disposals (refunds)	-	-	-	-	-
Closing cost 31 Dec 12	210	279	291	25	805
Accumulated Depreciation					
Opening Accumulated Depreciation	106	263	241	25	635
Depreciation for the period	10	4	10	-	24
Loss on disposals	-	-	-	-	-
Closing accumulated depreciation 31 Dec 12	116	267	251	25	659
Net book value at 31 Dec 2012	94	12	40	-	146

(b) Impairment Losses

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

10 NEW ZEALAND ASSOCIATION OF CREDIT UNIONS CAPITAL NOTES

New Zealand Association of Credit Unions Capital Notes are classified as "available-for-sale" financial assets and are issued by the New Zealand Association of Credit Unions Business Services Division as Trust Base Capital Notes (Capital Notes). These represent monies invested with the New Zealand Association of Credit Unions Business 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 Business Services Division Trust and with the consent of the Business Services Division Trust's Board of Directors. The Capital Notes are redeemable in full, with five years notice, by the Association. However, the Credit Union has no intention of redeeming the investments in the foreseeable future.

There is no active market for these securities which have no guaranteed rate of return. Dividends are payable on a six monthly basis subject to the profitability of the Business Services Division Trust. Capital Notes are non current assets.

The New Zealand Association of Credit Unions has been generating a surplus in the last three financial years and increased its asset backing for the Capital Notes which had fallen below par. The recent history of dividend payouts as a return on the Capital Notes 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 Base Capital Notes enables the New Zealand Association of Credit Unions 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.

CREDIT UNION LAKELAND
Notes to the Financial Statements
 FOR THE HALF YEAR ENDED 31 DECEMBER 2013

10 NEW ZEALAND ASSOCIATION OF CREDIT UNIONS CAPITAL NOTES (continued)

	<u>31-Dec-13</u>	<u>31-Dec-12</u>
	\$000	\$000
New Zealand Association of Credit Unions Capital Notes	368	368
Less impairment	-	-
Total available-for-sale investments	368	368

11 TRADE AND OTHER PAYABLES

Accesscard - ATM and EFTPOS card settlement	223	52
Accrued interest payable	114	136
Resident withholding tax	13	12
Trade payables	188	196
Employee entitlements	69	63
Total trade and other payables	607	459

12 MEMBERS' DEPOSITS

	\$000	\$000
Call shares		
General savings accounts	3,262	3,124
Loyalty Saver	2,177	2,297
Christmas Saver	45	50
Total call deposits	5,484	5,471
Term Shares: Original Maturity Terms		
0-3 Months	634	749
4-6 Months	2,296	2,015
7-9 Months	1,619	2,262
10-12 Months	3,226	2,730
Total term shares	7,775	7,756
Total members' deposits	13,259	13,227

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 Foundation Corporate Trust from 23 April 2013, replacing Trustee Executors Limited the Prudential Supervisor of the Credit Union who had been the Prudential Supervisor under a Trust Deed dated 9 February 2001, which has been registered with the Registrar of Companies.

The Credit Union has also granted to Foundation Corporate Trust from 23 April 2013 replacing Trustee Executors as the prudential supervisor a security interest in all its present and after-acquired personal property as additional security for the members' shares. Foundation Corporate Trust 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 18 October 2002, which has been registered with the Registrar of Companies.

CREDIT UNION LAKELAND
Notes to the Financial Statements
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

13 COMMITMENTS

	<u>31-Dec-13</u>	<u>31-Dec-12</u>
	\$000	\$000
(a) Future Capital Commitments	Nil	Nil
(b) Finance Lease Commitments	Nil	Nil
(c) Operating Lease Commitments		
As at balance date the Credit Union had entered into the operating lease agreement for the premise of its office in Rotorua. Non cancellable operating leases contracted for but not capitalised in the financial statements, payable:		
Not longer than 1 year	148	39
Longer than 1 and not longer than 5 years	185	-
Longer than 5 years	-	-
Total operating lease commitments	333	39

The property lease is a non-cancellable lease with rent payable monthly in advance. The lease expires on 31 March 2016.

(d) Outstanding Loan Commitments

Loans and credit facilities approved but not funded or drawn at the end of the reporting period:

Loans approved but not funded	104	89
Undrawn overdraft, line of credit and Accesscredit	35	29
Total outstanding loan commitments	139	118

14 CONTINGENT LIABILITIES

There are no contingent liabilities not provided for in the financial statements at 30 Jun 2013 (30 Jun 2012 Nil).

15 STANDBY BORROWING FACILITIES

	<u>Approved Facility</u>	<u>Current Borrowing</u>	<u>Net Available</u>
	\$000	\$000	\$000
31-Dec-13			
Overdraft Facility	1,000	-	1,000
Standby Facility	-	-	-
Total borrowing facilities	1,000	-	1,000
31-Dec-12			
Overdraft Facility	1,000	-	1,000
Standby Facility	-	-	-
Total borrowing facilities	1,000	-	1,000

Currently the unused overdraft facility is \$1,000,000 (2012, \$1,000,000). The interest rate is 5.65% and the penalty rate is 8.5%. There are no material terms of use.

16 EVENTS OCCURRING AFTER BALANCE DATE

There are no known events subsequent to 31 Dec 2013 which would materially affect these financial statements.

CREDIT UNION LAKELAND
Notes to the Financial Statements
 FOR THE HALF YEAR ENDED 31 DECEMBER 2013

17 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

- Market Risk and Hedging 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 practice 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 term shares are not excessive. The measured gap in each 3 month range to be maintained between 6.0% and 10.0% 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 Credit Unions exposure to interest rate risk is set out in Note 19 which details the contractual interest change profile.

The following table summarises the sensitivity of the Credit Union's assets and financial liabilities to a 1% movement in interest rate risk on the Credit Union's financial position and financial results. The 1% movement is used because management believes that this is the reasonably possible change to the official cash rate (OCR) within the next 12 months.

	2013 - Interest Rate Risk			2012 Interest Rate Risk		
	Carrying Amount \$000	-1% Profit & Equity \$000	+1% Profit & Equity \$000	Carrying Amount \$000	-1% Profit & Equity \$000	+1% Profit & Equity \$000
Financial Assets						
NZACU and bank deposits	3,031	(30)	30	2,300	(23)	23
Loan receivables	12,553	(126)	126	12,451	(125)	125
		(156)	156		(148)	148
Financial Liabilities						
Members deposits	13,259	133	(133)	13,227	132	(132)
Total increase / (decrease)		(24)	24		(15)	15

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 deposits and loans 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

CREDIT UNION LAKELAND

Notes to the Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2013

17 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

- 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 (or current average repayment rate)
- 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 entity 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. The majority of members are concentrated in the Rotorua district and environs as well as the Tokoroa area so there is a major credit risk with respect to loans and receivables were there to be a disaster affecting these areas. The Credit Union minimises this risk by having a large number of customers. 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

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

The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken. The board policy is to maintain between 40% and 60% of the loans in well secured residential mortgages which carry an 80% Loan to Valuation ratio or less.

The Credit Union has a concentration in the retail lending for members who reside primarily in the Rotorua District and environs as well as a branch in Tokoroa.. This concentration is considered acceptable on the basis that the Credit Union was formed to service these members.

Daily reports monitor the loan repayments to detect delays in repayments and members are contacted after 7 days to establish any reason for non payment or to advise that a payment has been missed. For loans where repayments become doubtful, external consultants are engaged to continue and support recovery action initiated by Credit Union.

Exposures to losses arise predominately in the personal loan area and are spread across the varying personal loan sectors.

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 members fail to settle their obligations owing to the Credit Union.

There is a concentration of credit risk with respect to investment receivables with the placement of investments in New Zealand Association of Credit Unions and trading banks. The credit practice is that investments are only made to institutions that are credit worthy.

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

CREDIT UNION LAKELAND

Notes to the Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2013

17 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The Board practice is to maintain all its investments with New Zealand registered banks or the New Zealand Association of Credit Unions, an association set up to support the member credit unions. The Association has a credit rating of BB+ (Standard and Poor's) and invests principally with bank deposits and money market securities.

Credit Risk - Equity Investments

The Credit Union does not have investments in equity investments other than the Capital Notes in the New Zealand Association of Credit Unions (refer to note 10).

Liquidity Risk

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

The Credit Union manages liquidity risk by:

- Continuously monitoring forecast and actual daily cash flows
- Reviewing the maturity profiles of financial assets and liabilities
- Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities
- Regularly monitoring loan repayments and comparing to cash flow forecasts
- The Credit Union has a standby borrowing facility with the NZACU to provide support to the Credit Union if necessary at short notice.
- Regularly monitoring loan repayments and comparing forecast cash flows

The Credit Union's policy has a Trust Deed requirement to maintain at least 8% of total assets as liquid assets capable of being converted to cash within 7 days. The ratio is monitored and reported to management, the Credit Union Board and its Trustees on a regular basis. Should the liquidity ratio fall below this level, the management and Board are to address the matter and ensure that the liquid funds are obtained from new deposits or borrowing facilities available.

The maturity profile of the financial liabilities, based on the contractual repayment terms, is set out in the specific note 18. Whilst there is liquidity deficiency for the within one month period of \$4,139,000 as at 31 December 2013 (31 Dec 2012 \$4,407,000), based on the contractual arrangements, the Directors can manage any potential mismatch and meet its obligations as they fall due as all loans to members are repayable on demand. In addition, the profile assumes that all members' shares are repaid when they mature. In the ordinary course of business, the Credit Union normally retains the members deposits which are due within 1 month ensuring that it does not need to demand repayment of the members' loans.

The ability to demand repayment of all members' loans provides the Credit Union with ready access to funds if some or all members' shares required repayment. The Credit Union also has the right at any time to require a sixty day notice period for repayment of members' shares and has an undrawn overdraft facility of \$1,000,000 with the New Zealand Association of Credit Unions (refer to note 15).

Operational Risk

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

These risks are managed through the implementation of policies and systems to monitor the likelihood of the events and minimise the impact. Systems of internal control are enhanced through:

- the segregation of duties between employee, e.g. approval and processing duties are two separate functions where possible
- documentation of the policies and procedures, employee job descriptions and responsibilities, to reduce the incidence of errors and inappropriate behaviour
- implementation of the whistle blowing policies to promote a compliant culture and awareness of the duty to report exceptions by staff
- education of members to review their account statements and report exceptions to the Credit Union promptly
- effective dispute resolution procedures to respond to members complaints
- effective insurance arrangements to reduce the impact of losses
- contingency plans for dealing with the loss of functionality of systems or premises or staff
- regular reviews by the internal auditor.

CREDIT UNION LAKELAND
Notes to the Financial Statements
 FOR THE HALF YEAR ENDED 31 DECEMBER 2013

17 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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, such 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.

Capital Management

The Credit Union is regulated under the Friendly Societies and Credit Union Act 1982. There is a statutory requirement over the minimum reserves required to be maintained. In addition the Credit Union operates under a Trust Deed which requires the minimum reserves to be held by the Credit Union to be 10% of total tangible assets. The Credit Union reserves at the end of the reporting period is stated in note 4.

The Credit Union's capital is determined as follows:

	<u>31-Dec-13</u>	<u>31-Dec-12</u>
	\$000	\$000
Tier 1		
Retained earnings	2,509	2,395
General reserve	-	-
Total Tier 1 reserves	2,509	2,395
Tier 1 Capital Ratio to Total Tangible Assets	15.32%	14.58%

In addition, the Credit Union must comply with the "Deposit Takers (Credit Ratings, Capital Ratios and Related Party Exposures) Regulations 2010" which came into effect on 1 December 2010. These regulations require a minimum of 10% capital ratio (equity to risk weighted assets) and the Credit Union meets the requirements of these regulations. As at 31 December 2013 the Credit Union's capital ratio was 15.32%, (2012: 14.58%).

To manage the Credit Union's capital, which can be affected by excessive growth and by changes in total assets, the Credit Union reviews the capital adequacy ratio monthly and monitors major movements in the asset levels. Policies have been implemented to require reporting to the Board and the Trustee if the capital ratio falls below 10%. Further, an annual capital budget projection of the capital level is maintained annually to address how strategic decisions or trends may impact on the capital level.

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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 of each loan are strictly complied with and is subject to change in the event that current repayment conditions are varied. Future Interest Receivable and Future Interest Payable represent the expected future interest cash flows arising from the contractual obligations of the underlying monetary assets and liabilities respectively.

31-Dec-13	On Call	Within 1 Month	Months 1 - 3	Months 3 - 6	Months 6 - 12	Years 1 - 2 years	Years 2 - 5 years	Years > 5 years	No Maturity	Total
Monetary Assets Receivable	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Cash & bank	1,345	-	-	-	-	-	-	-	-	1,345
Receivables	-	33	-	-	-	-	-	-	-	33
Future interest receivable	-	98	192	267	463	693	1,286	2,876	-	5,875
Investments - Capital Notes	-	-	-	-	-	-	-	-	368	368
Cash investments	-	650	1,450	-	-	-	-	-	-	2,100
Loans	-	206	410	597	1,090	1,768	1,683	6,799	-	12,553
Total monetary assets receivable	1,345	987	2,052	864	1,553	2,461	2,969	9,675	368	22,274

Monetary Liabilities Payable										
Payables	-	538	-	-	-	-	-	-	-	538
Future interest payable	-	42	50	42	123	-	-	-	-	257
Members' call shares	5,484	-	-	-	-	-	-	-	-	5,484
Members' term shares	-	1,402	1,870	1,679	2,824	-	-	-	-	7,775
Total monetary liabilities payable	5,484	1,982	1,920	1,721	2,947	-	-	-	-	14,054

31-Dec-12	On Call	Within 1 Month	Months 1 - 3	Months 3 - 6	Months 6 - 12	Years 1 - 2 years	Years 2 - 5 years	Years > 5 years	No Maturity	Total
Monetary Assets Receivable	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Cash & bank	1,050	-	-	-	-	-	-	-	-	1,050
Receivables	-	39	-	-	-	-	-	-	-	39
Future interest receivable	-	94	185	253	438	661	1,232	2,740	-	5,603
Investments - Capital Notes	-	-	-	-	-	-	-	-	368	368
Cash investments	-	1,300	1,000	-	-	-	-	-	-	2,300
Loans	-	208	409	590	1,036	1,628	1,719	6,861	-	12,451
Total monetary assets receivable	1,050	1,641	1,594	843	1,474	2,289	2,951	9,601	368	21,811

Monetary Liabilities Payable										
Payables	-	396	-	-	-	-	-	-	-	396
Future interest payable	-	34	44	93	83	-	-	-	-	254
Members' call shares	5,457	-	-	-	-	-	-	-	-	5,457
Members' term shares	-	874	2,292	2,152	2,452	-	-	-	-	7,770
Total monetary liabilities payable	5,457	1,304	2,336	2,245	-	-	-	-	-	11,342

CREDIT UNION LAKELAND

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19 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 Dec

Fixed Interest Rate Maturing in:

Floating Interest Rate	0 to 3 months		3 to 6 months		6 to 12 months		1 to 2 years		2 to 5 years		Over 5 years		Set 6 monthly in arrears		Non-interest sensitive		Total		Weighted average effective interest rate*			
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000	2013 %	2012 %
Monetary Assets																						
Cash & bank	1,345	1,050	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,345	1,050	0.00%	0.00%
Deposits at NZACU	-	-	2,100	2,300	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,100	2,300	3.41%	3.41%
Trade & other receivables	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	33	39	-	33	39	N/A	N/A
Loans to members - fixed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.00%	0.00%
Loans to members - variable	12,553	12,451	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	12,553	12,451	10.90%	10.97%
Base Capital Notes	-	-	-	-	-	-	-	-	-	-	-	-	-	368	368	-	-	-	368	368	4.50%	5.69%
Total monetary assets	13,898	13,501	2,100	2,300	-	-	-	-	-	-	-	-	-	368	368	33	39	16,399	16,208			
Monetary Liabilities																						
Members' deposits	5,484	5,457	3,272	3,166	1,679	2,152	2,824	2,452	-	-	-	-	-	-	-	-	-	-	13,259	13,227	3.47%	3.95%
Other payables	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	538	396	-	538	396	N/A	N/A
Total monetary liabilities	5,484	5,457	3,272	3,166	1,679	2,152	2,824	2,452	-	-	-	-	-	-	-	538	396	13,797	13,623			

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

(a) Capital notes do not have any pre determined rate of interest. On \$368,442 of the base capital notes interest is payable on a six monthly basis subject to the profitability of the NZACU Business Services Division Trust. The last interest payment was at 4.5% per annum (2012: 5.69% per annum).

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20 OTHER CREDIT RISKS

(a) Maximum Credit Risk Exposure

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

(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. All loans are to members of the Credit Union who are concentrated mainly in the Rotorua district of New Zealand.

(c) Large Counterparties

The Credit Union has exposure to counter-parties in excess of 10% of equity as follows:

	<u>Number of counterparties</u>	
	<u>2013</u>	<u>2012</u>
Greater than 100% of equity	-	1 NZACU
Between 90% and 100% of equity	1 NZACU	-
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	2 Loans	2 Loans

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 6.95% to 23.95% p.a. (2012 6.95% to 26.45% p.a.) with delinquent loans, or loans with decreased security, possibly incurring an additional penalty of 5% 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 25 Years

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

21 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 the Rotorua District and environs. The funding from members is recorded as members' deposits in the Statement of Financial Position.

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22 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

All financial assets and liabilities, with the exception of loans to members are short-term instruments where their carrying amount in the Statement of Financial Performance equates to their fair values. 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.

Fair value measurements of financial instruments are classified using a Fair Value Hierarchy (with Levels 1-3) that reflects the significance of the inputs used in making the measurements. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates.

The three different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset and liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the asset and liability that are not based on observable market data (that is, unobservable inputs) (level 3)

The only financial instruments held by the Credit Union that are recognised at fair value are derivative assets and liabilities. Management considers the derivatives held by Credit Union Lakeland to be included in level 2 as all significant inputs required to fair value the derivatives are observable.

23 RELATED PARTY DISCLOSURES

(a) Remuneration of Directors and Key Management Persons (KMP)

The Credit Union deals with Directors, Trustees and other key management persons ("KMP") on the same terms and conditions applied to all members (including interest rates on loans and shares):

	2013	2012
	\$000	\$000
Directors and other KMP holdings at balance date are:		
Owing to Directors and other KMP (shares)	57	14
Owing by Directors and other KMP (loans)	4	15
Interest expense to Directors and other KMP (on shares)	-	1
Interest income from Directors and other KMP (on loans)	1	1

There are no shares from Directors exceeding 12 months

The Directors received fees of \$NIL (2012 \$NIL) for their services

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

Key management persons (KMP) has been taken to comprise the Directors and two senior management responsible for the day to day financial and operational management of the Credit Union. (2012: 2)

Key management remuneration for the six months ended 31 December 2013 and the half year ended 31 December 2012 was:

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23 Remuneration of Directors and Key Management Persons (KMP) (continued)

	2013	2012
	\$000	\$000
Short term employee benefits	79	77
Long term employee benefits	-	-
Total remuneration	79	77

Remuneration shown as short term benefits means (where applicable) wages, salaries, paid annual leave and sick leave, bonuses, value for fringe benefits received, but excludes out of pocket reimbursements.

The Directors received no fees or honoraria for their services.

(b) Other related parties

	2013	2012
	\$000	\$000
Other related parties' holdings at balance date are:		
Owing to other related parties (shares)	106	48
Owing by other related parties (loans)	89	105
Interest expense to other related parties (on shares)	1	1
Interest income from other related parties (on loans)	3	1

During the 12 month period loans advanced to Directors and other KMP's was \$nil, (2012: \$3,410). Commitments at 30 Jun 2013 were nil, (2012 nil). Funds invested on term deposit by Directors and other KMP's was nil, (2012: \$nil). All loans and term deposits were at standard terms and interest rates. There are no shares from Directors and other KMP's exceeding 12 months and all other Directors loans are repayable upon demand.

24 CASH FLOW RECONCILIATION

	31/12/2013	31/12/2012
	\$000	\$000
Operating surplus for the period	61	89
Non Cash Items		
Depreciation	24	24
Bad debts written off	79	43
Increase (decrease) in allowance for loan impairment	(78)	15
	25	82
Changes in Assets and Liabilities		
(Increase) decrease in trade and other receivables	42	51
(Decrease) increase in trade and other payables	(26)	24
	16	75
Net cash provided by operating activities	102	246

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25 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

31 December 2013	Loans and Receivables \$000	Available-for-sale \$000	Total \$000
Financial Assets as per Statement of Financial Position			
Cash and cash equivalents	1,344	-	1,344
Deposits at New Zealand Association of Credit Unions	2,100	-	2,100
Trade and other receivables (excluding prepayments)	33	-	33
Loans to members	12,355	-	12,355
Capital notes	-	368	368
Total financial assets	15,832	368	16,200

	Financial Liabilities at Fair Value through Profit or Loss \$000	Other Financial Liabilities \$000	Total \$000
Financial Liabilities as per Statement of Financial Position			
Trade and other payables (excluding provisions and employee benefits)	-	538	538
Members' deposits	-	13,259	13,259
Total financial liabilities	-	13,797	13,797

31 December 2012	Loans and Receivables \$000	Available-for-sale \$000	Total \$000
Financial Assets as per Statement of Financial Position			
Cash and cash equivalents	1,050	-	1,050
Deposits at New Zealand Association of Credit Unions	2,300	-	2,300
Trade and other receivables (excluding prepayments)	39	-	39
Loans to members	12,166	-	12,166
Capital notes	-	368	368
Total financial assets	15,555	368	15,923

	Financial Liabilities at Fair Value through Profit or Loss \$000	Other Financial Liabilities \$000	Total \$000
Financial Liabilities as per Statement of Financial Position			
Trade and other payables (excluding provisions and employee benefits)	-	396	396
Members' deposits	-	13,227	13,227
Total Financial Liabilities	-	13,623	13,623