



\*10059633506\*

Directors' Certificate as per Section 37A (1A) of the Securities Act 1978

**Carbine Credit Union**

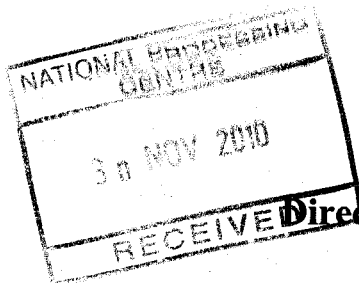
**Directors' Certificate dated 26<sup>nd</sup> November 2010**

This certificate is made pursuant to section 37A (1A) of securities Act 1978  
In respect of a registered prospectus date 30<sup>th</sup> day of August 2010.

In the opinion of all the directors of the Credit Union after due enquiry by them:

- 1) The financial position shown in the latest statement of financial position referred to in the registered prospectus has not materially and adversely Changed during the period from the date of that statement of financial Position to the date of this certificate; and
- 2) The registered prospectus is not, at the date of this certificate, false or misleading in a material particular by reason of failing to refer, or give proper emphasis, to adverse circumstances.
- 3) Unaudited financial statements for the 6 months to 31<sup>st</sup> October 2010 are Attached to this certificate.

Signed on behalf of all the directors of the Credit Union by



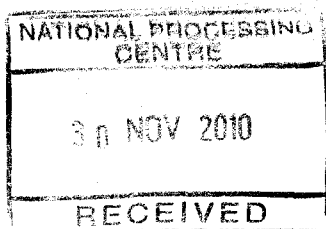
**Director**

**Director**

**CARBINE CREDIT UNION**

**UNAUDITED FINANCIAL STATEMENTS**

**FOR THE 6 MONTH PERIOD ENDED 31 OCTOBER 2010**



PETER S HARRIS  
Chartered Accountant

**CARBINE CREDIT UNION**

**COMPILATION REPORT**

**FOR THE SIX MONTHS PERIOD ENDED 31 OCTOBER 2010**

Compilation Report to the Directors of Carbine Credit Union.

**Scope**

On the basis of information you provided I have compiled, in accordance with Service Engagement Standard No 2: Compilation of Financial Information, the financial statements of Carbine Credit Union for the six month period ended 31 October 2010.

As described in Note 1 to the financial statements, these financial statements are prepared in accordance with the Financial Reporting Act 1993, the Friendly Societies and Credit Unions Act 1982 and relevant Securities Regulations.

**Responsibilities**

You are solely responsible for the information contained in the financial statements and have determined that the accounting policies used are appropriate to meet your needs and for the purpose that the financial statements were prepared.

The financial statements were prepared exclusively for your benefit. I do not accept responsibility to any other person for the contents of the financial statements.

**No audit or review engagement undertaken**

A compilation is limited primarily to the collection, classification and summarisation of financial information supplied by my client. A compilation does not involve the verification of that information. I have not carried out an audit or a review assignment on the financial statements and therefore I do not accept any responsibility for the accuracy of the materials from which the financial statements have been prepared.

Further, the financial statements have been prepared at the request of and for the purpose of my client only and I do not accept any responsibility on any ground whatsoever, including liability in negligence, to any other person.



**PETER S HARRIS  
CHARTERED ACCOUNTANT**

22 November 2010

# **CARBINE CREDIT UNION**

## **CONTENTS OF FINANCIAL STATEMENTS FOR THE 6 MONTH PERIOD ENDED 31 OCTOBER 2010**

Compilation Report

Directory

Comprehensive Income Statement

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 - 30

# **CARBINE CREDIT UNION**

## **DIRECTORY**

FOR THE 6 MONTH PERIOD ENDED 31 OCTOBER 2010

### ***Board of Directors***

**Chairman:** Jason Ross

**Secretary:** Lionel Pereira

**Treasurer:** Lorraine Lyons

**Other Directors:** Marsh McLeod  
Carol Campbell  
Andrew Cruikshank  
Dorothy Chaplin  
Steve McVey  
Clive Biddulph  
Whetu Flesher

### ***Trustees***

Carol Campbell  
Andrew Cruikshank  
Dorothy Chaplin

### ***Staff***

Lorraine Lyons

### ***Auditor***

Hayes Knight Audit  
1 Broadway  
Newmarket

### ***Bankers***

Westpac Bank  
184 Great South Rd  
Manurewa

### ***Solicitors***

Stace Hammond  
45 Queen St, Auckland

### ***Affiliations***

New Zealand Association of Credit Unions  
Credit Union Institute of New Zealand

# CARBINE CREDIT UNION

## STATEMENT OF COMPREHENSIVE INCOME

FOR THE 6 MONTH PERIOD ENDED 31 OCTOBER 2010

	Note	2010 \$	2009 \$
Interest revenue	2	101,409	102,295
Other revenue	2	25,975	9,397
<b>TOTAL REVENUE</b>		<b>127,384</b>	<b>111,692</b>
<b>EXPENDITURE</b>			
Interest expenditure	2	17,237	2,244
Loan impairment expenses	2	3,983	(951)
Employee benefits			
Occupancy			
Depreciation	2	401	404
Impairment losses			
Other expenditure	2	76,420	72,378
<b>TOTAL EXPENDITURE</b>		<b>98,041</b>	<b>74,075</b>
<b>Profit for the period attributable to members</b>		<b>29,343</b>	<b>37,617</b>
<b>Total Comprehensive Income</b>		<b>29,343</b>	<b>37,617</b>

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

# CARBINE CREDIT UNION

## STATEMENT OF CHANGES IN EQUITY FOR THE 6 MONTH PERIOD ENDED 31 OCTOBER 2010

	<b>Retained Earnings \$</b>	<b>General Reserve \$</b>	<b>Total \$</b>
<b>Balance at 1 May 2010</b>	557,829	88,450	646,279
Total Comprehensive Income	<u>23,842</u>	<u>5,500</u>	<u>29,342</u>
<b>Balance at 31 October 2010</b>	<b><u>581,671</u></b>	<b><u>93,950</u></b>	<b><u>675,621</u></b>
<b>Balance at 1 May 2009</b>	529,146	87,860	617,006
Total Comprehensive Income	<u>34,577</u>	<u>3,040</u>	<u>37,617</u>
<b>Balance at 31 October 2009</b>	<b><u>563,723</u></b>	<b><u>90,900</u></b>	<b><u>654,623</u></b>

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

# CARBINE CREDIT UNION

## BALANCE SHEET

AS AT 31 October 2010

	Note	2010	2009
		\$	\$
<b>MEMBERS' FUNDS</b>			
Retained earnings	4	581,671	563,723
Other reserves	4	93,950	90,900
<b>TOTAL MEMBERS FUNDS</b>		<b>675,621</b>	<b>654,623</b>
<b>ASSETS</b>			
Cash & Bank	5	709,754	625,441
Deposits at NZACU	5	-	-
Trade and other receivables	6	9,792	16,035
Loans to members	7-8	1,115,884	1,129,078
Derivatives	9	-	-
Property, plant & equipment	10	1,810	2,233
Capital Notes	11	42,219	42,219
<b>TOTAL ASSETS</b>		<b>1,879,459</b>	<b>1,815,006</b>
<b>LIABILITIES</b>			
Trade and other payables	12	27,614	13,057
Short-term borrowings	13	-	-
Members' deposits	14	1,176,224	1,147,326
<b>TOTAL LIABILITIES</b>		<b>1,203,838</b>	<b>1,160,383</b>
<b>NET ASSETS</b>		<b>675,621</b>	<b>654,623</b>

These Financial Statements are authorised for issue by:

  
 Director

26.11.10  
 Date

  
 Director

26-11-10  
 Date

# CARBINE CREDIT UNION

## CASH FLOW STATEMENT

FOR THE 6 MONTH PERIOD ENDED 31 OCTOBER 2010

	Note	2010 \$	2009 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest received		91,731	90,053
Fees and commissions received		8,535	10,089
Bad loans recovered		975	2,162
Other income		25,000	7,235
Interest paid		-	(27,359)
Payments to suppliers and employers		(92,003)	(68,264)
Net cash provided by/(used in) operating activities	27	<u>34,238</u>	<u>13,916</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net movement in members' loans		73,187	(107,548)
Purchase of property, plant and equipment			
Proceeds from sale of property, plant and equipment			
Net movement in short term investments			
Capital notes investment - NZACU			
Net cash provided by/(used in) investing activities		<u>73,187</u>	<u>(107,548)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net movement in member deposits		78,987	73,440
Proceeds from borrowings			
Repayment of borrowings			
Net cash provided by/(used in) financing activities		<u>78,987</u>	<u>73,440</u>
Total net increase/(decrease) in cash held		186,412	(20,192)
Cash and cash equivalents at the beginning of the period		<u>523,343</u>	<u>645,633</u>
Cash and cash equivalents at the end of the period		<u><u>709,755</u></u>	<u><u>625,441</u></u>

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

# CARBINE CREDIT UNION

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 6 MONTH PERIOD ENDED 31 OCTOBER 2010

### **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") and other applicable Financial Reporting Standards, as appropriate for public benefit entities. These financial statements also comply with International Financial Reporting Standards ("IFRS"). The presentation currency is \$NZ. and rounded to the nearest dollar.

### **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 is received by the Credit Union and interest is paid to depositing members in the form of interest on shares.

The Credit Union operates predominantly in one industry, being the investment of members' funds. All operations are based in New Zealand. 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 16 March 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) Measurement Base**

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

### **(b) Members' Shares (Deposits)**

Members' shares in the Credit Union have characteristics of both debt and equity instruments. For the purposes of financial reporting, members' shares are recorded as debt instruments. All payments of dividends on these shares are recorded as interest payments. Members have the right to one vote at the meetings of the Credit Union, regardless of how many shares they hold in the Credit Union.

# CARBINE CREDIT UNION

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE 6 MONTH PERIOD ENDED 31 OCTOBER 2010

### ***(c) 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 as its 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***

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation using the effective interest rate method.

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

### ***(d) Revenue***

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

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

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

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

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

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

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

Loan origination fees are not material. These are taken to revenue when the loan is drawn down.

If material, loan origination fees will initially be deferred as part of the loan balance and brought to account as income over the expected life of the loan.

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

# CARBINE CREDIT UNION

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 6 MONTH PERIOD ENDED 31 OCTOBER 2010

### *(e) Impairment – Loans & Advances*

All loans are subject to regular 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.

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

# CARBINE CREDIT UNION

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 6 MONTH PERIOD ENDED 31 OCTOBER 2010

### **(f) Derivative financial instruments and hedge accounting**

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

### **(g) Goods & Services Tax**

The Credit Union is not registered for GST. Where applicable, all amounts are stated on a GST inclusive basis.

### **(h) Income Tax**

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

### **(i) Property, plant and equipment ("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**

The Credit Union does not own freehold land and buildings.

#### **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 plant and equipment is depreciated over their useful lives to the Credit Union commencing from the time the asset is held ready for use.

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

Computer Hardware 30%	Office Furniture and Equipment 9.6%-20%
-----------------------	---

Assets under \$200 are not capitalised.

# CARBINE CREDIT UNION

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE 6 MONTH PERIOD ENDED 31 OCTOBER 2010

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

### **(j) 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.

### **(k) 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.

### **(l) 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.

### **(m) 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.

### **(n) 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.

# CARBINE CREDIT UNION

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 6 MONTH PERIOD ENDED 31 OCTOBER 2010

### 2 REVENUE AND EXPENDITURE

#### REVENUE

##### *Interest Revenue*

Interest on Loans

Interest on Investments

*Other Interest*

***Total Interest Revenue***

2010	2009
\$	\$
92,986	90,846
8,423	11,449
<b>101,409</b>	<b>102,295</b>

##### *Other Income*

Loan Application Fees

Cost Recoveries

Bad Debts Recovered

Commissions

Rental Income

Profit on Sale of Property Plant & Equipment

*Other Income*

***Total Other Income***

**TOTAL REVENUE**

2010	2009
\$	\$
3,710	4,580
975	2,162
21,290	2,655
<b>25,975</b>	<b>9,397</b>
<b>127,384</b>	<b>111,692</b>

# CARBINE CREDIT UNION

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 6 MONTH PERIOD ENDED 31 OCTOBER 2010

<b>EXPENDITURE</b>	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
<b>Interest Expenditure</b>		
Interest on Members Call Shares	17,237	2,244
Interest on Members Term Shares		
Interest on Overdraft from NZACU		
Other Interest		
	<hr/>	<hr/>
<b>Total Interest Expenditure</b>	<b>17,237</b>	<b>2,244</b>
	<hr/>	<hr/>
<b>Other Expenditure</b>		
Auditors Remuneration		
External Audit:		
Audit of Financial Statements	3,466	-
Accountancy Fees	5,608	5,681
Internal Audit		
Leasing and Rental Costs		
Loss on Disposal of Property Plant & Equipment		
Directors Fees		
Directors Expenses and Training	176	474
Donations Made / Community Support		
Other Expenses	67,170	66,223
	<hr/>	<hr/>
<b>Total Other Expenditure</b>	<b>76,420</b>	<b>72,378</b>
	<hr/>	<hr/>
<b>Loan Impairment Expenditure</b>		
Bad Debts Written Off to impairment allowance	346	7,702
Movement in allowance for impaired loans	3,637	(8,653)
	<hr/>	<hr/>
<b>Total Loan Impairment Expenditure</b>	<b>3,983</b>	<b>(951)</b>
	<hr/>	<hr/>
<b>Depreciation Expenditure</b>		
Buildings		
Computer Equipment	334	337
Motor Vehicles		
Office Furniture and Equipment	67	67
Leasehold Improvements		
	<hr/>	<hr/>
<b>Total Depreciation Expenditure</b>	<b>401</b>	<b>404</b>
	<hr/>	<hr/>

### 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:

		<b>2010</b>	<b>2009</b>
Loan Provider Shares-	2% to \$1,000 then	3%	2.5%
Christmas Club Shares		2%	4%

# CARBINE CREDIT UNION

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 6 MONTH PERIOD ENDED 31 OCTOBER 2010

### 4 RESERVES

Reserves at 31 October 2010

	Retained Earnings	General Reserve	Revaluation Reserve	Other Reserves	Total Members' Reserves
Balance brought forward	557,829	88,450			646,279
Operating profit for the period	29,342				29,342
Transfer to/from retained earnings	(5,500)	5,500			-
Balance carried forward	581,671	93,950			675,621
The Reserve % to Total Assets	31%	5%	0%	0%	36%

Reserves at 31 October 2009

	Retained Earnings	General Reserve	Revaluation Reserve	Other Reserves	Total Members' Reserves
Balance brought forward	529,146	87,860			617,006
Operating profit for the period	37,617				37,617
Transfer to/from retained earnings	(3,040)	3,040			-
Balance carried forward	563,723	90,900			654,623
The Reserve % to Total Assets	31%	5%	0%	0%	36%

#### **Retained Earnings**

Reserve arising from retained profits accumulated from operations.

#### **General Reserve**

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

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

# CARBINE CREDIT UNION

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 6 MONTH PERIOD ENDED 31 OCTOBER 2010

### RESERVES - Continued

#### 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	2010	2009
		\$	\$
Cash & Bank	1%-4.4%	709,754	625,441
Deposits at NZ Association of Credit Unions	0%	-	-
		<u>709,754</u>	<u>625,441</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. The Credit Union has access to an overdraft facility of \$10,000 which has not been utilised at year end.

### 6 TRADE AND OTHER RECEIVABLES

	2010	2009
	\$	\$
Accrued Interest	9,792	16,035
Sundry Debtors		
Prepayments		
Other Receivables (List if large)		
	<u>9,792</u>	<u>16,035</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 income in the Income Statement in the period in which they are deemed irrecoverable.

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

	2010	2009
	\$	\$
Neither Past Due nor Impaired	1,115,884	1,130,078
Past due but not impaired	7,413	1,699
Impaired Individually		
Impaired -Collectively		
<b>Gross Loans</b>	<u>1,123,297</u>	<u>1,131,777</u>
<b>Less:</b>		
Allowance for impairment individually		
Allowance for impairment collectively	7,413	1,699
<b>Net</b>	<u>1,115,884</u>	<u>1,130,078</u>

# CARBINE CREDIT UNION

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 6 MONTH PERIOD ENDED 31 OCTOBER 2010

### LOANS TO MEMBERS - Continued

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

	2010	2009
	\$	\$
Secured by mortgage over real estate		
Secured by members shares	786,308	792,244
Gross Loans	<u>786,308</u>	<u>792,244</u>

The security held by members shares is valued at cost and represents locked in amounts on the loan provider members accounts to be used as security against loans made. There is no other security held against personal loans.

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

Loans to individual or related groups of members which exceed 10% of member funds in aggregate	Nil	Nil
Loans to members are concentrated to individuals employed in Tip Top Ice Cream Co. Bluebird Foods Ltd and Irvines Bakery.	100%	100%
Loans to members are concentrated solely in New Zealand and principally within the common bond of the Credit Union	100%	100%
Loans drawn down by member type :		
<b>Loans to natural persons</b>		
Residential loans and facilities		
Personal loans and facilities	1,123,297	1,131,777
Business loans and facilities		
Loans to Charitable Trusts and Incorporated Societies		
<b>TOTAL</b>	<u>1,123,297</u>	<u>1,131,777</u>

# CARBINE CREDIT UNION

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 6 MONTH PERIOD ENDED 31 OCTOBER 2010

### 8 IMPAIRMENT OF LOANS AND ADVANCES

#### (a) Allowance for Impairment

	2010	2009
	\$	\$
Balance as at 1 May 2010	3,776	11,352
Addition / (reduction) in allowance	3,637	(8,653)
Bad Debts written off to allowance		
Asset acquired through the enforcement of security		
Other Adjustments		
Balance at 31 October 2010	<u>7,413</u>	<u>2,699</u>

#### (b) Calculation of allowance for impairment

Allowance per Prudential Standards (impaired collectively)	3,776	11,352
Additional/(reduction) in Specific Allowance (impaired individually)	3,637	(8,653)
Nb: Where individual loans are impaired and that impairment is deemed to be less than reflected in the Allowance then the Specific Allowance adjustment will reduce the Allowance balance.		
Closing Balance	<u>7,413</u>	<u>2,699</u>

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

#### 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. This allowance 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 during the period

	2010	2009
	\$	\$
Bad loans written off as an expense during the period	346	7,702
	<u>346</u>	<u>7,702</u>

# CARBINE CREDIT UNION

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 6 MONTH PERIOD ENDED 31 OCTOBER 2010

**(d) Impairment of Loans**

	2010	2009
	\$	\$
<b>Non Accrual Loans (No interest charged)</b>		
Loans with allowance for impairment		
Allowance for impairment		
<b>Total non accrual loans</b>		
<b>Past Due Loans 30 days to 90 days</b>		
Total past due loans		
Allowance for impairment		
<b>Past Due Loans Beyond 90 Days</b>		
Total past due loans		
Allowance for impairment		
<b>Other Impaired Loans</b>		
Total other loans		
Allowance for impairment		

There were no restructured loans, or loans where real estate or other assets were acquired through the enforcement of security at 31 October 2010.

**Assets acquired via enforcement of security (excluding loans reported)**

Real Estate		
Other		

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 renegotiated loans		
Interest foregone on non-accrual and renegotiated loans		
Revenue on real estate acquired		
Revenue on other assets acquired		

**(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		

# CARBINE CREDIT UNION

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 6 MONTH PERIOD ENDED 31 OCTOBER 2010

### IMPAIRMENT OF LOANS AND ADVANCES - Continued

#### (g) Loans with repayments past due but not impaired

Loans with repayments past due but not impaired comprise  
Loans to members

	< 3 Months	3-6 Months	6-12 Months	> 1 year	Total
<b>2010</b>					
Mortgage secured					
Other loans	-	7,413	-	-	7,413
<b>Total</b>					

	< 3 Months	3-6 Months	6-12 Months	> 1 year	Total
<b>2009</b>					
Mortgage secured					
Other loans		1,699			1,699
<b>Total</b>					

#### (h) Restructured Loans

There are no past due or impaired loans that have been restructured that fall outside the Credit Unions normal lending criteria.

## 9 DERIVATIVES

#### Derivative instruments used by the Credit Union

The Credit Union does not normally enter into derivative transactions in the normal course of business.

## 10 PROPERTY, PLANT AND EQUIPMENT

#### (a) Classes of Property, Plant & Equipment

##### Office Equipment

At cost

Accumulated depreciation

Accumulated impairment losses

##### Furniture & Fittings

At cost

Accumulated depreciation

Accumulated impairment losses

#### Total Property, Plant & Equipment

	2010	2009
	\$	\$
At cost	2,363	2,363
Accumulated depreciation	(1,046)	(759)
Accumulated impairment losses		
	1,317	1,604
At cost	1,129	1,129
Accumulated depreciation	(636)	(500)
Accumulated impairment losses		
	493	629
<b>Total Property, Plant &amp; Equipment</b>	1,810	2,233

## CARBINE CREDIT UNION

### NOTES TO THE FINANCIAL STATEMENTS FOR THE 6 MONTH PERIOD ENDED 31 OCTOBER 2010

#### PROPERTY, PLANT AND EQUIPMENT - Continued

**(b) Movements in Carrying Amounts**

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

	Office Eqpt \$	Furn & Fittings \$	Total \$
Balance at the Beginning of the period	1,651	560	2,211
Additions			
Disposals			
Depreciation Expense	334	67	401
Impairment write-downs			
Net Revaluation increment/(decrement)			
Carrying amount at the end of the financial period	<u>1,317</u>	<u>493</u>	<u>1,810</u>

**(c) Impairment Losses**

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

# CARBINE CREDIT UNION

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 6 MONTH PERIOD ENDED 31 OCTOBER 2010

### 11 CAPITAL NOTES

NZACU Business Services Division Trust Base Capital Notes (Capital Notes). These represent monies invested with the NZACU Business Services Division Trust for an open-ended term. The Capital Notes constitute unsecured obligations of the 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.	<b>2010</b>	<b>2009</b>
	\$	\$
Capital Notes at Amortised Cost	42,219	42,219
Less Impairment		
	<u>42,219</u>	<u>42,219</u>

### 12 TRADE AND OTHER PAYABLES

	<b>2010</b>	<b>2009</b>
	\$	\$
Trade Payables	10,377	10,920
Accrued Interest Payable	17,237	2,137
Resident Withholding Tax		
Sundry Creditors and Accrued Expenses		
Employee Entitlements		
ACCESSCARD Settlement		
Other Payables		
	<u>27,614</u>	<u>13,057</u>

### 13 SHORT-TERM BORROWINGS

	<b>2010</b>	<b>2009</b>
	\$	\$
Secured Loans		
Unsecured Loans		
	<u>-</u>	<u>-</u>

Refer to Note 16 for details of borrowing facilities.

# CARBINE CREDIT UNION

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 6 MONTH PERIOD ENDED 31 OCTOBER 2010

### 14 MEMBERS' DEPOSITS

	2010	2009
<i>Ordinary Shares</i>	\$	\$
Savings Accounts	2,507	4,343
Christmas Club	983,427	920,768
Loan Provider Account	190,290	222,215
Total Ordinary Shares	<u>1,176,224</u>	<u>1,147,326</u>
<i>Term Shares:</i>		
<i>Original Maturity Terms:</i>		
0-3 months		
6 months		
9 months		
12 months		
Greater than 12 months		
Total Term Shares	<u>-</u>	<u>-</u>
<b>Total Members' Deposits</b>	<u><u>1,176,224</u></u>	<u><u>1,147,326</u></u>

### 15 COMMITMENTS

The Credit Union has no future commitments.

### 16 STANDBY BORROWING FACILITIES

The Credit Union does not have a borrowing facility with NZACU.

# CARBINE CREDIT UNION

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 6 MONTH PERIOD ENDED 31 OCTOBER 2010

### 17 CONTINGENT LIABILITIES

There are no contingent liabilities not provided for in the financial statements. (2009 nil)

### 18 SEGMENTAL REPORTING

The credit union operates in the New Zealand financial services industry with a concentration of members and activity in Auckland and its satellite towns.

### 19 EVENTS OCCURRING AFTER BALANCE DATE

There are no known events that have occurred subsequent to balance date which would materially affect these financial statements. (2009 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 9 - 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 Unions 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.

	2010 - Interest Rate Risk			2009 Interest Rate Risk		
	Carrying Amount	Profit & Equity	Profit & Equity	Carrying Amount	Profit & Equity	Profit & Equity
	\$	\$	\$	\$	\$	\$
<b>Financial Assets</b>						
Bank deposits	709,754	(7,098)	7,098	625,440	(6,254)	6,254
Loan receivables	1,115,884	(11,159)	11,159	1,129,078	(11,291)	11,291
		(18,257)	18,257		(17,545)	17,545
<b>Financial Liabilities</b>						
Members deposits	1,176,224	(11,762)	11,762	1,147,326	(11,473)	11,473
<b>Total Increase / (Decrease)</b>		(6,495)	6,495		(6,072)	6,072

# CARBINE CREDIT UNION

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 6 MONTH PERIOD ENDED 31 OCTOBER 2010

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

- The interest rate change would be applied equally over to the loan products and term deposits
- The rate change would be as at the beginning of the 12 month period and no other rate changes would be effective during the period
- The term deposits would all reprice to the new interest rate at the term maturity, or be replaced by deposit with similar terms and rates applicable
- All loans would be repaid in accordance with the contractual repayment terms
- The value and mix of call savings to term deposits will be unchanged
- The value and mix of personal loans to mortgage loans will be unchanged

There has been no change to the Credit Union's exposure to market risk or the way the Credit Union manages and measures market risk in the reporting period.

### **Credit Risk - Loans**

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the Credit Union incurring a financial loss. This usually occurs when debtors fail to settle their obligations owing to the entity. There is no concentration of credit risk with respect to loans and receivables as the Credit Union has a large number of customers dispersed in areas of employment. The credit policy is that loans and investments are only made to members that are credit worthy.

The credit union has established policies or procedures over the:

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

Regular review of compliance are conducted at Board meetings.

The Credit Union has a concentration in the retail lending for members who comprise employees and family in Tip Top Ice Cream Co. Bluebird Foods Ltd and Irvines Bakery. This concentration is considered acceptable on the basis that the Credit Union was formed to service these members, and the employment concentration is not exclusive. Should members leave the industry the loans continue and other employment opportunities are available to the members to facilitate the repayment of the loans.

Weekly 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 as appropriate. The exposures to losses arise predominantly in the non secure personal loans and facilities.

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

### **Credit Risk - Liquid Investment**

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

There is a concentration of credit risk with respect to investment receivables with the placement of investments in NZACU. The credit policy is that investments are only made to institutions that are credit worthy. Directors have established policies that spread the investment between trading banks and NZACU.

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

### **Credit Risk - Equity Investments**

The Credit Union does not have investments in equity investments.

# CARBINE CREDIT UNION

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 6 MONTH PERIOD ENDED 31 OCTOBER 2010

### **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 no standby borrowing facility with the NZACU.

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.

### **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 Credit Union has just one staff member/manager attending to most office duties.
- the annual and half yearly accounts are completed by an outside Accountant.
- the Board of Trustees approve the loans.
- 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

### **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:

	2010	2009
<b>Tier 1</b>		
Retained earnings & other revenue reserves	581,671	563,723
General reserve	93,950	90,900
<b>Tier 2</b>		
Asset revaluation reserves		
Other reserves		
<b>Total reserves</b>	<b>675,621</b>	<b>654,623</b>

# CARBINE CREDIT UNION

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 6 MONTH PERIOD ENDED 31 OCTOBER 2010

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.

### 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. Note that expected maturities are similar to the contracted maturities as below, except for members deposits which have a re due within one month are not expected to be repaid but to continue at the same level to provide continuing funds for the credit union.

2010	On Call	Within 1 Month	1-3 Months	3 - 6 Months	6 - 12 Months	1-2 years	2-5 years	Over 5 years	No Maturity	Total
<b>Monetary Assets Receivable</b>										
Cash & Bank		709,754								709,754
Deposits at NZACU										-
Trade and other receivables		9,791								9,791
Loans to members		58,458	114,430	170,056	245,442	298,957	173,467	55,074		1,115,884
Derivatives										-
Capital Notes									42,219	42,219
Future Interest Receivable		2,274	2,260	6,717	14,542	35,426	47,964	21,754	2,955	133,892
<b>Total Monetary Assets Receivable</b>	-	780,277	116,690	176,773	259,984	334,383	221,431	76,828	45,174	2,011,540
<b>2010 Monetary Liabilities Payable</b>										
Trade and other payables		10,377								10,377
Members Deposits		1,176,224								1,176,224
Short-term borrowings										-
Provisions		17,237								17,237
Future Interest Payable										-
<b>Total Monetary Liabilities Payable</b>	-	1,203,838	-	-	-	-	-	-	-	1,203,838

# CARBINE CREDIT UNION

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 6 MONTH PERIOD ENDED 31 OCTOBER 2010

2009	On Call	Within 1 Month	1-3 Months	3 - 6 Months	6 - 12 Months	1-2 years	2-5 years	Over 5 years	No Maturity	Total
<b>Monetary Assets Receivable</b>										
Cash & Bank Deposits at NZACU		625,441								625,441
Trade and other receivables		16,035								16,035
Loans to members		54,587	104,301	161,674	249,875	318,155	210,618	29,868		1,129,078
Derivatives										-
Capital Notes									42,219	42,219
Future Interest Receivable		2,269	1,930	5,982	13,868	35,315	54,550	11,051	2,955	127,920
<b>Total Monetary Assets Receivable</b>	-	698,332	106,231	167,656	263,743	353,470	265,168	40,919	45,174	1,940,693
<b>2009 Monetary Liabilities Payable</b>										
Trade and other payables		10,920								10,920
Members Deposits		1,147,326								1,147,326
Short-term borrowings										-
Provisions		2,137								2,137
Future Interest Payable										-
<b>Total Monetary Liabilities Payable</b>	-	1,160,383	-	-	-	-	-	-	-	1,160,383

# CARBINE CREDIT UNION

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE 6 MONTH PERIOD ENDED 31 OCTOBER 2010

### 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:

	Floating interest rate		Fixed Interest Rate Maturing in:												Non-interest sensitive		Set six monthly in arrears		Total		Weighted average effective interest rate*				
			0 to 3 months		3 to 6 months		6 to 12 months		1 to 2 years		2 to 5 years		Over 5 years												
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009			2010	2009	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	2010	2009	
<b>Monetary Assets</b>																									
Cash & Bank	382	562													327	63			709	625	4.50%	4.00%			
Deposits at NZACU																			0	0	0.00%	0.00%			
Trade & other receivables															10	16			10	16	0.00%	0.00%			
Loans to members	1,116	1,129																	1,116	1,129	14.00%	14.00%			
Derivatives																			0	0	0.00%	0.00%			
Capital Notes																		42	42	42	42	7.00%	7.00%		
<b>Total Monetary Assets</b>	<b>1,498</b>	<b>1,691</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>337</b>	<b>79</b>	<b>42</b>	<b>42</b>	<b>1,877</b>	<b>1,812</b>					
<b>Monetary Liabilities</b>																									
Deposits	1,176	1,147																	1,176	1,147	3.00%	4.00%			
Other payables															28	13			28	13	0.00%	0.00%			
Borrowings																			0	0	0.00%	0.00%			
<b>Total Monetary Liabilities</b>	<b>1,176</b>	<b>1,147</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>28</b>	<b>13</b>	<b>-</b>	<b>-</b>	<b>1,204</b>	<b>1,160</b>					

\* 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 7%. (2009: 7% per annum).

# CARBINE CREDIT UNION

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 6 MONTH PERIOD ENDED 31 OCTOBER 2010

### 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	-	
Between 20% and 30% of equity	-	
Between 10% and 20% of equity	-	

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 12% to 16% p.a. (2009 12% to 16% p.a.) The Credit Union has a lending policy that requires various levels and types of security for loans and includes that a portion of loans may be secured over the borrowing members shares. The Friendly Societies and Credit Unions Act 1982 limits the risk of any one member and provides, along with the loan agreement that any and all shares might be used to offset an individual loan to the limit of their liability. Under section 110 of the Act, the maximum indebtedness and repayment terms of a member shall not, without the prior consent of the Registrar, exceed the following limits:

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

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

<b>2010</b>	<b>2009</b>
1.56%	0.15%

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.

# CARBINE CREDIT UNION

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 6 MONTH PERIOD ENDED 31 OCTOBER 2010

### Loans to Members

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

<b>2010</b>	<b>2009</b>
months	months
16.76	19.76

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

<b>2010</b>	<b>2009</b>
10.60	11.50

There are no other monetary asset receivables that exceed the individual value of these six largest loans. The Credit Union does not offer an overdraft facility.

## 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 Auckland and it's satellite towns as well as individuals and their families who are past or present employees of Tip Top Ice Cream Co, Bluebird Foods Ltd and Irvines Bakery. The funding from members is recorded as Members Shares 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 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.

	2010 Book			2009 Book		
Fair Value	Value	Variance	Fair Value	Value	Variance	
\$	\$	\$	\$	\$	\$	
<b>FINANCIAL ASSETS</b>						
Cash and Bank	709,754	709,754	-	625,441	625,441	-
Deposits at NZACU	-	-	-	-	-	-
Trade and other receivables	9,792	9,792	-	16,035	16,035	-
Derivatives	-	-	-	-	-	-
Loans to members	1,115,884	1,115,884	-	1,129,078	1,129,078	-
Capital Notes	42,219	42,219	-	42,219	42,219	-
<b>Total Financial Assets</b>	<b>1,877,649</b>	<b>1,877,649</b>	<b>-</b>	<b>1,812,773</b>	<b>1,812,773</b>	<b>-</b>
<b>FINANCIAL LIABILITIES</b>						
Trade and other payables	27,614	27,614	-	13,057	13,057	-
Short term borrowings	-	-	-	-	-	-
Deposits from members	1,176,224	1,176,224	-	1,147,326	1,147,326	-
<b>Total Financial Liabilities</b>	<b>1,203,838</b>	<b>1,203,838</b>	<b>-</b>	<b>1,160,383</b>	<b>1,160,383</b>	<b>-</b>

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

# CARBINE CREDIT UNION

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 6 MONTH PERIOD ENDED 31 OCTOBER 2010

### **Financial Assets**

#### **Loans to Members**

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

#### **Cash and 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.

#### **Derivatives**

Derivatives are not used by the Credit Union.

#### **Investments**

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

### **Financial Liabilities**

#### **Deposit from members**

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

Members' shares are secured by a first ranking equitable assignment by 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 16 March 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 7 January 2003, 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 DISCLOSURES ON DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL**

### **Remuneration of key management persons (KMP)**

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

Key management persons (KMP) has been taken to comprise the directors and one of the staff of the Credit Union responsible for the day to day financial and operational management of the Credit Union.

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

# CARBINE CREDIT UNION

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 6 MONTH PERIOD ENDED 31 OCTOBER 2010

### DISCLOSURES ON DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL - Continued

	2010		2009	
	Directors	Other KMP	Directors	Other KMP
(a) short-term employee benefits	\$	\$	\$	\$
(b) post-employment benefits - superannuation contributions		35,000		32,517
(c) other long-term benefits - net increases in long service leave provision				
(d) termination benefits				
(e) share-based payment				
<b>Total</b>	<b>-</b>	<b>35,000</b>	<b>-</b>	<b>32,517</b>

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

The directors received no fees or honoraria for their services

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

	2010	2009
Directors' holdings at balance date are:	\$	\$
Owing to Directors (Shares)	67,414	32,527
Owing to Key Management Personnel (Shares)	85	58
Owing to Other Related Parties (Shares)	2,241	2,250
Owing from Directors (Loans)	53,762	36,955
Owing from Key Management Personnel (Loans)	-	-
Owing from Other Related Parties (Loans)	6,894	3,420

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

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

	2010	2009
Profit for the period	\$ 29,343	\$ 37,617
<b>Non Cash Items</b>		
Depreciation	401	404
Bad Debts	346	7,702
Provision for Loan Impairment	3,638	(8,653)
<b>Changes in Assets and Liabilities</b>		
Movements in Accounts Receivable	(1,143)	(10,622)
Movements in Accounts Payable	1,653	(12,532)
<b>Net Cash Provided by / (Used in) Operating Activities</b>	<b>34,238</b>	<b>13,916</b>