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CREDIT UNION TARANAKI

DIRECTORY

FOR THE YEAR ENDED 31 AUGUST 2008

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	Carol Hicks Coral Wiltshire Beryl Woodhead
	Hawera	Christine O'Dwyer
	Patea	Huia Davis
	Waitara	Serena Thompson
Auditors		BDO Spicers, Hamilton
Bankers		New Zealand Association of Credit Unions
Solicitors		Young & Carrington, New Plymouth Stace Hammond, Auckland
Affiliations		Credit Union Institute of New Zealand, CUINZ 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

INCOME STATEMENT

FOR THE YEAR ENDED 31 AUGUST 2008

		2008	2007
<u>INCOME</u>	Note	\$	\$
Interest revenue	2	827,920	677,523
Other revenue	2	570,953	580,876
TOTAL REVENUE		1,398,873	1,258,399
<u>EXPENDITURE</u>			
Interest expenditure	2	308,749	197,270
Loan impairment expenses	2	96,136	11,100
Employee benefits		332,902	308,375
Occupancy		62,624	54,236
Depreciation	2	44,768	19,799
Impairment losses		-	-
Other expenditure	2	670,842	618,739
TOTAL EXPENDITURE		1,516,021	1,209,519
Profit/(Loss) for the period attributable to members		(117,148)	48,880

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

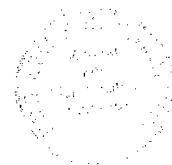


CREDIT UNION TARANAKI

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 AUGUST 2008

	Retained Earnings \$	Other Reserves \$	Total Reserves \$
Balance at 01 September 2006	-	707,797	707,797
Profit for the period	48,880	-	48,880
Total recognised income and expenses for the year	48,880	-	48,880
Transfers to and from reserves: - general reserve	(48,880)	48,880	-
Retained earnings	-	-	-
Balance at 31 August 2007	-	756,677	756,677
Balance at 01 September 2007	-	756,677	756,677
Profit/(Loss) for the period	(117,148)	-	(117,148)
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	(117,148)	756,677	639,529

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



CREDIT UNION TARANAKI

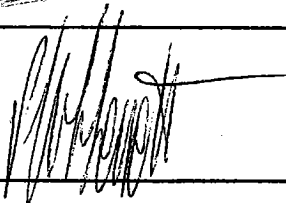
BALANCE SHEET

AS AT 31 AUGUST 2008

	Note	2008 \$	2007 \$
<u>MEMBERS' FUNDS</u>			
Retained earnings	4	(117,148)	-
Other reserves	4	756,677	756,677
TOTAL MEMBERS' FUNDS		639,529	756,677
<u>ASSETS</u>			
Cash & Bank	5	360,437	176,613
Deposits at NZACU	5	1,350,000	600,000
Trade and other receivables	6	88,566	90,846
Loans to members	7-8	5,066,676	5,055,569
Derivatives	9	-	-
Property, plant & equipment	10	155,115	76,375
Capital Notes	11	313,800	194,233
TOTAL ASSETS		7,334,594	6,193,636
<u>LIABILITIES</u>			
Trade and other payables	12	209,245	173,277
Short-term borrowings	13	-	-
Members' deposits	14	6,485,820	5,263,682
TOTAL LIABILITIES		6,695,065	5,436,959
NET ASSETS		639,529	756,677

These audited Financial Statements are authorised for issue by:

Director



Director

25 NOV, 08
Date

25 Nov, 2008
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 2008

	Note	2008	2007
		\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		(819,142)	(672,273)
Fees and commissions received		(558,108)	(567,936)
Bad loans recovered		(6,958)	(9,024)
Other income		(5,887)	(3,916)
Interest paid		289,448	185,964
Payments to suppliers, directors & employees		1,038,643	997,055
Net cash provided by/(used in) operating activities	27	(62,004)	(70,130)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net movement in members' loans		107,243	1,027,390
Purchase of property, plant and equipment		123,508	56,692
Proceeds from sale of property, plant and equipment		-	(6,499)
Net movement in short term investments		-	-
Capital notes investment - NZACU		119,567	25,465
Net cash provided by/(used in) investing activities		350,318	1,103,048
CASH FLOWS FROM FINANCING ACTIVITIES			
Net movement in member deposits		(1,222,138)	(984,389)
Proceeds from borrowings		-	-
Repayment of borrowings		-	-
Net cash provided by/(used in) financing activities		(1,222,138)	(984,389)
Total net increase/(decrease) in cash held		933,824	(48,529)
Cash and cash equivalents at the beginning of the period		776,613	825,142
Cash and cash equivalents at the end of the period		1,710,437	776,613

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 2008

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 profit-oriented 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 significant 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 has been applied by the Credit Union for the financial year ended 31 August 2008.

In accordance with the requirements of NZ IFRS1: First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards, adjustments to financial statements resulting from the introduction of NZ IFRS have been applied retrospectively to 2007 comparative figures. These financial statements are the first financial statements of the Credit Union to be prepared in accordance with NZ IFRS.

Reconciliations of the transition from previous New Zealand GAAP to NZ IFRS have been included in Note 28 to this financial report.

(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 which is the Credit Union's functional currency.

(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, where applicable.

(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 using the effective interest method.

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 allowances 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 and capitalised leased assets 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 operating 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, in the same manner as owned items of Property, Plant and Equipment.

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 and members' shares.

(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 allowance for loans.

2. REVENUE AND EXPENDITURE

<i>REVENUE</i>		
<i>Interest Revenue</i>	2008	2007
Interest on Loans	\$ 755,049	\$ 604,941
Interest on Investments	72,871	72,582
Other Interest	-	-
Total Interest Revenue	827,920	677,523
<i>Other Income</i>		
Loan Application Fees	109,699	125,948
Cost Recoveries	404,622	403,104
Bad Debts Recovered	6,958	9,024
Commissions	43,787	39,653
Other Income	5,887	3,147
Total Other Income	570,953	580,876
TOTAL REVENUE	1,398,873	1,258,399
<i>EXPENDITURE</i>		
<i>Interest Expenditure</i>	2008	2007
Interest on Members Call Shares	\$ -	\$ -
Interest on Members Term Shares	10,233	5,598
Interest on Overdraft from NZACU	298,516	191,672
Other Interest	-	-
Total Interest Expenditure	308,749	197,270
<i>Other Expenditure</i>		
Auditor's Remuneration:		
External Audit of Financial Statements		
Internal Audit	31,078	14,145
Loss on Disposal of Property Plant & Equipment	18,284	18,383
Directors' Fees	-	-
Directors' Expenses and Training	24,293	19,580
Donations Made/Community Support	5,749	1,825
Other Expenses	3,633	5,200
Total Other Expenditure	587,805	559,606
<i>Loan Impairment Expenses</i>		
Bad Debts Written Off to Impairment Allowance	81,625	27,127
Movement in Allowance for Impaired Loans	14,511	(16,027)
Total Impairment Expenses	96,136	11,100
<i>Depreciation Expenditure</i>		
Depreciation Recovered, Motor Vehicles	-	(6,499)
Computer Equipment	27,319	19,990
Motor Vehicles	7,554	2,518
Office Furniture and Equipment	5,409	3,790
Leasehold Improvements	4,486	-
Total Depreciation Expenditure	44,768	19,799

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:

	2008	2007
Christmas Saver Shares	3.5%	3.5%
Success Saver, Jimmy J Junior Saver & Bfree Shares	2.5%	2.5%
Term Shares:		
11 Term Deposit (1-month term)	4.5-5.5%	4.5-5.5%
12 Term Deposit (2-month term)	4.5-5.5%	4.5-5.5%
13 Term Deposit (3-month term)	4.5-5.5%	4.5-5.5%
16 Term Deposit (6-month term)	5.5-8.0%	5.5-8.0%
19 Term Deposit (9-month term)	5.5-8.0%	5.5-8.0%
110 Term Deposit (10-month term)	5.5-8.0%	5.5-8.0%
112 Term Deposit (12-month term)	6.5-8.5%	6.5-8.5%
113 Term Deposit (13-month term)	6.5-8.5%	6.5-8.5%
115 Term Deposit (15-month term)	6.5-8.5%	6.5-8.5%
118 Term Deposit (18-month term)	6.5-8.5%	6.5-8.5%
124 Term Deposit (24-month term)	6.5-8.5%	6.5-8.5%

4. RESERVES

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/(loss) for the year	(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	(1.9)	10.3	-	-	8.4

Reserves at 31 August 2007:					
	Retained Earnings	General Reserve	Revaluation Reserve	Other Reserves	Total Members' Reserves
Balance brought forward	-	707,797	-	-	707,797
Operating profit/(loss) for the year	48,880	-	-	-	48,880
Transfer to/from retained earnings	(48,880)	48,880	-	-	-
Adjustment on adoption of NZ IFRS	-	-	-	-	-
Balance carried forward	-	756,677	-	-	756,677
The Reserve % to Total Assets	-	12.2	-	-	12.2

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:

- 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	2008	2007
Cash & Bank	3.75%	\$ 360,436	\$ 176,613
Deposits at NZ Association of Credit Unions	8.25-8.65%	1,350,000	600,000
		<u>1,710,436</u>	<u>776,613</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

	2008	2007
Accrued Interest	\$ 25,044	\$ 16,266
Sundry Debtors	-	-
Prepayments	63,522	74,580
Other Receivables (List, if large)	-	-
	<u>88,566</u>	<u>90,846</u>

7. LOANS TO MEMBERS

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

(a) Loans to members comprise:

	2008	2007
	\$	\$
Neither Past Due nor Impaired	5,002,622	4,993,441
Past due but not impaired	64,054	62,128
Impaired Individually	14,106	7,908
Impaired collectively	34,361	26,048
Gross Loans	5,115,143	5,089,525
Less:		
Allowance for impairment individually	14,106	7,908
Allowance for impairment collectively	34,361	26,048
Net	<u>5,066,676</u>	<u>5,055,569</u>

(b) Credit quality - Security dissection

	2008	2007
	\$	\$
Secured by mortgage over real estate	1,623,785	1,679,543
Secured by members' shares	996,139	1,043,910
Unsecured, or not secured by mortgage over real estate or members' shares	2,495,219	2,366,072
Gross Loans	<u>5,115,143</u>	<u>5,089,525</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:

	2008	2007
	\$	\$
Security held as mortgage against real estate is on the basis of:		
- loan to valuation ratio of less than 80%	1,623,785	1,679,543
- 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>1,623,785</u>	<u>1,679,543</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-08:		
Loans to natural persons		
Residential loans and facilities	168,412	591,103
Personal loans and facilities	2,833,885	3,685,308
Business loans and facilities	171,949	13,300
Loans to Charitable Trusts and Incorporated Societies	-	-
TOTAL	<u>3,174,246</u>	<u>4,289,711</u>

8. IMPAIRMENT OF LOANS AND ADVANCES

	2008	2007
	\$	\$
(a) Allowance for Impairment		
Balance as at 31 August 2007	33,956	49,983
Addition/(reduction) in allowance	14,511	(16,027)
Bad Debts written off to allowance	81,625	27,127
Asset acquired through the enforcement of security	-	-
Other Adjustments	(81,625)	(27,127)
Balance as at 31 August 2008	<u>48,467</u>	<u>33,956</u>
(b) Calculation of Allowance for Impairment		
Allowance per Prudential Standards (impaired collectively)	14,106	7,908
Additional Specific Allowance (impaired individually)	34,361	26,048
Closing Balance	<u>48,467</u>	<u>33,956</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.

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 Savings overdrafts	100%

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

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

(c) Impairment Expense

Allowance for Impairment - change in period	2008	2007
	\$	\$
Bad loans written off as an expense	81,625	27,127
	<u>81,625</u>	<u>27,127</u>

<i>(d) Impairment of Loans</i>	2008	2007
<i>Non-accrual Loans (No interest charged)</i>		
Loans with allowance for impairment	50,663	2,336
Allowance for impairment	33,152	2,336
Total non-accrual loans	<u>17,511</u>	<u>-</u>
<i>Past Due Loans, 30 days to 90 days</i>		
Total past due loans	58,490	74,606
Allowance for impairment	4,159	14,921
	<u>54,331</u>	<u>59,685</u>
<i>Past Due Loans, beyond 90 days</i>		
Total past due loans	61,360	12,929
Allowance for impairment	7,156	6,611
	<u>54,204</u>	<u>6,318</u>
<i>Other Impaired Loans</i>		
Total other loans	4,017	-
Allowance for impairment	4,017	-
	<u>-</u>	<u>-</u>
<i>Assets acquired via enforcement of security (excluding loans reported)</i>		
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.		
<i>(e) Interest and Other Revenue recognised and foregone</i>		
Interest revenue on non-accrual and restructured loans	-	-
Interest foregone on non-accrual and restructured loans	10,639	1,281
Revenue on real estate acquired	-	-
	<u>10,639</u>	<u>1,281</u>
<i>(f) Fair Value of Assets Acquired</i>		
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>
<i>(g) Loans with repayments past due but not impaired</i>		
The total past due loans (which were overdue by 1 day or more) at 31-Aug-2008 was \$215,397 (2007, \$89,870).		

9. DERIVATIVES

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

Interest rate swap contracts - fair value hedges

2008	2007
\$	\$
<u>N/A</u>	<u>N/A</u>

Derivative instruments used by the Credit Union

The Credit Union does not enter into derivative transactions.

10. PROPERTY, PLANT AND EQUIPMENT

Leasehold improvements

At cost

Accumulated depreciation

2008	2007
\$	\$
61,212	10,552
15,036	10,550
<u>46,176</u>	<u>2</u>

Plant & Equipment

At cost

Accumulated depreciation

Accumulated impairment losses

328,114	255,266
219,175	178,893
<u>-</u>	<u>-</u>
<u>108,939</u>	<u>76,373</u>
<u>155,115</u>	<u>76,375</u>

Total Property, Plant & Equipment

(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	-	-	76,373	2	-	76,375
Additions	-	-	72,848	50,660	-	123,508
Disposals	-	-	-	-	-	-
Depreciation Expense	-	-	(40,282)	(4,486)	-	(44,768)
Impairment write-downs	-	-	-	-	-	-
Carrying amount at Period End	<u>-</u>	<u>-</u>	<u>108,939</u>	<u>46,176</u>	<u>-</u>	<u>155,115</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 Trust and past dividends the directors have accrued a dividend of \$17,400 for the 8 months ending 31 August 2008, (\$19,423, 31 August 2007).

	2008	2007
	\$	\$
NZACU Base Capital Notes II, estimated 12.6% at amortised cost	208,800	194,233
NZACU Base Capital Notes III, estimated 0% at amortised cost	105,000	-
Less impairment	-	-
	<u>313,800</u>	<u>194,233</u>

12. TRADE AND OTHER PAYABLES

	2008	2007
	\$	\$
Trade Payables	-	-
Accrued Interest Payable	65,146	45,845
Resident Withholding Tax	4,958	2,439
Sundry Creditors and Accrued Expenses	81,766	88,381
Employee Entitlements	7,031	6,492
ACCESSCARD Settlement	47,931	30,120
Other Payables	2,413	-
	<u>209,245</u>	<u>173,277</u>

13. SHORT-TERM BORROWINGS

	2008	2007
	\$	\$
Secured Loans	-	-
Unsecured Loans	-	-
	<u>-</u>	<u>-</u>

Refer to Note 16 for details of borrowing facilities.

14. MEMBERS' DEPOSITS

	2008	2007
	\$	\$
Ordinary Shares:		
Savings Accounts	668,356	855,211
Christmas Club	228,936	246,853
Loan Provider Account	996,139	1,043,910
Total Ordinary Shares	<u>1,893,431</u>	<u>2,145,974</u>
Term Shares:		
<i>(Original Maturity Terms)</i>		
0-3 months	112,284	28,382
>3-6 months	247,950	347,395
>6-9 months	362,380	105,642
>9 to <12 months	2,122	-
12 months	556,785	748,664
Greater than 12 months	3,310,868	1,887,625
Total Term Shares	<u>4,592,389</u>	<u>3,117,708</u>
Total Members' Deposits	<u>6,485,820</u>	<u>5,263,682</u>

15. COMMITMENTS

2008 2007
\$ \$

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

Not longer than 1 year	-	-
Longer than 1 and not longer than 5 years	-	-
Longer than 5 years	-	-
	-	-
	-	-

(b) Finance Lease Commitments Payable

Payable:

Not longer than 1 year	-	-
Longer than 1 and not longer than 5 years	-	-
Longer than 5 years	-	-
	-	-
	-	-

Minimum Lease Payments
Less Future Finance Charges

	-	-
	-	-
	-	-
	-	-

(c) Operating Lease Commitments

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

Not longer than 1 year	40,412	16,146
Longer than 1 and not longer than 5 years	30,375	8,721
Longer than 5 years	-	-
	70,787	24,867
	70,787	24,867

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	17,235	28,430
Undrawn overdraft, line-of-credit and Accesscredit	19,550	59,828
	36,785	88,258
	36,785	88,258

16. STANDBY BORROWING FACILITIES

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

	Approved Facility \$	Current Borrowing \$	Net Available \$
2008			
Overdraft	28,000	-	28,000
Standby Facility	-	-	-
	28,000	-	28,000
	28,000	-	28,000
2007			
Overdraft	28,000	-	28,000
Stand by Facility	-	-	-
	28,000	-	28,000
	28,000	-	28,000

Currently the unused overdraft facility is for \$28,000 (31-Aug-2007, \$28,000). The interest rate is 10.50% p.a and the penalty rate is 15.75% 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 2007, 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

There are no known events that have occurred subsequent to balance date which would materially affect these financial statements. (31 August 2007, 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 - 11% 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.

	2008 - Interest Rate Risk			2007 - Interest Rate Risk		
		-1%	+1%		-1%	+1%
	Carrying Amount	Profit & Equity	Profit & Equity	Carrying Amount	Profit & Equity	Profit & Equity
	\$	\$	\$	\$	\$	\$
Financial Assets						
Bank deposits	1,710,437	-12,012	12,012	776,613	-5,390	5,390
Loan receivables	5,066,676	-51,488	51,488	5,055,569	-49,854	49,854
		-63,500	63,500		-55,244	55,244
Financial Liabilities						
Members' deposits	6,485,820	-65,557	65,557	5,263,682	-53,038	53,038
Total Increase / (Decrease)		<u>2,057</u>	<u>-2,057</u>		<u>-2,206</u>	<u>2,206</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 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 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

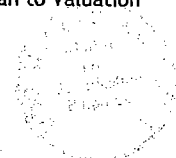
Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the Credit Union incurring a financial loss. This usually occurs when debtors fail to settle their obligations owing to the entity. Although the Credit Union has a large number 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 review 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 are related to the determination of the allowance 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	2008	2007
Retained earnings & other revenue reserves	(117,148)	48,880
General reserve	756,677	707,797
Tier 2		
Asset revaluation reserves	-	-
Other reserves	-	-
Total reserves	639,529	756,677

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 2008

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.

<i>2008 - Monetary Assets Receivable</i>	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
Cash & Bank	360,437	-	-	-	-	-	-	-	-	360,437
NZACU Deposits	750,000	250,000	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	-	-	-	-	-	-	-	-	-	-
Future Interest Receivable	-	60,705	175,367	329,430	581,394	905,481	1,327,840	1,935,868	-	5,316,085
	1,199,003	530,417	863,336	783,031	1,349,174	2,328,998	2,176,070	2,951,735	-	12,181,764

<i>2008 - Monetary Liabilities Payable</i>	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
Trade & other payables	-	209,245	-	-	-	-	-	-	-	209,245
Members' Deposits	-	678,626	-	515,742	867,870	2,016,895	-	-	-	4,078,533
Short-term borrowings	-	-	-	-	-	-	-	-	-	0
Future Interest Payable	-	2,834	-	11,282	21,743	101,062	-	-	-	136,921
	-	890,705	-	526,824	889,613	2,117,957	-	-	-	4,425,099

<i>2007 - Monetary Assets Receivable</i>	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
Cash & Bank	176,613	-	-	-	-	-	-	-	-	176,613
NZACU Deposits	350,000	250,000	-	-	-	-	-	-	-	600,000
Trade & other receivables	90,846	-	-	-	-	-	-	-	-	90,846
Loans to members	-	350,659	340,116	422,969	702,428	1,221,675	942,193	1,075,529	-	5,055,569
Derivatives	-	-	-	-	-	-	-	-	-	0
Capital Notes	-	-	-	-	-	-	-	-	194,233	194,233
Future Interest Receivable	-	3,276	111,971	259,059	501,010	824,032	1,250,291	1,880,835	-	4,830,474
	617,459	603,935	452,087	682,028	1,203,438	2,045,707	2,192,484	2,956,364	194,233	10,947,735

<i>2007 - Monetary Liabilities Payable</i>	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
Trade & other payables	-	173,277	-	-	-	-	-	-	-	173,277
Members' Deposits	-	2,288,229	-	290,692	1,166,773	886,239	344,278	-	-	4,976,211
Short-term borrowings	-	-	-	-	-	-	-	-	-	0
Future Interest Payable	-	896	-	10,202	44,081	66,964	-	-	-	122,143
	-	2,462,402	-	300,894	1,210,854	953,203	344,278	-	-	5,271,631

CREDIT UNION TARANAKI

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 AUGUST 2008

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 2008																				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												
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007			2008	2007	
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000			
Monetary Assets																									
Cash & Bank	360	177	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	360	177	N/A	N/A	
Deposits at NZACU	745	350	605	250	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,350	600	5.0%	7.6%	
Trade & other receivables	-	-	-	-	-	-	-	-	-	-	-	-	-	-	89	91	-	-	-	-	89	91	N/A	N/A	
Loans to members	-	-	557	691	454	423	768	702	1,424	1,222	848	942	1,016	1,076	-	-	-	-	-	-	5,067	5,056	15.1%	14.0%	
Derivatives	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	N/A	N/A	
Base Capital Notes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	314	194	-	-	314	194	12.6%	15.0%
Total Monetary Assets	1,105	527	1,162	941	454	423	768	702	1,424	1,222	848	942	1,016	1,076	89	91	314	194	7,180	6,118					
Monetary Liabilities																									
Deposits	-	-	3,086	2,576	516	291	868	1,167	2,017	886	-	344	-	-	-	-	-	-	-	-	6,486	5,264	5.2%	4.3%	
Other payables	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	209	173	N/A	N/A	
Borrowings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	209	173	N/A	N/A	
Total Monetary Liabilities	0	0	3,086	2,576	516	291	868	1,167	2,017	886	0	344	0	0	209	173	0	0	6,695	5,437					

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

(a) Base 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 (II) & Group (III) Trusts. The last interest payment was 12.5% per annum. (2007: 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	-	2
Between 20% and 30% of equity	1	4
Between 10% and 20% of equity	7	11

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 9.6% - 24% p.a. (31-Aug-07, 9.2% - 25% 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:

	2008	2007
Other than loans, there are no other monetary assets in arrears.	0.6%	0.4%

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

	2008	2007
	19 months	14 months

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

	2008	2007
	13.5%	13.7%

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

The Credit Union offers its members an overdraft facility.

Amount Drawn Down:

	2008	2007
	\$55,326	\$2,623

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.

	2008			2007		
	Fair Value	Book Value	Variance	Fair Value	Book Value	Variance
FINANCIAL ASSETS						
Cash & Bank	360,437	360,437	-	176,613	176,613	-
Deposits at NZACU	1,350,000	1,350,000	-	600,000	600,000	-
Trade & other receivables	88,566	88,566	-	90,846	90,846	-
Derivatives	-	-	-	-	-	-
Loans to members	5,066,676	5,066,676	-	5,055,569	5,055,569	-
Capital Notes	313,800	313,800	-	194,233	194,233	-
Total Financial Assets	7,179,479	7,179,479	-	6,117,261	6,117,261	-
FINANCIAL LIABILITIES						
Trade & other payables	209,245	209,245	-	173,277	173,277	-
Short-term borrowings	-	-	-	-	-	-
Deposits from members	6,485,820	6,485,820	-	5,263,682	5,263,682	-
Total Financial Liabilities	6,695,065	6,695,065	-	5,436,959	5,436,959	-

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. DISCLOSURES ON DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL

Remuneration of Key Management Persons (KMP)

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

Key management persons (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 persons during the year comprising amounts paid or payable or provided for was as follows:

	2008		2007	
	Directors	Other KMP	Directors	Other KMP
	\$	\$	\$	\$
(a) short-term employee benefits	24,293	173,438	19,580	159,623
(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	24,293	173,438	19,580	159,623

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:

	2008	2007
	\$	\$
Owing to Directors (Shares)	25,979	38,544
Owing from Directors (Loans)	74,047	53,409

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

Other than the following the only transactions which took place during the year were deposits and withdrawals undertaken in the normal way on savings and Accesscredit accounts.

Total loans disbursed to directors during the year was \$10,000 and total payments repaid was \$8,655.

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

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

	2008	2007
	\$	\$
Profit/(Loss) for the Period	(117,148)	48,880
<u>Non-Cash Items</u>		
Depreciation	44,768	19,799
Bad Debts	-	-
Allowance for Loan Impairment	96,136	11,100
	140,904	30,899
<u>Changes in Assets and Liabilities</u>		
Movements in Accounts Receivable	(1,390,095)	(1,253,149)
Movements in Accounts Payable	1,328,091	1,183,019
Net Cash Provided by/(Used in) Operating Activities	(62,004)	(70,130)



28. NEW STANDARDS AND INTERPRETATIONS ISSUED, BUT NOT YET ADOPTED

At the date of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

Standard/Interpretation		Effective date	Date issued by ASRB	Date issued by IASB (IFRS)
<u>Omnibus Amendments</u>	<i>Omnibus Amendments (2007-01)</i>	1-Jan-2008	November-07	N/A
<u>NZ IAS 1</u>	<i>Presentation of Financial Statements</i>	1-Jan-2009	November-07	November-07
<u>NZ IAS 23</u>	<i>Borrowing Costs</i>	1-Jan-2009	July-07	September-07
<u>NZ IAS 27</u>	<i>Consolidated and Separate Financial Statements</i>	1-Jul-2008	February-08	March-07
<u>NZ IAS 32 and NZ IAS 1</u>	<i>Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation</i>	1-Jan-2009	February-08	February-08
<u>NZ IAS 39</u>	<i>Amendment to NZ IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items</i>	1-Jul-2009	August-08	July-08

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

The adoption of the revised NZ IAS 1 will result in changes being made to the presentation of the Credit Union's financial statements. Management have yet to assess the impact of the adoption of NZ IAS 1 on the financial statement disclosures.

CREDIT UNION TARANAKI

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2008

29. IMPACT OF FIRST-TIME ADOPTION OF NEW ZEALAND EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (NZ IFRS)

<i>Reconciliation of Equity at 31 August 2007</i>	Note	GAAP at 31-Aug-2007	Adjustment	NZIFRS at 31-Aug-2007
ASSETS				
Cash and cash equivalents		776,613		776,613
Trade and other receivables		90,846		90,846
Loans to Members	a,b	5,055,569		5,055,569
Other Financial Assets		-		-
Property, Plant & Equipment		76,375		76,375
Intangible Assets		-		-
Capital Notes		194,233		194,233
TOTAL ASSETS		<u>6,193,636</u>		<u>6,193,636</u>
LIABILITIES				
Trade and other payables		173,277		173,277
Members Deposits		5,263,682		5,263,682
Short-term borrowings		-		-
Provisions		-		-
TOTAL LIABILITIES		<u>5,436,959</u>		<u>5,436,959</u>
NET ASSETS		<u>756,677</u>		<u>756,677</u>
EQUITY				
Retained earnings	a,b	-		-
Reserves		756,677		756,677
TOTAL EQUITY		<u>756,677</u>		<u>756,677</u>

(a) Loans - General Provision

General provision is reallocated to retained earnings in accordance with NZIFRS:

Decrease in Provision for doubtful debts	(33,956)
Increase in Retained Earnings	33,956
	<u>-</u>

The Credit Union is unable to carry a general provision for doubtful debts under NZ IFRS. This provision has been reversed to retained earnings and a new provision for impairments has been calculated. This has had no impact to the income statement.

(b) Loans - Specific Provision for Impairment

Specific Provision has been increased to reflect the provisioning requirements of NZIFRS:

Increase in Provision for Impaired Loans	33,956
Decrease in Retained Earnings	(33,956)
	<u>-</u>

The Credit Union is unable to carry a general provision for doubtful debts under NZ IFRS. This provision has been reversed to retained earnings and a new allowance for impairments has been calculated. This has had no impact to the income statement.



CREDIT UNION TARANAKI

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2008

29. IMPACT OF FIRST-TIME ADOPTION OF NEW ZEALAND EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (NZ IFRS)

<i>Reconciliation of Equity at 31 August 2006</i>	Note	GAAP at 31-Aug-2006	Adjustment	NZIFRS at 31-Aug-2006
ASSETS				
Cash and cash equivalents		825,142		825,142
Trade and other receivables		96,229		96,229
Loans to Members	a,b	4,039,279		4,039,279
Other Financial Assets		-		-
Property, Plant & Equipment		45,981		45,981
Intangible Assets		-		-
Capital Notes		168,768		168,768
TOTAL ASSETS		<u>5,175,399</u>		<u>5,175,399</u>
LIABILITIES				
Trade and other payables		188,309		188,309
Members Deposits		4,279,293		4,279,293
Short-term borrowings		-		-
Provisions		-		-
TOTAL LIABILITIES		<u>4,467,602</u>		<u>4,467,602</u>
NET ASSETS		<u>707,797</u>		<u>707,797</u>
EQUITY				
Retained earnings	a,b	-		-
Reserves		707,797		707,797
TOTAL EQUITY		<u>707,797</u>		<u>707,797</u>

(a) Loans - General Provision

General provision is reallocated to retained earnings in accordance with NZIFRS:

Decrease in Provision for doubtful debts	(49,983)
Increase in Retained Earnings	49,983
	<u>-</u>

The Credit Union is unable to carry a general provision for doubtful debts under NZ IFRS. This provision has been reversed to retained earnings and a new provision for impairments has been calculated. This has had no impact to the income statement.

(b) Loans - Specific Provision for Impairment

Specific Provision has been increased to reflect the provisioning requirements of NZIFRS:

Increase in Provision for Impaired Loans	49,983
Decrease in Retained Earnings	(49,983)
	<u>-</u>

The Credit Union is unable to carry a general provision for doubtful debts under NZ IFRS. This provision has been reversed to retained earnings and a new allowance for impairments has been calculated. This has had no impact to the income statement.





AUDIT REPORT

BDO Spicers
Chartered Accountants & Advisers

TO THE MEMBERS OF CREDIT UNION TARANAKI

BDO Spicers Hamilton

We were appointed in accordance with Section 122 of the *Friendly Societies and Credit Unions Act 1982* to act as Auditors of the Credit Union. We are qualified in accordance with Section 123 of that Act to act as Auditors and hold a Certificate of Public Practice.

We report on the Financial Report, on pages 1 to 24.

The Financial Report provides information about the financial performance and cash flows of the Credit Union for the year ended, and its financial position as at 31 August 2008, stated in accordance with the accounting policies as set out in Note 1 to the Financial Statements.

Directors' Responsibilities

The Directors are responsible for the preparation of the Financial Report which gives a true and fair view of the financial performance of the Credit Union as at balance date, and of results of operations and cash flows for the year ended 31 August 2008.

Auditors' Responsibilities

It is our responsibility to express an independent opinion on the Financial Report presented by the Directors and to report our opinion to you.

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 generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary. We obtained sufficient evidence to give 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 accuracy of the presentation of information in the Financial Report.

Other than in our capacity as auditors, our firm has no interest in the Credit Union.

Fundamental Uncertainty

In forming our unqualified opinion, we have considered the ability of the Credit Union to generate adequate 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. 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 further liabilities that may arise, and to reclassify non-current assets and long-term liabilities as current assets and liabilities.

Unqualified Opinion

We have obtained all the information and explanations we have required. In our opinion:

- ★ The Credit Union has kept proper accounting records throughout the year and has maintained a satisfactory system of control over transactions.
- ★ The Financial Report on pages 1 to 24.
 - has been prepared in accordance with generally accepted accounting practice;
 - complies with requirements of the *Friendly Societies and Credit Unions Act 1982*;
 - is in agreement with the accounting records of the Credit Union; and
 - gives a true and fair view of the financial position of Credit Union Taranaki as at 31 August 2008 and the results of its operations and cash flows for the year ended on that date.

Our audit was completed on 26 November 2008 and our unqualified opinion is expressed as at that date.

BDO Spicers, Hamilton

**BDO SPICERS
Hamilton**