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2009 ANNUAL REPORT

to Members

(as at 31 August 2009)

(38th Annual General Meeting)

AGENDA

1. Welcome, Apologies & Respects to "Past Members"
2. Confirm Quorum
3. Confirm the Minutes of the 37th Annual General Meeting
4. Matters Arising from the Minutes of the 37th AGM
5. Receipt & adoption of the Reports of:
 - (a) the Directors (presented by the Chairman);
 - (b) the Treasurer, including adoption of the Audited Financial Statements;
 - (c) the Trustees;
 - (d) the Internal Audit Committee;
 - (e) any Others.
6. Unfinished Business from the previous AGM
7. New Business, other than that listed below:
 - (a) Appointment of External Auditor;
 - (b) Remuneration of the Directors.
8. Elections.
9. Adjournment & refreshments.

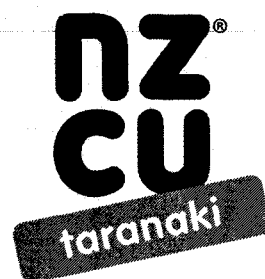
REGISTERED OFFICE: 190-192 Devon Street East, New Plymouth

BRANCHES: 32 Queen Street, Waitara

AGENCIES: Carter Products (NZ) Inc, 51 Port View Crescent, New Plymouth

WEBSITE: www.nzcutaranaki.co.nz

E-MAIL: enquiries@nzcutaranaki.co.nz



<u>BOARD OF DIRECTORS:</u>	<u>Board Meetings</u> Attended, of 12 held	<u>STAFF:</u>	
Chairman: Graham Clouston	11	General Manager:	Nigel Davis
Vice-Chair: Peter Hewett	11	Lending Manager:	Gail Adamson
Secretary: Leora Chancellor	12	Banking Services Mgr:	Donna Parkes
Trustees: Maureen Berentson	11	Member Services:	Shona Green
	Peter Hewett		Carol Hicks
	Steven Tanner		Serena Thompson
Directors: Sandra Julian	8		Coral Wiltshire
			Beryl Woodhead
<u>TREASURER:</u> James Seerup	9		
<u>BANKERS:</u>			
New Zealand Association of Credit Unions, Parnell, Auckland			
Westpac Banking Corporation			
<u>AUDITORS:</u>			
Silks, Chartered Accountants, Wanganui (External Auditor)			
James Seerup, Maureen Berentson, Annabelle Sutton (Internal Audit Committee)			
<u>SOLICITORS:</u>			
Young and Carrington, New Plymouth			
Stace Hammond, Auckland			
<u>PRUDENTIAL SUPERVISOR:</u>			
Trustees Executors Limited, Auckland			

**MINUTES OF THE 37TH ANNUAL GENERAL MEETING OF MEMBERS OF
CREDIT UNION TARANAKI HELD AT 5.45PM, WEDNESDAY, 27-NOV-2008
AT THE AUTO LODGE MOTOR INN, 292 DEVON STREET, NEW PLYMOUTH.**

Present: Nigel Davis (GM); Graham Clouston (Chairman); Lyn Buxton (Minutes); Lee Chancellor (Secretary); Maureen Berentson; Peter Hewett; Odele Rapley; Gerald Tubby; Annabelle Sutton; Carol Hicks; Casey Wiltshire; Serena Thompson; Gail Adamson; Cherry Christiansen; Shona Green; Coral Wiltshire; Shane Thompson; Jason Thompson; Lacey Cudby; Shane Thompson, Jr; Donna Parkes; Peter Watemburg; Sandra Julian; Roy Komene.

Confirm Quorum:

The Minute Secretary, L Buxton, confirmed, from the meeting register, that a quorum of at least 15 members was present.

Welcome:

The Chairman welcomed those present to the 37th AGM of Credit Union Taranaki.

Apologies:

Huia Davis; Christine O'Dwyer; Beryl Woodhead; Jim & Jeanette Seerup.

Moved: P. Hewitt; Seconded: D. Parkes.

Respects to Past Members:

The Chairman called for a moment's silence in respect of members, and those of their families, who had passed away since the last AGM.

Minutes of the 36th Annual General Meeting

The Minutes of the 36th Annual General Meeting were read and confirmed as a true and correct record.

Moved: G. Adamson; Seconded: M. Berentson.

Matters Arising from the Minutes of the 36th Annual General Meeting:

There were no matters arising from the minutes of the 36th Annual General Meeting.

Directors' Report:

G. Clouston presented his report to the meeting on behalf of the Board of Directors. The report is filed in the Credit Union AGM File.

Moved: G. Clouston.

Treasurer's Report:

N. Davis presented his report (including the Audited Financial Statements) to the meeting. The report is filed in the Credit Union AGM File.

Moved: N. Davis.

Trustees' Report:

M. Berentson presented this report on behalf of the Trustees. The report is filed in the Credit Union AGM File.

Moved: M. Berentson.

Internal Audit Sub-Committee Report:

M. Berentson presented this report on behalf of the Internal Audit Sub-Committee. The report is filed in the Credit Union AGM File.

Moved: M. Berentson.

General Manager's Report:

N. Davis presented this report. The report is filed in the Credit Union AGM File.

Moved: N. Davis.

Any Other Reports:

There were no other reports.

All reports were seconded by G. Adamson; Carried.

Matters Arising from the Reports:

There were no matters arising from any of the reports.

Unfinished Business:

There was no unfinished business from the previous meeting.

Specific Business:

Appointment of External Auditor: G. Clouston moved that "Credit Union Taranaki retain BDO Spicers, Chartered Accountants, Hamilton, as their external auditors during the next financial year, subject to a review in the current financial year."

Moved: G. Clouston; Seconded: M. Berentson; Carried.

Director Remuneration:

G. Clouston moved that "Director remuneration payments be reduced to a maximum of \$20,000 per annum"

Seconded: P. Hewitt; Carried.

Rule Changes:

None.

Elections:

The following nominations were tabled:

Standing for re-election: Maureen Berentson; Lee Chancellor; Peter Hewitt.

New Nominations: None.

All nominees were declared duly elected as Directors of the Credit Union Taranaki, G. Clouston being re-elected as Chairman.

Moved - P. Hewitt; Seconded - L. Chancellor; Carried.

P. Hewitt was elected as Vice-Chairman.

Moved: G. Clouston; Seconded: M. Berentson; Carried.

J. Seerup was confirmed as Treasurer.

Moved: G. Clouston; Seconded: M. Berentson; Carried.

L. Chancellor was re-elected as Secretary.

Moved: G. Clouston; Seconded: M. Berentson; Carried.

The following Directors were nominated & duly re-elected as Trustees of Credit Union Taranaki:

Maureen Berentson;

Peter Hewitt;

Steve Tanner.

Moved: G. Clouston; Seconded: L. Chancellor; Carried.

The following were nominated & duly re-elected as the Audit Sub-Committee of Credit Union Taranaki:

Jim Seerup (Chair);

Maureen Berentson;

Annabel Sutton.

Moved: G. Clouston; Seconded: P. Hewitt; Carried.

Close of Meeting:

The Chairman adjourned the meeting at 6.20pm & thanked those present for their attendance.

DIRECTORS' REPORT for the Financial Year Ended 31 August 2009

It is my pleasure to report on the last year.

The last 12 months continues to be very challenging for Credit Union Taranaki and it is disappointing to report a further loss of \$196,763.

These losses arise from the need for prudent provisioning against potential non-performing loans. The underlying operational performance is positive and we expect as in previous periods that a significant percentage of these loans provided for will be repaid.

The big issue that we, and other small Non-Bank Deposit Takers, face is that of substantially increased regulation and the resultant costs to us to comply with that. Increasingly our management is spending more of its time on compliance rather than in assisting members and in promoting the Credit Union. This is not helpful and there is no end in sight.

For the last two years we have, without success, offered to other small Credit Unions proposals to merge with us. We recognised that we had to get bigger, we had to have more critical mass to cope with the upcoming compliance costs. All of our natural partners have now merged into NZCU Baywide, and for the same reasons. Additionally, in each case the members of those merged Credit Unions are better off and the same would apply to us. On 15 December 2009 there will be a Special General Meeting to consider whether NZCU Taranaki should also merge with NZCU Baywide. Detailed information and explanation will be provided at that meeting.

We have had to disclose the possible merger to our Auditor and they in turn have had to be more conservative on loan provisioning, which also contributes to our result.

Fortunately, the underlying performance is positive and we have surplus liquidity so that the prudential reserve ratio can be managed to comply with the Trust Deed.

Despite economic conditions we have been able to attract and retain term deposits as required. Along with other Credit Unions we have seen the demand for loans drop significantly and we have not met budgeted loan growth. Prudence has been required in lending.

The results of the upcoming Special General Meeting will set the scene for the next 12 months.

I thank you all for your support, particularly Management, consultants, staff and my fellow Directors.



Graham Clouston
Chairman of the Board of Directors
23 November 2009

TREASURER'S REPORT For The Financial Year Ended 31 August 2009

Following last financial year's operating loss Credit Union Taranaki reduced its growth plans considerably. However, due largely to decreasing loan demand and the local effects of the global economic downturn, an annual deficit, of income over expenditure, of \$196,763 (vs. last year's \$117,148 deficit) resulted.

This was transferred to Retained Earnings which, when combined with Reserves of \$639,529, gave a Reserves to Total Assets ratio of 7.8% of Total Assets as at 31 August 2009, this being below the required 10.0% prudential requirement. Our Trustee granted permission last year to offset Members' savings against their Loans, increasing the ratio back to a compliant level, until 30 November 2009.

Total Assets, of \$5.689M (vs. last year's \$7.335M) as at 31 August 2009, have decreased 22% as we reduced Assets over the period to raise the Reserves to Total Assets ratio.

Income & expenditure was negatively impacted, the major differences (>10% & \$10K) being:

Interest on Loans decreased 6% (\$705,688 vs. last year's \$755,049), largely due to reduced loan demand and a slight reduction in effective interest rate in the period.

The cost of promotional interest rebates to Members was \$3,939 (vs. last year's \$17,391).

Income from Investments decreased 14% (\$48,855 vs. last year's \$41,874), due to reduced interest rate returns in the period.

Income from NZACU Capital Notes decreased 67% (\$7,847 vs. last year's \$24,016), due to reduced returns in the period.

Loan Fees decreased 32% (\$74,060 vs. last year's \$109,699), due to reduced loan demand in the period.

Commissions decreased 25% (\$33,005 vs. last year's \$43,787), due to reduced demand in the period.

Bad Debt Recoveries increased 169% (\$18,721 vs. last year's \$6,958), due to increased recoveries.

Depreciation increased 30% (\$58,044 vs. last year's \$44,768) due to the ongoing costs of NZCU branding and the closure of our South Taranaki offices.

Director Fees decreased 19% (\$19,645 vs. last year's \$24,293) in line with last year's AGM resolution.

Employee Benefits decreased 9% (\$302,775 vs. last year's \$332,902) due to the closure of our South Taranaki offices.

External Audit Costs decreased 31% (\$21,405 vs. last year's \$31,078) following the appointment of local firm, Silks (Wanganui), at our July SGM.

Impairment Costs increased by 87% (\$179,973 vs. last year's \$96,136) to meet NZ IFRS and pre-merger requirements.

Term Share Interest increased 9% (\$324,854 vs. last year's \$298,516) as investors sought high rates for longer terms in the declining market.

Despite retrenching the decline in lending to Members continues to affect profitability. However, a current YTD profit has resulted following the earlier measures taken to address this negative trend.

In closing, I thank those involved, both internal (Staff, Board, Committees and Consultants) and external (NZACU, Silks, Stace Hammond, Trustees Executors Limited and our wider NZ Credit Union family) to Credit Union Taranaki, for their contribution over the past year.

Finally, I thank you, the Members, for your continued support.

I move that the attached audited Financial Statements, including Silks' Annual Audit Report, be accepted by this meeting.



Jim Seerup
Treasurer

24 November 2009

TRUSTEES' REPORT For The Financial Year Ended 31 August 2009

I present this report to you on behalf of your Trustees - Peter Hewett, Steven Tanner & myself.

The past year's lending performance is down on last year's \$3.174 million, with Loans Disbursed to Members of \$2.500 million, largely due to the ongoing effects of the current economic downturn.

For the Financial Year ended 31 August 2009, there were 2,042 loans outstanding (6% higher than last year's 1,918) in a total loan portfolio of \$4,468,811 (12.6% lower than last year's \$5,115,152). ACCESSCREDIT® continues to be well-supported with 75 accounts at year end (vs. 72 last year).

The main purposes for which our Members sought loans were for:

Debt Consolidation/Repayment (30%);

Miscellaneous/Personal (26%);

Vehicle Purchase, Repairs and Maintenance (16%); and

Home Purchase and Improvements (13%).

Further lending details are shown below:

	<u>For Y/E 31-Aug-09</u>	<u>For Y/E 31-Aug-08</u>	<u>% Variance</u>
Total Number of Loan Applications:	5,123	6,127	(16)
Total Number of Loans Disbursed:	4,953	5,937	(17)
Total Value of Loans Disbursed:	\$2,500,422	\$3,174,246	(21)
Total Number of Loans Declined:	170	190	(10)
Total Value of Loans Declined:	\$398,493	\$630,892	(37)
Loan Application Approval Rate:	96.7%	96.9%	Nil
Average Loan Amount:	\$505	\$535	(6)
Average Monthly Loan Balance:	\$4,791,977	\$5,287,108	(9)

As noted last year, the requirements of reporting to the New Zealand equivalents to International Financial Reporting Standards, NZ IFRS, continue to require greater allowances for bad loan impairment. Also, our Auditors have applied an even more conservative estimate due to the proposed merger with NZCU Baywide.

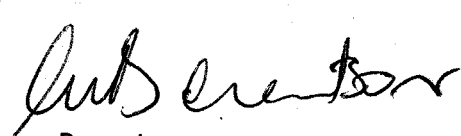
Bad Debts Written Off to Impairment, totaling \$72,922 for the year, are 11% lower than last year's total of \$81,625 while the Impairment Allowance was increased by \$62,064 to \$155,518, 220% higher than last year's balance of \$48,467.

This year's Recovery of Previously Written-Off Bad Debts, totaling \$18,721 (169% higher than last year's \$6,958), confirms our stringent debt recovery processes used to return these funds to Members.

The main reasons that 170 loan applications were declined were those Members' insufficient security to support the loan (92), adverse credit history (57) and/or insufficient income to support the loan (12).

As noted last year, continuing adverse economic conditions have seen a decline in loan demand as New Zealanders respond to global financial events by curtailing any unnecessary spending. It appears that these conditions are now improving and we therefore look forward to better lending next year.

In closing, I thank the Board, Staff and my fellow Trustees for their able assistance, and especially you, our Members, for your continued support.


Maureen Berentson
Trustee

20 November 2009

AUDIT COMMITTEE REPORT For The Financial Year Ended 31 August 2009

The appointment and duties of the Audit Committee of Credit Union Taranaki are covered by Rules 42 to 45, inclusive, of the Registered Rules as filed with the Registrar of Friendly Societies and Credit Unions on 30th January 2001 together with amendments similarly filed on 6th September 2002.

Members of the Audit Sub-Committee, appointed under Rule 42, are:

Jim Seerup - Chairman;
Maureen Berentson; and
Annabelle Sutton.

The Audit Sub-Committee has carried out the duties as set out in Rules 43 to 45, inclusive, which address inspection of, and reporting on, a range of matters including Financial Statements and interface with External Auditors. The Internal Audit requirements of Rule 43 have continued to be directly addressed by the Audit Sub-Committee after discussions with External Auditors as to frequency and completion detail of each Internal Audit task. This is a continuation of the structured approach to the role of this Committee, which has proven its effectiveness over the last several years.

The Audit Sub-Committee met regularly and is pleased to report that all scheduled Internal Audit tasks were completed as scheduled to 31 August 2009. Further, all tasks scheduled in September 2009 and relevant to activities for the Year Ended 31 August 2009 were completed. Detailed reports to Board were provided monthly. Additionally, these reports were copied to External Auditors and the Prudential Supervisor.

In the course of its work the Audit Sub-Committee made a modest number of recommendations to both the General Manager and the Board. All recommendations made were acted upon to our complete satisfaction.

Discussions with External Auditors, as part of their examination of Credit Union Taranaki records for the Year Ended 31 August 2009, confirmed that the Audit Sub-Committee work was being satisfactorily completed to a standard comparable to, and achieved by, other credit unions using the FACTS programme.

The work, dedication and ability of my fellow Sub-Committee members have enabled me to again report the year's activities with satisfaction. I wish all Members to be made aware of my personal thanks to those concerned.

Your Sub-Committee is, once again, proud of its achievements.



J. F. Seerup
Audit Sub-Committee Chairman
23 November 2009

GENERAL MANAGER'S REPORT for the Financial Year Ended 31 August 2009

As predicted last year, this financial year has proven my most challenging to date.

Last year's reported \$117K loss has been followed by a further \$197K loss in the current year as the full effects of the global recession transpired.

Despite a conservative budget, significantly reduced lending and increased operating costs reduced profitability to unacceptable levels in late 2008. This required retrenching to a more conservative budget in early 2009 to ensure our survival through the tough economic conditions predicted to occur later in the year. Consequently, Assets (22%), Shares (21%), Loans (13%) and Members (9%) all declined, as shown, in the last year.

Operationally, declining patronage/profitability required us to make the difficult decision to close our South Taranaki offices. Despite this setback, our ATMs at 135 Egmont Street, Patea and Countdown, Hawera continue to provide valuable service to our Members in that region.

Loan delinquency increased markedly in the latter half of the year as Members under financial hardship struggled to meet their commitments, resulting in increased loan impairment costs at 31 August 2009.

As with the national economy I believe we have now borne the brunt of the recession and that the coming year promises to be better than the last two.

Personally, I have found it difficult to balance the increasing legislative/compliance burden with my many other management responsibilities. I fully endorse the proposed merger with NZCU Baywide. It is a much larger credit union equipped with the requisite resources to deliver all the benefits that you, our Members, deserve.

In closing I thank you all for your support over the past year. I also express my personal gratitude to our credit union's directors, staff, consultants, business partners, suppliers, our association - the NZACU - and fellow credit unions.



Nigel Davis
General Manager
20 November 2009

Notes to the Agenda

SPECIFIC BUSINESS

Agenda Item 7(a)

Appointment of External Auditor: The Board of Directors recommends to the meeting that Credit Union Taranaki retain the external audit services of **Silks, Chartered Accountants, Wanganui**, for the next financial year.

Agenda Item 7(b)

Remuneration of the Directors: The Board of Directors recommends to the meeting that Credit Union Taranaki retain Director Remuneration payments to a maximum of \$20,000, during the next financial year.

Agenda Item 7(c)

Rule Changes: None.

RULES Pertaining to these Agenda Items:

Agenda Item 7(a) "APPOINTMENT OF EXTERNAL AUDITOR";

46. The Credit Union shall appoint a properly qualified and independent external auditor to audit the Financial Statements of the Credit Union each year in accordance with *Sections 65 and 123* of the Act and six-monthly in accordance with the *Securities Act 1978*. Where the Credit Union qualifies as an 'exempt Credit Union' as defined by *Section 122* of the Act the Credit Union may at its option, appoint two or more persons who are not qualified auditors to audit the financial statements for that year.

Agenda Item 7(b) "REMUNERATION OF THE DIRECTORS";

32. Fees, Honoraria and Meeting payments (other than the remuneration of the Treasurer) may be paid to the directors (including any associate director) in such amounts and manner as the Board, in its absolute discretion, may decide provided however that the total fees, honoraria, and meeting payments so paid shall not exceed that sum which has been approved at an immediately preceding Annual Meeting (or adjourned Annual Meeting) of the members of the Credit Union.

NOTES



CREDIT UNION TARANAKI

(Trading as "NZCU Taranaki")

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 AUGUST 2009

Offices at: *190-2 Devon Street East, New Plymouth*
32 Queen Street, Waitara

CREDIT UNION TARANAKI

CONTENTS OF FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 AUGUST 2009

DIRECTORY

TREASURER'S REPORT

TRUSTEE'S REPORT

STATEMENT OF COMPREHENSIVE INCOME

Page 1

STATEMENT OF CHANGES IN EQUITY

Page 2

BALANCE SHEET

Page 3

CASH FLOW STATEMENT

Page 4

NOTES TO THE FINANCIAL STATEMENTS

Page 5 - 21

AUDITORS' REPORT

Page 22

CREDIT UNION TARANAKI

DIRECTORY

FOR THE YEAR ENDED 31 AUGUST 2009

Board of Directors	Chairman	Graham Clouston
	Deputy Chairman	Steven Tanner
	Secretary	Leora Chancellor
	Directors	Maureen Berentson Peter Hewett Sandra Julian
Treasurer		James Seerup
Trustees		Maureen Berentson Peter Hewett Steven Tanner
Internal Audit		Maureen Berentson James Seerup Annabelle Sutton
Staff	General Manager	Nigel Davis
	Lending Manager	Gail Adamson
	Banking Services Manager	Donna Parkes
	New Plymouth	Shona Green Carol Hicks Coral Wiltshire Beryl Woodhead
	Waitara	Serena Thompson
Auditors	Silks, Wanganui	
Bankers	New Zealand Association of Credit Unions	
Solicitors	Young & Carrington, New Plymouth Stace Hammond, Auckland	
Affiliations	Credit Union Institute of New Zealand, CUI NZ Institute of Credit Union Managers, New Zealand, ICUM NZ Institute of Directors in New Zealand, IOD NZ New Zealand Association of Credit Unions, NZACU New Zealand Institute of Management, NZIM	

CREDIT UNION TARANAKI

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 AUGUST 2009

		2009	2008
<u>INCOME</u>	Note	\$	\$
Interest revenue	2	755,409	827,920
Other revenue	2	553,395	570,953
TOTAL REVENUE		1,308,804	1,398,873
 <u>EXPENDITURE</u>			
Interest expenditure	2	334,983	308,749
Loan impairment expenses	2	179,973	96,136
Employee benefits		302,775	332,902
Occupancy		60,725	62,624
Depreciation	2	58,044	44,768
Impairment losses		-	-
Other expenditure	2	569,067	670,842
TOTAL EXPENDITURE		1,505,567	1,516,021
Profit for the year attributable to members		(196,763)	(117,148)

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

CREDIT UNION TARANAKI

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 AUGUST 2009

	Retained Earnings \$	Other Reserves \$	Total Reserves \$
Balance at 01 September 2007	-	756,677	756,677
Profit/(Loss) for the year	<u>(117,148)</u>	<u>-</u>	<u>(117,148)</u>
Total recognised income and expenses for the year	-	-	-
Transfers to and from reserves: - general reserve	-	-	-
Retained earnings	(117,148)	-	(117,148)
Balance at 31 August 2008	<u>(117,148)</u>	<u>756,677</u>	<u>639,529</u>
Balance at 01 September 2008	(117,148)	756,677	639,529
Profit/(Loss) for the year	<u>(196,763)</u>	<u>-</u>	<u>(196,763)</u>
Total recognised income and expenses for the year	-	-	-
Transfers to and from reserves: - general reserve	-	-	-
Retained earnings	(196,763)	-	(196,763)
Balance at 31 August 2009	<u>(313,911)</u>	<u>756,677</u>	<u>442,766</u>


CREDIT UNION TARANAKI

BALANCE SHEET

FOR THE YEAR ENDED 31 AUGUST 2009

	Note	2009 \$	2008 \$
<u>MEMBERS' FUNDS</u>			
Retained earnings	4	(313,911)	(117,148)
Other reserves	4	756,677	756,677
TOTAL MEMBERS' FUNDS		442,766	639,529
<u>ASSETS</u>			
Cash & Bank	5	227,984	360,437
Deposits at NZACU	5	650,000	1,350,000
Trade and other receivables	6	75,134	88,566
Loans to members	7-8	4,313,293	5,066,676
Derivatives	9	-	-
Property, plant & equipment	10	101,007	155,115
Capital Notes	11	321,492	313,800
TOTAL ASSETS		5,688,910	7,334,594
<u>LIABILITIES</u>			
Trade and other payables	12	134,555	209,245
Short-term borrowings	13	-	-
Members' deposits	14	5,111,589	6,485,820
TOTAL LIABILITIES		5,246,144	6,695,065
NET ASSETS		442,766	639,529

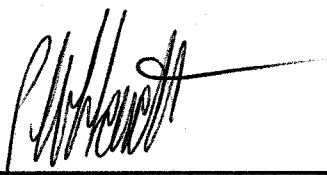
These audited Financial Statements are authorised for issue by:



 Director

19 November 2009

Date



 Director

19 November 2009

Date

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

CREDIT UNION TARANAKI

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 AUGUST 2009

	Note	2009 \$	2008 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		(766,757)	(819,142)
Fees and commissions received		(507,070)	(558,108)
Bad loans recovered		(18,721)	(6,958)
Other income		(27,180)	(5,887)
Interest paid		358,809	289,448
Payments to suppliers, directors & employees		981,347	1,038,643
Net cash provided by/(used in) operating activities	27	20,428	(62,004)
CASH FLOWS FROM INVESTING ACTIVITIES			
Members' loan repayments		(3,073,838)	(3,067,008)
Members' loan disbursements		2,500,428	3,174,251
Purchase of property, plant and equipment		3,936	123,508
Proceeds from sale of property, plant and equipment		(424)	-
Net movement in short term investments		-	-
Capital notes investment - NZACU		7,692	119,567
Net cash provided by/(used in) investing activities		(562,206)	350,318
CASH FLOWS FROM FINANCING ACTIVITIES			
Net movement in member deposits		1,374,231	(1,222,138)
Proceeds from borrowings		-	-
Repayment of borrowings		-	-
Net cash provided by/(used in) financing activities		1,374,231	(1,222,138)
Total net increase/(decrease) in cash held		(832,453)	933,824
Cash and cash equivalents at the beginning of the period		1,710,437	776,613
Cash and cash equivalents at the end of the period	5	877,984	1,710,437

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

CREDIT UNION TARANAKI

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2009

Reporting Entity

The Credit Union 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 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") as appropriate for public benefit entities for the benefit of their members. Compliance with NZ IFRS ensures that the financial statements also comply with International Financial Reporting Standards ("IFRS"). The presentation currency is NZ\$.

Nature of Business

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

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

The Credit Union operates predominantly in one industry, being the investment of its members' funds. All operations are based in New Zealand. Segment information is represented by the amounts disclosed in the income statement, balance sheet and cash flow statement.

Trust Deed

To meet the requirements of The Securities Act 1978 a Trust Deed was entered into on the 29 November 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.

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) Adoption of NZ IFRS

First-time adoption of New Zealand Equivalents to International Financial Reporting Standards was applied by the Credit Union for the financial year ended 31 August 2008. This is the second financial reporting period completed to these standards.

(b) Measurement Base

The financial statements have been prepared on a going concern basis in accordance with the historical concept except for land and buildings and certain financial instruments which are stated at fair value. The presentation currency used in the financial statements is the New Zealand dollar.

(c) 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.

(d) Financial Instruments Recognition

A financial instrument is recognised if the Credit Union becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Credit Union's contractual rights to the cash flows from the financial assets expire or if the Credit Union transfers the financial assets to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognised if the Credit Union's obligations specified in the contract expire or are discharged or cancelled.

A financial asset and a financial liability are offset only when the credit union has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Financial instruments are initially measured at fair value plus, for financial instruments not at fair value through profit or loss, directly attributable transactions costs. Subsequent to initial recognition these instruments are measured as set out below.

Financial assets at fair value through profit and loss

The Credit Union has no financial assets at fair value through the income statement as defined in NZ IAS 39.

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 less impairment losses.

Receivables Due from other Financial Institutions

Receivables due 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.

Held-to-maturity investments



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

Available for Sale Financial Assets

The Credit Union has no available for sale financial assets.

Financial liabilities

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

Cash or cash equivalents

Cash and cash equivalent comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Credit Union's cash management are included as a component of cash and cash equivalents for the purposes of the statement of cash flows.

(e) Revenue

Loans Interest Revenue

Loan interest is calculated on the daily loan balance outstanding and is charged at each payment 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 account the interest rates applicable to the financial assets. Where loan origination fees are not material these are taken to revenue when the loan is drawn down.

Fees collected represent reimbursement of costs incurred as specified by the Credit Contracts and Consumer Finance Act 2003 (CCCFA).

Fees & Commissions Revenue

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

Loan Origination Fees Revenue

Loan origination fees, where material, are deferred and amortised as a component of the calculation of the effective interest rate in relation to the original 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 (CCCFA).

(f) Impairment - Loans & Advances

All loans are subject to continuous management review to assess whether there is any objective evidence that any loan or group of loans is impaired. Impairment loss is measured as the difference between the loan's carrying amount and the value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loan's original effective interest rate.

Individual financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised in the income statement.

The amount provided for impairment of loans is determined by management and the board. 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 board makes an impairment allowance 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.

In addition a statutory General Reserve as required by section 119 of the Friendly Society and Credit Unions Act 1982 is maintained to cover risks inherent in the loan portfolios. Movements in the General Reserve for credit losses are recognised as an appropriation of retained earnings.

Bad debts are written off when identified to the allowance for impaired loans.

"Non-accrual 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 provisions for impairment are recognised.

"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.

"90 Days Past-due loans" are loans or similar facilities in arrears which has not been operated within its key terms by the borrower for at least 90 days and which is not an impaired loan.

(g) Derivative financial instruments and hedge accounting

Derivatives (Interest Rate Swaps) are not entered into by the Credit Union.

(h) Goods & Services Tax

The Credit Union is not registered for GST.

(i) 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.

(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.

Property

Freehold land and buildings are not owned by the Credit Union.

Plant and Equipment

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

The carrying amount of 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.

Depreciation

The depreciable amount of all property, plant and equipment including buildings and capitalised leased assets but excluding freehold land, is depreciated over their useful lives to the Credit Union commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired term of the lease or the estimated useful life of the improvements.

Plant and equipment is depreciated on a straight-line basis.

A summary of the rates used is:	Computer Equipment, Hardware and Software	33%
	Office Furniture and Equipment	33%
	Leasehold improvements	33%
	Motor Vehicles	25%
	Automated Teller Machines	20%

Assets under \$200 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 & losses are included in the Income Statement.

(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) Members' Deposits

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

(n) Employee Benefits

Accruals are 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 on an undiscounted basis and are expensed as the service is provided by the employee. 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.

(o) Comparative figures

Where required as a result of the adoption of NZ IFRS, comparative figures have been adjusted to conform to changes in presentation in the current period.

(p) 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 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.

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.

(q) Accounting Judgements, Estimates and Assumptions

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

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

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

(r) NZ IFRS issued but not yet effective

The following NZ IFRS have been issued but are not yet effective. When applied they should not materially affect any of the amounts reported in the financial statements, but may affect the disclosures currently being made in relation to these financial statements.

<u>Standard Application</u>	<u>Effective Periods beginning</u>	<u>Initial</u> In year ending on, or after
NZIFRS 1: Presentation of financial statements (revised)	01 January 2009	30 June 2010
NZIFRS 8: Operating segments	01 January 2009	30 June 2010
NZ IAS 23: Borrowing costs (revised)	01 January 2009	30 June 2010

2. REVENUE AND EXPENDITURE

<i>REVENUE</i>	2009	2008
<i>Interest Revenue</i>	\$	\$
Interest on Loans	705,688	755,049
Interest on Investments	49,721	72,871
Other Interest	-	-
Total Interest Revenue	<u>755,409</u>	<u>827,920</u>
<i>Other Income</i>		
Loan Application Fees	74,060	109,699
Cost Recoveries	400,005	404,622
Bad Debts Recovered	18,721	6,958
Commissions	33,005	43,787
Rental Income	-	-
Profit on Sale of Property Plant & Equipment	424	-
Other Income	27,180	5,887
Total Other Income	<u>553,395</u>	<u>570,953</u>
TOTAL REVENUE	<u>1,308,804</u>	<u>1,398,873</u>
<i>EXPENDITURE</i>	2009	2008
<i>Interest Expenditure</i>	\$	\$
Interest on Members Call Shares	10,129	10,233
Interest on Members Term Shares	324,854	298,516
Interest on Overdraft from NZACU	-	-
Other Interest	-	-
Total Interest Expenditure	<u>334,983</u>	<u>308,749</u>
<i>Other Expenditure</i>		
Auditor's Remuneration:		
External Audit of Financial Statements	21,405	31,078
Internal Audit	16,616	18,284
Loss on Disposal of Property Plant & Equipment	-	-
Directors' Fees	19,645	24,293
Directors' Expenses and Training	5,597	5,749
Donations Made/Community Support	663	3,633
Other Expenses	505,141	587,804
Total Other Expenditure	<u>569,067</u>	<u>670,841</u>
<i>Loan Impairment Expenses</i>		
Bad Debts Written Off to Impairment Allowance	72,922	81,625
Movement in Allowance for Impaired Loans	107,051	14,511
Total Impairment Expenses	<u>179,973</u>	<u>96,136</u>
<i>Depreciation Expenditure</i>		
Computer Equipment	26,796	27,319
Motor Vehicles	7,554	7,554
Office Furniture and Equipment	4,323	5,409
Leasehold Improvements	19,371	4,486
Total Depreciation Expenditure	<u>58,044</u>	<u>44,768</u>

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:

	2009	2008
Christmas Saver Shares	3.50%	3.50%
Success Saver, Jimmy J Junior Saver & Bfree Shares	2.50%	2.50%
Term Shares:		
I1 Term Deposit (1-month term)	2.50-3.50%	4.50-5.50%
I2 Term Deposit (2-month term)	2.50-3.50%	4.50-5.50%
I3 Term Deposit (3-month term)	2.50-3.50%	4.50-5.50%
I6 Term Deposit (6-month term)	2.50-3.50%	5.50-8.00%
I9 Term Deposit (9-month term)	2.50-5.50%	5.50-8.00%
I10 Term Deposit (10-month term)	3.00-4.75%	5.50-8.00%
I12 Term Deposit (12-month term)	3.00-4.75%	6.50-8.50%
I13 Term Deposit (13-month term)	3.00-4.75%	6.50-8.50%
I15 Term Deposit (15-month term)	3.00-4.75%	6.50-8.50%
I18 Term Deposit (18-month term)	3.00-4.75%	6.50-8.50%
I24 Term Deposit (24-month term)	3.00-4.75%	6.50-8.50%

4. RESERVES

Reserves at 31 August 2009:					
	Retained Earnings	General Reserve	Revaluation Reserve	Other Reserves	Total Members Reserves
Balance brought forward	(117,148)	756,677	-	-	639,529
Operating profit for the period	(196,763)	-	-	-	(196,763)
Transfer to/from retained earnings	-	-	-	-	-
Adjustment on adoption of NZ IFRS	-	-	-	-	-
Balance carried forward	(313,911)	756,677	-	-	442,766
The Reserve % to Total Assets	(6.0)	13.3	-	-	7.3

Reserves at 31 August 2008:					
	Retained Earnings	General Reserve	Revaluation Reserve	Other Reserves	Total Members Reserves
Balance brought forward	-	756,677	-	-	756,677
Operating profit for the period	(117,148)	-	-	-	(117,148)
Transfer to/from retained earnings	-	-	-	-	-
Adjustment on adoption of NZ IFRS	-	-	-	-	-
Balance carried forward	(117,148)	756,677	-	-	639,529
The Reserve % to Total Assets	(1.7)	10.3	-	-	8.5

Retained Earnings

Reserves 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 1982 which requires the Credit Union to transfer 5% of gross earnings to the General Reserve until the General Reserve is the equivalent of 5% of total assets, and thereafter maintained at 5% of total assets. The reserve may not be distributed until the Credit Union is being wound up or dissolved, but may be applied for the following purposes:

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

Revaluation Reserve

A Revaluation Reserve has not been established by the Credit Union.

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.

5. CASH AND CASH EQUIVALENTS

	Interest Rates	2009	2008
Cash & Bank	2.50%	\$ 227,984	\$ 360,437
Deposits at NZ Association of Credit Unions	3.00%	650,000	1,350,000
		<u>877,984</u>	<u>1,710,437</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.

6. TRADE AND OTHER RECEIVABLES

	2009	2008
Accrued Interest	\$ 13,696	\$ 25,044
Sundry Debtors	-	-
Prepayments	61,438	63,522
Other Receivables (List, if large)	-	-
	<u>75,134</u>	<u>88,566</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 allowance for impairments.

(a) Loans to members comprise:

	2009	2008
Neither Past Due nor Impaired	\$ 4,300,972	\$ 5,002,622
Past due but not impaired	12,321	64,054
Impaired Individually	86,669	14,106
Impaired collectively	68,849	34,361
Gross Loans	4,468,811	5,115,143
Less:		
Allowance for impairment individually	86,669	14,106
Allowance for impairment collectively	68,849	34,361
Net	<u>4,313,293</u>	<u>5,066,676</u>

(b) Credit quality - Security dissection

	2009	2008
	\$	\$
Secured by mortgage over real estate	1,754,954	1,623,785
Secured by members' shares	828,350	996,139
Unsecured, or not secured by mortgage over real estate or members' shares	<u>1,885,507</u>	<u>2,495,219</u>
Gross Loans	<u>4,468,811</u>	<u>5,115,143</u>

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

	2009	2008
	\$	\$
Security held as mortgage against real estate is on the basis of:		
- loan to valuation ratio of less than 80%	1,754,954	1,623,785
- loan to valuation ratio of more than 80% but mortgage insured	-	-
- loan to valuation ratio of more than 80% but not mortgage insured	-	-
TOTAL	<u>1,754,954</u>	<u>1,623,785</u>

(c) Credit quality - Concentration of loans

(i) Loans to individual or related groups of members which exceed 10% of member funds in aggregate	0%	0%
(ii) Loans to members are concentrated to members only;	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 purpose, for financial year ended 31-Aug-09:		
Loans to natural persons		
Residential loans and facilities	317,950	168,412
Personal loans and facilities	2,149,972	2,833,885
Business loans and facilities	32,500	171,949
Loans to Charitable Trusts and Incorporated Societies	-	-
TOTAL	<u>2,500,422</u>	<u>3,174,246</u>

8. IMPAIRMENT OF LOANS AND ADVANCES

(a) Allowance for Impairment

	2009	2008
	\$	\$
Opening Balance at Period Beginning	48,467	33,956
Addition/(reduction) in allowance	107,051	14,511
Bad Debts written off to allowance	72,922	81,625
Asset acquired through the enforcement of security	-	-
Other Adjustments	<u>(72,922)</u>	<u>(81,625)</u>
Closing Balance to 31 August 2009	<u>155,518</u>	<u>48,467</u>

(b) Calculation of Allowance for Impairment

Allowance per Prudential Standards (impaired collectively)	68,849	34,361
Additional Specific Allowance (impaired individually)	<u>86,669</u>	<u>14,106</u>
Closing Balance	<u>155,518</u>	<u>48,467</u>

Key assumptions in determining the allowance 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.

<u>Period of Impairment</u>	<u>% of Balance</u>
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 Savings overdrafts	100%

This provision is checked to impaired loans and an additional allowance is made if the impaired loans are greater than the provision.

(c) Impairment Expense

Allowance for Impairment - change in period

Bad loans written off as an expense	<u>72,922</u>	<u>81,625</u>
	<u>72,922</u>	<u>81,625</u>

(d) Impairment of Loans

Non-accrual Loans (No interest charged)	2009	2008
	\$	\$
Loans with allowance for impairment	162,821	50,663
Allowance for impairment	<u>147,524</u>	<u>33,152</u>
	<u>15,297</u>	<u>17,511</u>

	2009	2008
Past Due Loans, 30 days to 90 days	\$	\$
Total Past Due Loans	50,870	58,490
Allowance for impairment	6,479	4,159
	<u>44,391</u>	<u>54,331</u>
Past Due Loans, beyond 90 days	\$	\$
Total Past Due Loans	3,784	61,360
Allowance for impairment	1,514	7,156
	<u>2,270</u>	<u>54,204</u>
Restructured Loans	\$	\$
Loans with allowance for impairment	-	-
Allowance for impairment	-	-
	<u>-</u>	<u>-</u>
Other Impaired Loans	\$	\$
Loans with allowance for impairment	-	4,017
Allowance for impairment	-	4,017
	<u>-</u>	<u>4,017</u>
Assets acquired via enforcement of security (excluding loans reported)		
Real estate	-	-
Other	-	-
	<u>-</u>	<u>-</u>

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) Interest and Other Revenue recognised and foregone

Interest revenue on non-accrual and restructured loans	-	-
Interest foregone on non-accrual and restructured loans	19,774	10,639
Revenue on real estate acquired	-	-
Revenue on other assets acquired	-	-
	<u>19,774</u>	<u>10,639</u>

(f) Fair Value of Assets Acquired

Assets acquired through the enforcement of security	-	-
Assets acquired through the enforcement of security used by the Credit Union in its operations	-	-
	<u>-</u>	<u>-</u>

(g) Loans with repayments past due but not impaired

The total past due loans (which were overdue by 1 day or more)	229,796	215,397
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9. DERIVATIVES

The Credit Union does not enter into interest rate swap contracts.

Interest rate swap contracts - fair value hedges

2009	2008
\$	\$
N/A	N/A

Derivative instruments used by the Credit Union

The Credit Union does not enter into derivative transactions.

10. PROPERTY, PLANT AND EQUIPMENT

	2009	2008
Leasehold improvements	\$	\$
At cost	58,694	61,212
Accumulated depreciation	30,442	15,036
	<u>28,252</u>	<u>46,176</u>
Plant & Equipment		
At cost	303,834	319,456
Accumulated depreciation	231,079	210,517
Accumulated impairment losses	-	-
	<u>72,755</u>	<u>108,939</u>
Total Property, Plant & Equipment	<u>101,007</u>	<u>155,115</u>

(a) 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:

	Land	Buildings	Plant & Equip.	Leasehold Imp's	Other	Total
	\$	\$	\$	\$	\$	\$
Balance at Beginning of Period	-	-	108,939	46,176	-	155,115
Additions	-	-	2,065	1,447	-	3,512
Disposals	-	-	424	-	-	424
Depreciation Expense	-	-	(38,673)	(19,371)	-	(58,044)
Impairment write-downs	-	-	-	-	-	-
Carrying amount at Period End	<u>-</u>	<u>-</u>	<u>72,755</u>	<u>28,252</u>	<u>-</u>	<u>101,007</u>

(b) Impairment Losses

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

11. CAPITAL NOTES

NZACU Business Services Division Trust Base Capital Notes (Capital Notes) represent monies invested with the NZACU Business Services Division Trust for an open-ended term. The Capital Notes constitute unsecured obligations of the NZACU 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 NZACU 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 NZACU Business Services Division Trust Board of Directors. 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 NZACU Business Services Division Trust for Base Capital Notes II issue. From forecasts provided by NZACU Business Services Division Trust & past dividends the directors accrued a dividend of \$12,197 for the 8 months ending 31 August 2009, (\$17,400, 31 August 2008).

	2009	2008
	\$	\$
NZACU Base Capital Notes I & II, estimated 3.32% at amortised cost	321,492	208,800
NZACU Base Capital Notes III, estimated 0% at amortised cost	-	105,000
Less Impairment	-	-
	<u>321,492</u>	<u>313,800</u>

12. TRADE AND OTHER PAYABLES

	2009	2008
	\$	\$
Trade Payables	-	-
Accrued Interest Payable	41,320	65,146
Resident Withholding Tax	1,419	4,958
Sundry Creditors and Accrued Expenses	69,779	81,766
Employee Entitlements	7,380	7,031
ACCESSCARD Settlement	8,946	47,931
Other Payables	5,711	2,413
	<u>134,555</u>	<u>209,245</u>

13. SHORT-TERM BORROWINGS

	2009	2008
	\$	\$
Secured Loans	-	-
Unsecured Loans	-	-
	<u>-</u>	<u>-</u>

Refer to Note 16 for details of borrowing facilities.

14. MEMBERS' DEPOSITS

	2009	2008
	\$	\$
Ordinary Shares:		
Savings Accounts	711,475	668,355
Christmas Club	219,216	228,936
Loan Provider Account	828,350	996,139
Total Ordinary Shares	<u>1,759,041</u>	<u>1,893,430</u>
Term Shares:		
<i>(Original Maturity Terms)</i>		
0-3 months	42,311	112,284
>3-6 months	68,196	247,950
>6-9 months	793,447	362,380
>9 to <12 months	15,036	2,122
12 months	410,331	556,785
Greater than 12 months	2,023,227	3,310,868
Total Term Shares	<u>3,352,548</u>	<u>4,592,389</u>
Total Members' Deposits	<u>5,111,589</u>	<u>6,485,819</u>

15. COMMITMENTS

(a) Future Capital Commitments

The Credit Union has entered into contracts for the purchase of property, plant and equipment which have not been recognised as a liability and is payable as follows:

	2009	2008
	\$	\$
Not longer than 1 year	-	-
Longer than 1 and not longer than 5 years	-	-
Longer than 5 years	-	-
	<u>-</u>	<u>-</u>



(b) Finance Lease Commitments Payable:

Not longer than 1 year	-	-
Longer than 1 and not longer than 5 years	-	-
Longer than 5 years	-	-
	<hr/>	<hr/>
Minimum Lease Payments	-	-
Less Future Finance Charges	-	-
	<hr/>	<hr/>
	<hr/>	<hr/>

(c) Operating Lease Commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements, payable:

Not longer than 1 year	47,466	40,412
Longer than 1 and not longer than 5 years	25,062	30,375
Longer than 5 years	-	-
	<hr/>	<hr/>
	72,528	70,787

Property leases are non-cancellable leases with a maximum 3-year term, with rent payable monthly in advance. An option exists to renew the lease at the end of the 3-year term for an additional term of 3 years.

(d) Outstanding Loan Commitments

Loans and credit facilities approved but not funded or drawn at the end of the financial year:

Loans approved but not funded	10,000	17,235
Undrawn overdraft, line-of-credit and Accesscredit	35,763	19,550
	<hr/>	<hr/>
	45,763	36,785

16. STANDBY BORROWING FACILITIES

The Credit Union has a gross borrowing facility with NZACU of:

	Approved Facility	Current Borrowing	Net Available
	\$	\$	\$
2009			
Overdraft	28,000	-	28,000
Standby Facility	-	-	-
	<hr/>	<hr/>	<hr/>
	28,000	-	28,000
2008			
Overdraft	28,000	-	28,000
Stand by Facility	-	-	-
	<hr/>	<hr/>	<hr/>
	28,000	-	28,000

Currently the unused overdraft facility is for \$28,000 (31-Aug-2008, \$28,000). The interest rate is 5.40% p.a and the penalty rate is 8.10% p.a. There are no material terms of use.

17. CONTINGENT LIABILITIES

There are no contingent liabilities not provided for in the financial statements (31 August 2008, Nil).

18. SEGMENTAL REPORTING

The Credit Union operates in the New Zealand financial services industry with a concentration of members and activity in Taranaki and its satellite towns.

19. EVENTS OCCURRING AFTER BALANCE DATE

The Credit Union's Board have signed a Heads of Agreement with Credit Union Baywide to complete a transfer of engagements on 28 February 2010, subject to member approval of this special resolution at a SGM next month. Effectively, the Credit Union would then cease to exist in its current form and all its assets and liabilities (including all members' deposits and loans) would transfer to Credit Union Baywide. Any costs associated with the merger, e.g. staff restructuring/redundancy, cancellation of contractual obligations, etc. would be met by the Credit Union prior to that date. (31 August 2008, Nil)

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

- Market Risk and Hedging Policy 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 8 - 10% 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 22 which details the contractual interest change profile.

The following tables summarise the sensitivity of the Credit Union's assets and financial liabilities to 1% movement in interest rate risk on the Credit Union's financial position and results.

	2009 - Interest Rate Risk			2008 - Interest Rate Risk		
	Carrying Amount	-1% Profit & Equity	+1% Profit & Equity	Carrying Amount	-1% Profit & Equity	+1% Profit & Equity
	\$	\$	\$	\$	\$	\$
Financial Assets						
Bank deposits	877,984	-9,926	9,926	1,710,437	-12,012	12,012
Loan receivables	4,313,293	-47,920	47,920	5,066,676	-51,488	51,488
		<u>-57,846</u>	<u>57,846</u>		<u>-63,500</u>	<u>63,500</u>
Financial Liabilities						
Members' deposits	5,111,589	-41,547	41,547	6,485,820	-65,557	65,557
Total Increase / (Decrease)		<u>-16,299</u>	<u>16,299</u>		<u>2,057</u>	<u>-2,057</u>

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 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 current contractual repayment terms
- The value and mix of call savings to term deposits will be unchanged
- The value and mix of personal loans to mortgage loans will be unchanged

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. Although the Credit Union has a large number of members dispersed in areas of employment there is a concentration of credit risk in the Taranaki region. The credit policy is that loans & investments are only made to members that are creditworthy.

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 a maximum of 40% of the loans in well-secured residential mortgages which carry an 80% Loan to Valuation ratio or less.

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 30 days in arrears. The exposures to losses arise predominantly in the non-secure personal loans and facilities. The significant accounting judgements 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 investment receivables with the placement of investments in NZACU. The credit policy is that investments are only made to institutions that are creditworthy.

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 board policy is to maintain investments in the NZACU, an association set up to support member Credit Unions. This association does not have a credit rating. Any other investments must be with New Zealand-registered Banks.

Credit Risk - Equity Investments

The Credit Union does not have investments in equity investments.

Liquidity Risk

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

The Credit Union manages liquidity risk by:

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

The Credit Union has a standby borrowing facility with the NZACU to provide support, if necessary, at short notice.

The Credit Union's policy is to maintain at least 8% of total assets as liquid assets capable of being converted to cash within 7 days. The ratio is checked daily. Should the liquidity ratio fall below this level, the management and board are to address the matter and ensure that the liquid funds are obtained from new deposits or borrowing facilities available.

The maturity profile of the financial liabilities, based on the contractual repayment terms are set out specifically in Note 21.

Operational Risk

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

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

- the segregation of duties between employee duties and functions, including approval and processing duties
- documentation of the policies and procedures, employee job descriptions and responsibilities, to reduce the incidence of errors and inappropriate behaviour
- implementation of the whistleblowing policies to promote a compliant culture and awareness of the duty to report exceptions
- 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 of premises or staff
- regular reviews by the internal auditor

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 assets. The Credit Union reserves, as the end of the reporting period, is stated in Note 4.

The Credit Union's capital is determined as follows:

Tier 1	2009	2008
Retained earnings & other revenue reserves	(313,911)	(117,148)
General reserve	756,677	756,677
Tier 2		
Asset revaluation reserves	-	-
Other reserves	-	-
Total reserves	442,766	639,529

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.



CREDIT UNION TARANAKI

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 AUGUST 2009

21. 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. Future Interest Receivable and Future Interest Payable represent the expected future interest cashflows arising from the contractual obligations of the underlying monetary assets and liabilities respectively.

2009 Monetary

<i>Asset Receivable</i>	On Call	Up to 1 Month	1-3 Months	3-6 Months	6-12 Months	1-2 Years	2-5 Years	Over 5 Years	No maturity	Total
Cash & Bank	-	227,984	-	-	-	-	-	-	-	227,984
Deposits at NZACU	-	650,000	-	-	-	-	-	-	-	650,000
Trade & other receivables	-	75,134	-	-	-	-	-	-	-	75,134
Loans to members	-	140,837	261,230	358,272	610,010	1,033,449	716,567	1,192,928	-	4,313,293
Derivatives	-	-	-	-	-	-	-	-	-	-
Capital Notes	-	-	-	-	-	-	-	-	321,492	321,492
Future Interest Receivable	-	47,819	138,980	262,358	466,257	750,446	1,224,419	1,995,680	-	4,885,959
Total Monetary Assets	-	1,141,774	400,210	620,630	1,076,267	1,783,895	1,940,986	3,188,608	321,492	10,473,862

2009 Monetary

<i>Liabilities Payable</i>	On Call	Up to 1 Month	1-3 Months	3-6 Months	6-12 Months	1-2 Years	2-5 Years	Over 5 Years	No maturity	Total
Trade and other payables	-	134,555	-	-	-	-	-	-	-	134,555
Member Deposits	-	1,837,102	417,368	1,375,223	1,429,896	52,000	-	-	-	5,111,589
Short-term borrowings	-	-	-	-	-	-	-	-	-	-
Future Interest Payable	-	1,102	49,587	36,951	20,952	645	-	-	-	109,237
Total Monetary Liabilities	-	1,972,759	466,955	1,412,174	1,450,848	52,645	-	-	-	5,355,381

2008 Monetary

<i>Asset Receivable</i>	On Call	Up to 1 Month	1-3 Months	3-6 Months	6-12 Months	1-2 Years	2-5 Years	Over 5 Years	No maturity	Total
Cash & Bank	-	360,437	-	-	-	-	-	-	-	360,437
Deposits at NZACU	-	1,000,000	350,000	-	-	-	-	-	-	1,350,000
Trade & other receivables	-	88,566	-	-	-	-	-	-	-	88,566
Loans to members	-	219,712	337,969	453,601	767,780	1,423,517	848,230	1,015,867	-	5,066,676
Derivatives	-	-	-	-	-	-	-	-	-	-
Capital Notes	-	-	-	-	-	-	-	-	313,800	313,800
Future Interest Receivable	-	60,705	175,367	329,430	581,394	905,481	1,327,840	1,935,868	-	5,316,085
Total Monetary Assets	-	1,729,420	863,336	783,031	1,349,174	2,328,998	2,176,070	2,951,735	313,800	12,495,564

2008 Monetary

<i>Liabilities Payable</i>	On Call	Up to 1 Month	1-3 Months	3-6 Months	6-12 Months	1-2 Years	2-5 Years	Over 5 Years	No maturity	Total
Trade and other payables	-	209,245	-	-	-	-	-	-	-	209,245
Member Deposits	-	2,572,057	513,456	515,542	867,870	2,016,895	-	-	-	6,485,820
Short-term borrowings	-	-	-	-	-	-	-	-	-	-
Future Interest Payable	-	2,834	-	11,282	21,743	101,062	-	-	-	136,921
Total Monetary Liabilities	-	2,784,136	513,456	526,824	889,613	2,117,957	-	-	-	6,831,986

CREDIT UNION TARANAKI

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 AUGUST 2009

22. 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 August 2009																				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										
			2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008									2009
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	2009	2008		
Monetary Assets																							
Cash & Bank	228	360	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	228	360	N/A	N/A	
Deposits at NZACU	250	750	400	600	-	-	-	-	-	-	-	-	-	-	-	-	-	-	650	1,350	4.2%	5.0%	
Trade & other receivables	-	-	-	-	-	-	-	-	-	-	-	-	-	-	75	89	-	-	75	89	N/A	N/A	
Loans to members	-	-	402	558	358	454	611	768	1,033	1,424	717	848	1,193	1,016	-	-	-	-	4,313	5,067	14.8%	15.0%	
Derivatives	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	N/A	N/A	
Capital Notes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	321	314	321	314	2.5%	12.6%	
Total Monetary Assets	478	1,110	802	1,158	358	454	611	768	1,033	1,424	717	848	1,193	1,016	75	89	321	314	5,588	7,180			
Monetary Liabilities																							
Deposits	-	-	2,254	3,086	1,375	516	1,430	868	52	2,017	-	-	-	-	-	-	-	-	5,112	6,486	5.8%	5.2%	
Other payables	-	-	-	-	-	-	-	-	-	-	-	-	-	-	135	209	-	-	135	209	N/A	N/A	
Borrowings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	N/A	N/A	
Total Monetary Liabilities	-	-	2,254	3,086	1,375	516	1,430	868	52	2,017	-	-	-	-	135	209	-	-	5,247	6,695			

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

(a) 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 3.32% per annum. (2008: 15% per annum).

23. 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	1	7
Between 20% and 30% of equity	3	6
Between 10% and 20% of equity	15	6

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 8.5% - 24% p.a. (31-Aug-08, 10.2% - 24% 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.

Loans are for varying terms but the standard loan contract includes an "on demand" clause.

The proportion of loans with repayments in arrears in excess of three months is:
Other than loans, there are no other monetary assets in arrears.

2009	2008
1.2%	0.6%

The monthly repayments on the loans for the past period represent an average loan of :

2009	2008
21 months	19 months

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

2009	2008
16.7%	13.5%

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

The Credit Union offers an overdraft facility.

Amount Drawn Down:

2009	2008
\$28,702	\$55,326

24. 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 Taranaki and its satellite towns. The funding from members is recorded as Members' Deposits in the Balance Sheet.

25. 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.

	2009			2008		
	Fair Value	Book Value	Variance	Fair Value	Book Value	Variance
FINANCIAL ASSETS						
Cash & Bank	227,984	227,984	-	360,437	360,437	-
Deposits at NZACU	650,000	650,000	-	1,350,000	1,350,000	-
Trade & other receivables	75,134	75,134	-	88,566	88,566	-
Derivatives	-	-	-	-	-	-
Loans to members	4,313,293	4,313,293	-	5,066,676	5,066,676	-
Capital Notes	321,492	321,492	-	313,800	313,800	-
Total Financial Assets	5,587,903	5,587,903	-	7,179,479	7,179,479	-
FINANCIAL LIABILITIES						
Trade & other payables	134,555	134,555	-	209,245	209,245	-
Short-term borrowings	-	-	-	-	-	-
Deposits from members	5,111,589	5,111,589	-	6,485,820	6,485,820	-
Total Financial Liabilities	5,246,144	5,246,144	-	6,695,065	6,695,065	-

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

Financial Assets

Loans to Members

As detailed in the accounting policies, loans are carried at amortised cost 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 Bank

The reported amount is equal to fair value.

Receivables

The reported amount takes into account the likelihood of collecting the amounts owed. The Directors believe these amounts reflect their fair value due to the short term nature of these investments.

Derivatives

The Credit Union does not enter into derivative transactions.

Investments

Investments are disclosed at fair value.

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 07 December 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 07 December 2001, which has been registered with the Registrar of Companies.

Other Liabilities

Accounts Payable are carried at amortised cost but due to the short term nature of these financial liabilities, carrying value is deemed to approximate fair value.

26. RELATED PARTY TRANSACTIONS

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 (KMP) has been taken to comprise the directors and the 3 members of the executive management responsible for the day-to-day financial and operational management of the Credit Union.



The aggregate compensation of key management personnel during the year, comprising amounts paid &/or payable &/or provided for, was as follows:

	2009		2008	
	Directors \$	Other KMP \$	Directors \$	Other KMP \$
(a) short-term employee benefits	19,645	168,221	24,293	173,438
(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	-	-	-	-
Total	19,645	168,221	24,293	173,438

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.

All remuneration to directors was approved by the members at the previous Annual General Meeting of the Credit Union.

Directors' holdings at balance date are:

	2009 \$	2008 \$
Owing to Directors (Shares)	10,543	25,982
Owing from Directors (Loans)	78,103	74,047

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

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

There are no impairment provisions against any of the loans.

27. RECONCILIATION OF CASH FLOW FROM OPERATING ACTIVITIES WITH OPERATING PROFIT

	2009 \$	2008 \$
Profit for the Year	(196,763)	(117,148)
<u>Non-Cash Items</u>		
Depreciation	58,044	44,768
Bad Debts	-	-
Provision for Loan Impairment	179,973	96,136
	<u>238,017</u>	<u>140,904</u>
<u>Changes in Assets and Liabilities</u>		
Movements in Accounts Receivable	(1,319,728)	(1,390,095)
Movements in Accounts Payable	1,340,156	1,328,091
Net Cash Provided by/(Used in) Operating Activities	<u>20,428</u>	<u>(62,004)</u>

Audit Report

To the Members of Credit Union Taranaki

We have audited the financial report on pages 1 to 21. The financial report provides information about the past financial performance of the Credit Union and its financial position as at 31 August 2009. This information is stated in accordance with the accounting policies set out on pages 5 to 8.

The Director's Responsibilities

The Director's are responsible for the preparation of a financial report which gives a true and fair view of the financial position of the Credit Union as at 31 August 2009 and the results of operations for the year ended on that date.

Auditors' Responsibilities

It is our responsibility to express an independent opinion on the financial report presented by the Directors.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial report. It also includes assessing:

- the significant estimates and judgements made by the Directors in the preparation of the financial report, and
- whether the accounting policies are appropriate to the Credit Union's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial report is free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial report.

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

Trust Deed Breach's

The Credit Union has breached clause 5.3(b) 5.4(a) of the Trust Deed with Total Liabilities exceeding 90% of Total Tangible Assets and Prudential Reserve being less than 10% of Total Tangible Assets. The Credit Union was granted permission from Director Executors Limited on the 25 November 2008 to the period ending 30 November 2009. The Credit Union has been granted permission to pay interest to members as required by section 5.3(c) of the Trust Deed. The Credit Union has also breached its rules, section 12(b) by holding members shares exceeding \$250,000.

Fundamental Uncertainty

In forming our unqualified opinion, we have considered the ability of the Credit Union to generate income to cover expenditure for the subsequent financial period. The financial report has been prepared on a going concern basis, the validity of which depends upon future profits being generated and the ability of the Credit Union to meet Trust Deed requirements. The financial report does not include any adjustments that would result from a failure to generate profits. Assets and Liabilities have not been adjusted for failure to make profits. In addition the Credit Union may have to provide for future liabilities that may arise in restructuring its business. This may require reclassification of non-current assets and long-term liabilities to current assets and liabilities.

Unqualified Opinion

Other than the Trust Deed breaches and the Fundamental Uncertainty, in other respects we have obtained all the information and explanations that we have required.

In our opinion:

- proper accounting records have been kept by the Credit Union as far as appears from our examination of those accounting records, and
- the financial report on pages 1 to 21
 - complies with generally accepted accounting practice in New Zealand;
 - complies with International Financial Reporting Standards;
 - complies with requirements of Friendly Societies and Credit Unions Act 1982.
- gives a true and fair view of the financial position of the Credit Union as at 31 August 2009 and the results of its cashflows and operation for the year ended on that date.

Our audit was completed on 19 November 2009 and our unqualified opinion is expressed as at that date.



Silks
Chartered Accountants
Wanganui, New Zealand