



FLETCHER CHALLENGE
EMPLOYEES CREDIT UNION



*“our mission -
here to help take
the struggle out
of finance”*

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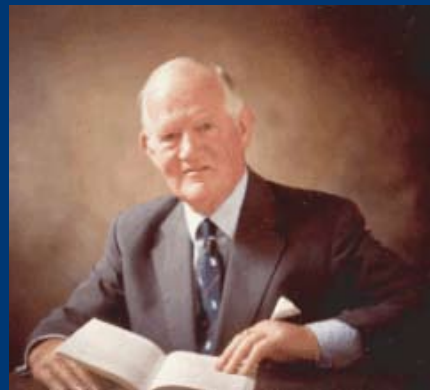


sir james fletcher patron's report

It gives me great pleasure to write this message to all peoples associated with the Credit Union. As patron I am privileged to receive copies of all Board papers and minutes of their meetings, which enables me to keep abreast of all the significant credit union activities throughout the year. With assets (member savings) of just over five million dollars, operating the credit union is an exacting business that requires the application of many business

principles, framed within a cooperative & mutual context and yet based upon non-profit values.

Your Governance and Management structures wrestle with this mix of pressures, conflicts, and compliance issues on a daily basis, as they focus on the best interests of the Credit Union. From my perspective I can attest to the hard work, diligence, and commitment they have



displayed over the past year and this is reflected in the positive financial results, growth, and strategic direction of the credit union. The Credit Union is in good hands and on behalf of the membership I would like to take this opportunity to thank staff and management for their efforts, and in particular the Directors and Trustees who work tirelessly on a voluntary basis.

Sir James Fletcher
Patron

taking a closer look chairman's & chief executive officer's report

It is our privilege to present this report on the activities of the credit union over the past 12 months. Several new products were launched with varying degrees of success. Our website was completed and went on-line at the beginning of the year, and has proven very popular with over six thousand hits on the site. With several self service menus the fpfcu.co.nz website allows both members and information gatherers to readily access information at low cost. We have decided not to develop internet banking at this time due to the frequency of internet fraud across a number of banking sites, reported through the news media.

Cognizant of the intentions of the Government to implement a compulsory retirement scheme, we took the initiative of developing a retirement savings product, which was launched in April. This account pays interest at a rate linked to the Loan Provider savings account and withdrawals are not permitted until the age of sixty years is attained. Although there are some occasions, when earlier withdrawal may be possible e.g. upon death of the member.

We became concerned that our members' safety was being compromised whenever they visited our office. Our landlord Fletcher Steel had an increase

in business activity that resulted in more heavy traffic (truck & trailers) and the storage of steel girders close to the office. After the safety issue was raised the landlord made alternative arrangements for the delivery and storage of the girders and the risk has reduced substantially. Nevertheless members are constantly reminded that care is always needed whenever visiting the office.

On the 1st April the Credit Contracts and Consumer Finance Act 2003 took effect. Originally intended to offer more protection for borrowers, particularly against predatory lenders (loan sharks), the new Act has simply increased compliance cost whilst the loan sharks have found loop holes and methods that allow them to carry on business, almost it seems, as usual. The credit union movement took upon itself to highlight the predatory lending practices of loan sharks, whilst conveying the message that credit unions offer an alternative. We got right behind this initiative and made a strategic decision to increase our loans for debt consolidation as a percentage of our total portfolio.

In July we called a Special General Meeting of members to consider rule changes that would allow for the introduction of an Automatic Teller Machine (ATM) facility as well as a Transactional

Banking Facility (TBF). These rule changes were unanimously supported by those present and culminated in the launch of these two significant products on the 1st October this year. It is still early days but feedback from members to-date has been very positive and we anticipate that these products will be a resounding success.

We have always supported our communities, albeit at a minimal level that reflects our own non-profit operating basis and this year was no different. Overall we donated \$690.00 across six organisations, Kidney Kids, Leukaemia and Blood Foundation, Rotary (Newmarket), Brain Injury Association, Radio Lollipop, and Lions Club (Remuera).

In August we restricted the use of the 0800freefone to landlines only due to the steeply rising cost of mobile and cellular telephone calls. It was with regret that we took this action but we could not sustain this cost, which was increasing despite asking members to use other means where possible. The free phone service is still available through all pay phones.

An initiative targeting loan sharks was taken nationwide by Credit Unions through media, both print and television, led to a large degree by the former World President of Credit Unions, Bobby McVeigh who was visiting

New Zealand at the time. The short and sharp campaign did more to highlight the alternative option offered by credit unions, rather than dent or curb the behaviour of loan sharks. However we have noticed an increase in the number of applications for debt consolidation loans ever since.

As is the practice we reviewed the loans policy and this year we made some significant changes to accommodate our mortgage lending. We have extended our maximum loan period by five years to twenty five years, increased the maximum loan portfolio ratio for mortgages to fifty percent and allowed for the consideration of fixed term rates for mortgage lending offered by other lending institutions to be taken into account, when striking our own rates. Mortgage lending is seen as a means by which we can lower our liquidity ratio whilst earning a better return on these funds.



A handwritten signature in black ink, appearing to read 'K Woodroffe'.

Kerry Woodroffe
Chairman

Three staff changes, all in the marketing department occurred over the year and is a reflection of the difficulty we have in finding and retaining good people in this field. Our employment focus in future will be on sales people and the marketing type projects will be conducted both in-house using existing resources and through contracting out certain projects.

Late in the financial year we considered and accepted a proposal from the New Zealand Association of Credit Unions for the provision of the ATM and TBF products and the new system required to operate these products was installed on the 1st October. Other new products such as telephone banking become possible through the new system and we look forward to releasing these over the coming year.

The Board of Directors completed a review of the strategic plan and has set in

place a target of doubling total assets within the next five years. The goal is both ambitious yet achievable and the staff and management have wasted no time in laying the platform for this growth to occur. Changes to policy, implementation of new technology, and a focus on employing sales people should form the basis of a formula for success.

On behalf of the Board of Directors, we take this opportunity to thank management and staff for their sterling work over the past 12 months. We also take this opportunity to thank our fellow Directors and Trustees who, as our Patron has mentioned in his report, work tirelessly on a voluntary basis. Most importantly, thank you to our members who entrust us with the safeguard of their Credit Union.



A handwritten signature in black ink, appearing to read 'Selwyn Screen'.

Selwyn Screen
Chief Executive Officer

trustees report

Before I wrote this report I was looking back over the last four or five years reports and find that I do repeat myself quite a lot, and that is to say what a really good job the staff do. It makes life for the Trustees quite simple.

I would like to mention that a couple of our members had got themselves into a real financial bind this year but we are pleased to announce that with the help of the staff and some sound advice they now find life for them being a lot easier. Well done.

Throughout the year we approved \$3.463m worth of loans a 28% increase on the previous year and the average loan being \$1,843.

Bob Irwin on behalf of the Trustees

board of directors & officers

| | | |
|-----------------------|----------------------|--|
| Patron | Sir James Fletcher | Fletcher Challenge Trust |
| Chairman | Kerry Woodroofe | Fletcher Building Shared Services |
| Treasurer | Nadine Leef | Fletcher Construction |
| Secretary | Stuart Rattenbury | Fletcher Construction |
| Directors | Bob Irwin | Fletcher Construction |
| | Stuart Rattenbury | Fletcher Construction |
| | Phil Hall | Fletcher Construction |
| | Marilyn McCormick | Fletcher Construction |
| | Grant Wilson | Fletcher Construction |
| | Emma Ashworth | Maersk Shipping |
| Trustees | Bob Irwin (Chairman) | Fletcher Construction |
| | Kerry Woodroofe | Fletcher Building Shared Services |
| | Marilyn McCormick | Fletcher Construction |
| CEO | Selwyn Screen | Fletcher Challenge Employee Credit Union |
| Auditor | Phillip Trounson | PricewaterhouseCoopers |
| Internal Audit | Bruce Mincham | O'Halloran & Co. |
| Solicitors | Peter Neumegen | Peter Neumegen and Associates |
| | Michelle Burke | Burke Melrose |
| Prudential Supervisor | Ray Edwin | Trustee Executors Limited |

nominating committee report

The Nominating Committee was appointed under the rules of the Credit Union with the task of nominating suitable persons to fill vacancies that have occurred within the Board either through resignations or the ending of the two-year term. Retiring Directors are eligible to be re-elected for a further term of office, should they be available. In the event of a vacancy on the Board caused by the death, disqualification, or resignation of a Director so elected, the Board shall appoint a member

to fill the vacant office and that member shall hold office until the next Annual Meeting or until the election and qualification of a successor.

Directors

One year left to serve:

Nadine Leef
Phil Hall
Bob Irwin
Emma Ashworth

Nominated for a two-year term:
Kerry Woodroofe

Marilyn McCormick
Stuart Rattenbury
Grant Wilson

Trustees

One year left to serve:
Bob Irwin

Nominated for a two-year term:
Kerry Woodroofe
Marilyn McCormick

Bob Irwin, Kerry Woodroofe

Nominating Committee

living our values

Since being setup in 1970, Fletcher Challenge Employees Credit Union has continuously focused on delivering on its commitments, a commitment to provide stable, secure and friendly financial services to its members.

Our products and services are designed to encourage members to save and educate them on how saving a small amount each week

can add up to a larger amount through the course of a year.

Our lending policy encourages responsible borrowing and where a member has encountered financial difficulties we do more than just lend them money. Our objective is to introduce stability to their finances and key to this is encouraging them to utilise accounts such as Money

Management to help them better manage their bills, after all we don't want our members to get into the same difficulties again.

At Fletcher Challenge Employees Credit Union, we are proud of who we are and what we stand for. We believe that our success is dependant on our ability to help our members build a brighter and a more stable financial future.

organisational profile

Profile

- 1552 Members
- 2 full time staff members and 3 part time staff members
- \$5,308,680 Total assets
- Active Member of the New Zealand Association of Credit Unions
- Key Stakeholders in the Credit Union - Members/Shareholders, Employees and Employers, Common Bond Organisations, Suppliers, Community, Environment, Other Credit Unions.

Credit union and us

A Credit Union is a non profit financial organisation owned by the very people that use it services. Member savings are considered as shares in the Credit Union and these shares entitle each member to an equal say in the running of the Credit Union no matter how big or small their deposits or loans might be.

Based around a group of members who save and borrow from each other at reasonable rates and with a sensible approach to fees and other charges. The profits made by the credit union is invested back into the organisation to maintain stability and to meet our members changing financial needs.

A board of directors is elected from the total membership and co-ordinates the management of the Credit Union.

Fletcher Challenge Employees Credit Union has been in operation for over 35 years and has over 1550 members nationwide.

Our mission "here to help take the struggle out of finance" is strengthened by the genuine interest the team has in promoting financial stability for our members. Our staff members are



actively involved in helping members get on track and stay on track!

organisational profile cont.

What We Do

Fletcher Challenge Employees Credit Union offers a range of products and services to meet the individual financial needs of our members and with the introduction of the new IT system it just got better!

Below are some of the services we provide but watch this space as we will be introducing new services in the near future.

- Savings Accounts
- Term Share Investments
- Money Management
- Budgeting Advice
- Kids Accounts
- Christmas Club

- Personal Loans
- Home Loans
- ATM & EFTPOS Card
- Direct Debits
- Insurance
- Foreign Currency Exchange

Employee Benefit Scheme

A Credit Union operates under a set of membership rules that outlines the common bond members must share to become part of a particular credit union.

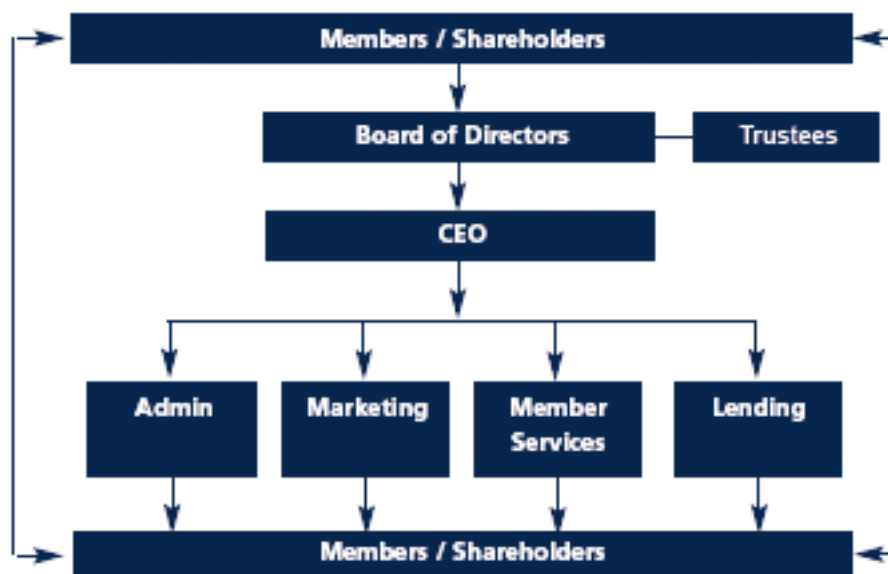
Until recently, Fletcher Challenge Employees Credit Union's common bond only allowed an employee of a Fletcher business unit or an existing member's family to become a part of the

Credit Union.

However recent changes enable us to offer our services as an employee benefit scheme to other organisations, organisations which are like minded in their approach to their employees financial stability.

Today a number of employers, including organisations such as Stagecoach and Healtheries, have seized the opportunity to offer a low cost self-managing benefit scheme to their employees and encouraging a culture of financial stability within their organisation.

organisational structure



our mission

Sir James Fletcher had set up Fletcher Challenge Employees Credit Union with the aim to help take the struggle out of his employee's financial situations. His objective for the organisation was to meet the financial needs of his employees and educating them on how to better

manage their finances. In the end what better than a non profit organisation owned by

“here to help take the struggle out of finance”

the very people that use it. 35 years on, Fletcher

Challenge Employees' Credit Union has remained true to this commitment. We are dedicated to promoting financial stability by encouraging a culture of saving, money management and responsible borrowing.

manu tu a quick catch up

It has been a year since we featured Manu in our Living Values annual report and we thought it might be a good idea to catch up and see how he was doing. When we featured Manu last year, he had only recently joined the credit union but had already felt the benefits of being a member.

Manu and Tina, his wife, utilised accounts such as a

Money Management account to become more involved with their finances and ensure that their bills were getting paid on time. Furthermore they started saving for their kids' future by opening up kids accounts and recently even got a loan for some of the things they wanted.

We recently caught up with Mr Tu and he was just as

enthusiastic as ever about the Credit Union. He was thrilled to say that the service he receives at the Credit Union is as good as ever and second to none.

Manu really appreciates the personal service he receives when he comes into the Credit Union office thus this being the key reason why he continues to recommend the Credit Union to others.



ida thomas new member success

Ida is yet another member who has experienced the difference Fletcher Challenge Employees Credit Union can make. Before finding out about the Credit Union, Ida by her own admission was in some financial difficulties. Being totally caught up in her work things got on top of her and she needed to quickly find a way to get back in control of her finances.

Thanks to her great work mates who went to extra lengths to find a way to help her, she was able to find out about the Credit Union and how they could help. Ida being a little camera shy was not shy in describing the great work the Credit Union has done for her and the wonderful team that made all the difference.

Her initial meeting with Selwyn gave her a taste of just how great the team at the Credit Union is. 'Selwyn is an emphatic man and I could clearly see that he genuinely wanted to help me'. "Selwyn first went over my situation and then the team helped me put together a budget and set up accounts that have helped me manage my finances better". "Better yet, I found out that I could actually save money and even had some spare spending money".

Three months on and Ida can't believe how easy it has been to manage her finances and get back on top of things. She was so impressed by the Credit Union that she now brings in all her pay into the Credit

Union and has even re-mortgaged her home with us.

The range of products and services offered by the credit union covers all her requirements but to her the main thing is the team itself. 'The team is professional

"to me they are like family"

yet personal and to me they are like family'. "They are always helpful and you can tell that they care about you as a person and not just another member...words alone couldn't describe how lovely they are'.

iain brown
another satisfied member



Iain is one of the many Stagecoach employee's that the Credit Union helped out and four years since becoming a member he is still dedicated to the Credit Union. Even today he has nothing but praise for the team and the Credit Union.

Like many members, Iain believes the Credit Union is here to help its members. A key moment for him was when he needed to buy a new car to travel from his home in Orewa to the city depot where he works. He needed a reliable new car

and the Credit Union allowed him to achieve this.

Due to his saving history with the Credit Union he was able to get a loan to buy the car he wanted. This made a world of difference to Iain. Now he could travel to work without having to worry about a car that would keep breaking down on him.

Apart from a loan, Iain uses other services such as the e-cash account and a Money Management account. Now he is able to pay his rent, insurance and other bills

without worrying about missing them.

"The team at the credit union is just brilliant"

Iain expressed his satisfaction with the team and the Credit Union in no uncertain terms, stating "The team at the credit union is just brilliant". "The staff are always prepared to help and treat you as an individual".

value : family

KEY MESSAGE:
A Credit Union is a family made up of all its members with the objective of helping each other with their financial needs. We value the importance of individual families and the credit union as a family.

The Credit Union just like any family consists of individuals and we need to cater for the needs of all our members. Our members come from different backgrounds and it is important we acknowledge this. We celebrate our differences and this makes us an even stronger family.

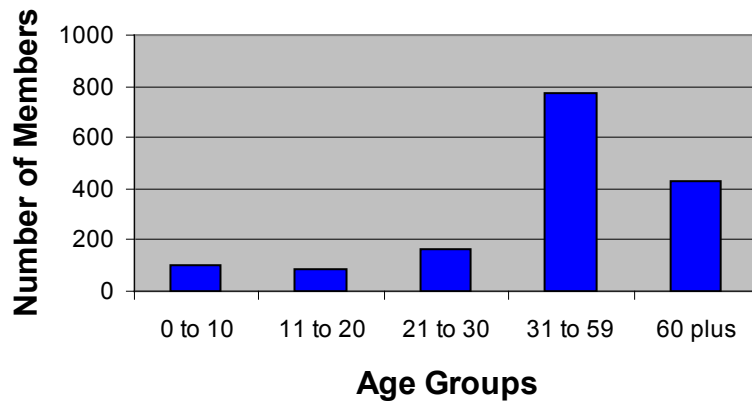
Figure 1: Highlights the age diversity of our members.

Our family values goes beyond just our members. We are dedicated to providing a stable financial future to not only our

members but also their family. This is the key reason why we encourage our members to setup a kid's account for their children. Not only will this give them a great start in life but also teaches them good financial habits from a young age.

To encourage members to open a Kids Account for their children, the Credit Union kick-starts every Kids Account with a \$20 credit. A total of 32 new Kids Accounts were opened in the last financial year.

**Figure 1:
 Age Profile of Members**



The community is also a part of our family and we believe that it is important that we play a positive role within our community.

In 2005, the Credit Union supported the following charities, giving hope to people that often have little to look

- forward to:
- Kidney Kids
 - Leukaemia and Blood Foundation
 - Rotary Club (New Market)
 - Brain Injury Association
 - Radio Lollipop
 - Lions Club (Remuera)

value : friendliness & cultural sensitivity

KEY MESSAGE:

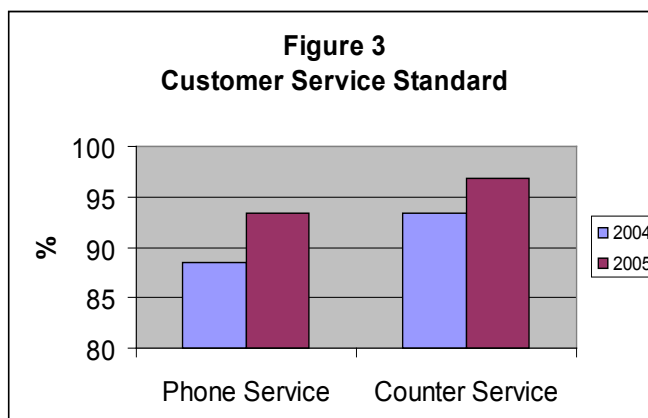
Our members come from different backgrounds and believe in treating all our members equally. Our service motto 'Treat others the way you would like to be treated'.

Every year the credit union undertakes a customer satisfaction survey to gauge whether our service is up to the standards we pride ourselves on and identify areas for us to improve on.

This years survey indicates that our customer service has not only maintained a high standard but also continued to improve. Better yet the survey has highlighted

some key areas that we can work on in order to improve on our current service standards.

Overall 93.33% of members surveyed believe that our phone service is positive compared to the 88.5% we achieved last year. Furthermore 96.86% of members believe that our over the counter service is positive compared to the 93.4% last year (shown in figure 3).



value : honesty & integrity

KEY MESSAGE:

At Fletcher Challenge Employees Credit Union we are genuinely concerned about the financial stability of our members. Our aim is to help members get on top and stay on top of their financial situation.

Ethical Lending

Honesty and integrity is an integral part of our operation. We maintain a transparent lending structure to assure members that there are no hidden costs involved when dealing with us.

We believe that it is our responsibility to ensure that loans are within the financial limits of our members and where a loan is for bills, sufficient steps are taken to ensure a member doesn't end up in the same situation again.

If we believe that it is in the best interest of the member not to get a loan then we will decline the loan and advise them on our reasons for doing so. Furthermore where we believe a member can benefit from a

specific account we will advise them on these services and educate them on the benefits they will receive.

Sustainable Business

We are a proud member of the 'Sustainable Business Network', a group of industries that believe business is not just about economic figures, but also about social responsibility towards the community.

The Sustainable Business Network encourages members to look at alternative ways of contributing to the community. We adhere to this commitment by minimising paper wastage and recycling paper where ever possible.

value : security

KEY MESSAGE:
Fletcher Challenge Employees Credit Union is a place where members can have confidence in our ability to deliver a secure financial solution.

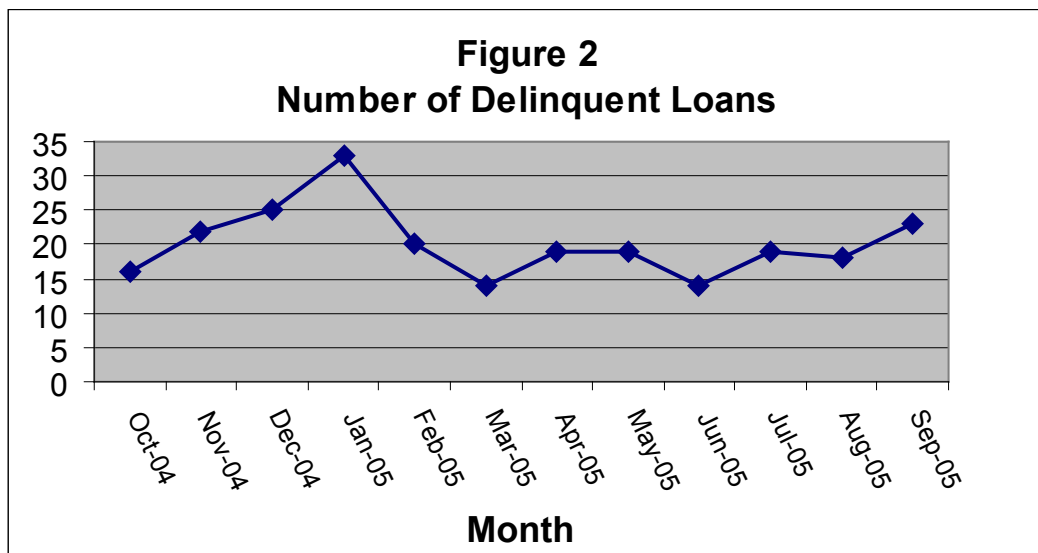
Secure Investments
 Over the past 35 years the Fletcher Challenge Employees Credit Union has implemented a number of procedures and policies to ensure the organisation operates in a sustainable manner, after all we are here for the long haul. Our organisational structure ensures that the operations are monitored and accounted for.

also monitored by an external party which adds to the security we can offer our members.

Delinquent loans
 Maintaining a low level of delinquent loans is something that the credit union is continuously trying to achieve. By minimising bad debts we are adding to the stability of the organisation.

Member shares are secured by a first ranking security interest in favour of the Credit Union's Prudential Supervisor, Trustees Executors Limited. This in turn means that the credit union is

We have a number of policies in place to ensure delinquent loans are kept to a minimum as indicated by Figure 2.



Total Membership
 Our members are a key part of our organisation. Maintaining a consistent membership base adds to our security. Over the past year our focus was on developing strategies to promote and grow the business

and this year we will be looking at implementing some of these strategies and driving the growth we want.

This year a total of 193 new members joined the Credit Union.

financial statements

our values

Our values are not just four bullet points but are in fact the living application of our mission. We believe every stakeholder in the Credit Union has a right to be treated in accordance with these values and our aim is to do so.



family

friendliness & cultural sensitivity

honesty & integrity

security

statement of financial performance

FOR THE YEAR ENDED 30TH SEPTEMBER 2005

| | Notes | 2005 \$ | 2004 \$ |
|---------------------------------------|-------|-----------------|-----------------|
| Income | | | |
| Interest on loans to members | 1 | 477,469 | 456,429 |
| Interest on investments | | 87,978 | 80,464 |
| Recoveries from bad loans written off | | 31,742 | 26,268 |
| Service charges | | 159,219 | 145,659 |
| Account fees | | 2,003 | 1,816 |
| Other income | | 109,027 | 106,758 |
| Gain on sale of asset | | 201 | 958 |
| Total Operating Income | | 867,639 | 818,352 |
| Less Cost of Funds | | | |
| Dividends - term shares | | 73,354 | 74,668 |
| Dividends – call shares | | 48,321 | 44,409 |
| Total Cost Of Funds | | 121,675 | 119,077 |
| GROSS INCOME | | 745,964 | 699,275 |
| OPERATING COSTS | | | |
| Marketing | 2 | 20,856 | 30,142 |
| Staffing | 2(a) | 349,745 | 343,172 |
| Administration | 2(b) | 214,313 | 174,530 |
| Property | 2(c) | 35,052 | 34,755 |
| Lending | 2(d) | 59,317 | 64,697 |
| Financial | 2(e) | 33,227 | 30,958 |
| TOTAL OPERATING COSTS | | 712,510 | 678,254 |
| NET SURPLUS FOR YEAR | | \$33,454 | \$21,021 |

statement of movement in equity

FOR THE YEAR ENDED 30TH SEPTEMBER 2005

| | 2005 \$ | 2004 \$ |
|---|------------------|------------------|
| EQUITY AT BEGINNING OF YEAR | 638,284 | 617,263 |
| Net Surplus for the year | 33,454 | 21,021 |
| EQUITY AT END OF THE YEAR | 671,738 | 638,284 |
| Represented by: | | |
| General Reserve at beginning of year | 524,016 | 236,016 |
| Transfer from retained earnings | 7,000 | 54,000 |
| Transfer from prudential reserve | - | 234,000 |
| General Reserve at end of year | 531,016 | 524,016 |
| Retained Earnings at beginning of year | 114,268 | 147,247 |
| Net Surplus for year | 33,454 | 21,021 |
| Transfer to general reserve | (7,000) | (54,000) |
| Retained Earnings at end of year | 140,722 | 114,268 |
| Prudential Reserve at beginning of year | - | 234,000 |
| Transfer to general reserve | - | (234,000) |
| Prudential Reserve at end of year | - | - |
| EQUITY AT END OF YEAR | \$671,738 | \$638,284 |

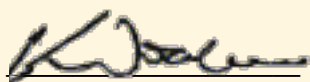
statement of financial position

AS AT 30TH SEPTEMBER 2005

| | Notes | 2005 \$ | 2004 \$ |
|-------------------------------------|-------|------------------|------------------|
| EQUITY | | | |
| General reserve | 3 | 531,016 | 524,016 |
| Retained earnings | 4 | 140,722 | 114,268 |
| Prudential reserve | 5 | - | - |
| Total Equity | | \$671,738 | \$638,284 |
| Represented by: | | | |
| CURRENT ASSETS | | | |
| Cash and bank balances | | 1,112,840 | 1,354,192 |
| Loans to members | 6 | 4,041,920 | 3,665,190 |
| Accounts receivable and prepayments | | 21,650 | 64,388 |
| Total Current Assets | | 5,176,410 | 5,083,770 |
| NON-CURRENT ASSETS | | | |
| Investments | 7 | 84,692 | 84,692 |
| Plant and equipment | 8 | 47,578 | 57,122 |
| Total Non – Current Assets | | 132,270 | 141,814 |
| TOTAL ASSETS | | 5,308,680 | 5,225,584 |
| LESS CURRENT LIABILITIES | | | |
| Members' shares | 9 | 4,453,455 | 4,414,588 |
| Provision for Dividends | 10 | 29,243 | 33,916 |
| Accounts Payable | 11 | 154,244 | 138,796 |
| Total Current Liabilities | | 4,636,942 | 4,587,300 |
| NET ASSETS | | \$671,738 | \$638,284 |

These financial statements have been authorised for issue on behalf of the Board:

Director:

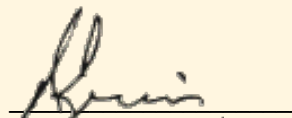


Kerry Woodroffe

Date:

14/11/05

Director:



Robert Irwin

Date:

14/11/05

statement of cashflows

FOR THE YEAR ENDED 30TH SEPTEMBER 2005

| | 2005 \$ | 2004 \$ |
|--|-------------------|------------------|
| Cash Flows From Operating Activities | | |
| Cash was provided from: | | |
| Interest on loans to members | 476,033 | 457,008 |
| Interest on investments | 87,906 | 73,746 |
| Other income | 84,340 | 80,475 |
| Service charges | 156,429 | 145,295 |
| Bad debts recovered | 31,742 | 26,268 |
| | 836,450 | 782,792 |
| Cash was applied to: | | |
| Administration expenses | 344,017 | 338,424 |
| Payments to employees | 292,810 | 267,570 |
| Payment of dividends | 126,348 | 111,861 |
| | 763,175 | 717,855 |
| NET CASH INFLOWS FROM OPERATING ACTIVITIES | 73,275 | 64,937 |
| Cash Flows From Investing Activities | | |
| Cash was provided from: | | |
| Loan repayments by members | 3,054,280 | 2,460,334 |
| Deposit repaid from Progressive Credit Union | 45,000 | - |
| Sale of plant & equipment | 201 | 11,000 |
| | 3,099,481 | 2,471,334 |
| Cash was applied to: | | |
| Loan advances to members | 3,463,273 | 2,711,724 |
| Purchase of plant & equipment | 8,737 | 46,257 |
| Deposit with Progressive Credit Union | - | 40,000 |
| | 3,472,010 | 2,797,981 |
| NET CASH (OUTFLOWS) TO INVESTING ACTIVITIES | (372,529) | (326,647) |
| Cash Flows From Financing Activities | | |
| Cash was provided from: | | |
| Members' share deposits | 10,501,244 | 8,408,008 |
| | 10,501,244 | 8,408,008 |
| Cash was applied to: | | |
| Members' share withdrawals | 10,443,342 | 7,842,467 |
| | 10,443,342 | 7,842,467 |
| NET CASH INFLOWS FROM FINANCING ACTIVITIES | 57,901 | 565,541 |
| NET INCREASE/(DECREASE) IN CASH HELD | (241,352) | 303,831 |
| Cash at Beginning of the Year | 1,354,192 | 1,050,361 |
| CASH AT THE END OF THE YEAR | 1,112,840 | 1,354,192 |

reconciliation of operating cash flows with operating surplus

FOR THE YEAR ENDED 30TH SEPTEMBER 2005

| | 2005 \$ | 2004 \$ |
|--|-----------------|-----------------|
| Reported surplus for year | 33,454 | 21,021 |
| Items Not Involving Cash | | |
| Depreciation | 18,281 | 15,978 |
| Provision for doubtful loans | 133 | (19,302) |
| Bad debts written off | 32,602 | 59,045 |
| Transaction fees and other income | (27,477) | (28,379) |
| Gain on sale of plant & equipment | (201) | (958) |
| Income NZACU capital notes | - | (4,692) |
| Impact of Changes in Working Capital Items | | |
| (Increase) / Decrease in accounts receivable & prepayments | (2,262) | 937 |
| Increase / (Decrease) in accounts payable | 23,418 | 14,152 |
| Increase / (Decrease) in dividend accrual | (4,673) | 6,358 |
| Increase / (Decrease) in other liabilities | - | 777 |
| Net Cash Flows from Operating Activities | \$73,275 | \$64,937 |

statement of accounting policies

FOR THE YEAR ENDED 30TH SEPTEMBER 2005

BASIS OF REPORTING

Fletcher Challenge Employees Credit Union is a Credit Union registered under the Friendly Societies and Credit Unions Act 1982. The financial statements have been prepared in accordance with the requirements of the Friendly Societies and Credit Unions Act 1982, the Financial Reporting Act 1993, and the Securities Regulations 1983.

MEASUREMENT BASE

The Accounting Principles recognised as appropriate for the measurement and reporting of Financial Performance and Financial Position on a historical cost basis are followed. All amounts are inclusive of Goods and Services Tax (GST) as the Credit Union is treated as an end user for GST purposes.

PARTICULAR ACCOUNTING POLICIES

The particular accounting policies which materially affect the measurement of Financial Performance, Cash Flows, and Financial Position have been applied as follows:

1 Interest on Loans to Members

Income from interest on loans to members is recorded in the period earned. Each repayment is allocated first to interest up to the date of repayment and the balance to reduction of principal. Outstanding interest has been accrued to balance date on all loans except those which are over 90 days in arrears, where interest is accounted for as received.

2 Loans to Members

Loans to members are stated at the gross amount receivable less the provision for doubtful loans. Loan considered not recoverable are written off as bad debts in the Statement of Financial Performance. Any principal repayments received from previously written off loans is shown separately as income in the period in which it is received.

3 Retained Earnings

Retained earnings together with the General Reserve, forms the basis for the Credit Union's capital adequacy measurement to meet recognised prudential standards for financial institutions, after the statutory amount is transferred to the General Reserve.

4 Plant & Equipment

Plant & equipment are recorded at cost less accumulated depreciation.

5 Depreciation

Depreciation is charged using the straight line method over the estimated useful lives.

Rates of depreciation used are

| | |
|---|-------------|
| Furniture & fittings, office equipment and motor vehicles | 20% on cost |
| Security systems | 10% on cost |
| Mobile equipment and software | 33% on cost |
| Computer equipment | 25% on cost |

6 Statement of Cash Flows

The Statement of Cash Flows has been prepared using the direct approach method. Cash and cash equivalents reflect the balance of cash used in the day to day management of the Credit Union.

7 Non-accrual, Restructured, Real Estate, Enforced Security, and Past Due Assets

These are loans to members which are recognised in accordance with paragraphs 4.27, 4.38 and 5.2 of FRS 33.

The gross amounts of these assets and corresponding provision for doubtful loans which have been brought to account in the financial statements are set out in the notes below.

Interest income from these assets is not accrued.

CHANGES IN ACCOUNTING POLICIES

There have been no material changes in accounting policies during the period.

notes to financial statements

FOR THE YEAR ENDED 30TH SEPTEMBER 2005

1. Interest on Loans to Members

There was interest on non accrual assets for the year ended 30 September 2005 of \$8,610 (2004 \$6,508).

| | 2005 \$ | 2004 \$ |
|--|------------------|------------------|
| 2. Operating Costs | | |
| 2(a) Marketing | | |
| Vehicle expenses | 12,617 | 13,933 |
| Education & promotion | 8,239 | 16,209 |
| TOTAL MARKETING | 20,856 | 30,142 |
| 2(b) Staffing | | |
| Wages & salaries | 290,896 | 279,763 |
| Compliance | 51,529 | 55,849 |
| Training | 7,320 | 7,560 |
| TOTAL STAFFING | 349,745 | 343,172 |
| 2(c) Administration | | |
| Data processing | 114,233 | 71,781 |
| NZ Association of Credit Union dues | 20,000 | 20,000 |
| Stationery & printing | 9,842 | 10,629 |
| Postage | 1,846 | 1,755 |
| Bank charges | 14,935 | 12,897 |
| Cash shortages | 104 | 21 |
| General expenses | 8,971 | 9,600 |
| Telephone & fax | 21,112 | 18,822 |
| Audit fees | 15,000 | 19,600 |
| Annual general meeting | 8,000 | 9,000 |
| MVSR payments | 270 | 425 |
| TOTAL ADMINISTRATION | 214,313 | 174,530 |
| 2(d) Property | | |
| Leasing | 23,826 | 24,588 |
| Other property costs | 11,226 | 10,167 |
| TOTAL PROPERTY | 35,052 | 34,755 |
| 2(e) Lending | | |
| Provision for doubtful loans | 133 | (19,302) |
| Bad debts written off | 32,602 | 59,045 |
| Debt collection expenses | 26,582 | 24,954 |
| TOTAL LENDING | 59,317 | 64,697 |
| 2(f) Financial | | |
| Fidelity insurance | 5,278 | 5,486 |
| Life savings & loan protection insurance | 9,668 | 9,494 |
| Depreciation | 18,281 | 15,978 |
| TOTAL FINANCIAL | 33,227 | 30,958 |
| TOTAL OPERATING COSTS | \$712,510 | \$678,254 |

notes to financial statements

FOR THE YEAR ENDED 30TH SEPTEMBER 2005

3. General Reserve

A reserve has been established in accordance with Section 119 of the Friendly Societies and Credit Unions Act 1982. The General Reserve may not be distributed until the Credit Union is wound up or is dissolved, but may be applied for the following purposes:

- To offset realised losses written off as bad debts arising from loans made by the Credit Union to members
 - To offset unrealised losses arising from loans made by the Credit Union to members that are included in a provision for doubtful loans.
- The balance at period end represents 10.00% (2004 10.03%) of total assets.

4. Retained Earnings

The balance held as retained earnings comprises surpluses that have not been required to be held in a separate reserve.

5. Prudential Reserve

The prudential reserve was combined with the general reserve in 2004 as it is the combined figures that are required to be maintained at 10% of total assets.

6. Loans to Members

| | 2005 \$ | 2004 \$ |
|-----------------------------------|--------------------|--------------------|
| Gross loans receivable | 4,056,626 | 3,679,763 |
| Less provision for doubtful debts | (14,706) | (14,573) |
| | \$4,041,920 | \$3,665,190 |

Asset Quality

| | | |
|-------------------------------|-----------------|-----------------|
| Non-Accrual Assets | | |
| Balance at beginning of year | 45,472 | 76,328 |
| Less bad loans written off | (32,602) | (59,045) |
| Add new loan recognised | 41,119 | 28,189 |
| Balance at end of year | \$53,989 | \$45,472 |

Past Due Assets

There were no past due assets at 30 September 2005 (2004 Nil).

Non-accrual assets are those loans to members for which the credit union expects it will not be able to collect all amounts owing in accordance with the terms of the contract with those members.

Past Due Assets are those loans to members (not being a non-accrual asset, restructured asset, Real Estate or Other asset on enforced security) which have not been operated by the member within the terms of the loan contract for over 90 days.

notes to financial statements

FOR THE YEAR ENDED 30TH SEPTEMBER 2005

6. Loans to Members (continued)

Provision for Doubtful Loans

A Provision for Doubtful Loans is made in accordance with the Prudential Standards recommended to their members by the New Zealand Association of Credit Unions. These guidelines have been approved by the Board, and pertain to all loans where the loan is not being paid in accordance with the terms of the loan agreement, and the debtor has not entered into a satisfactory arrangement to discharge the loan. The provision comprises a specific provision assessed on certain loans plus a general provision calculated as follows:

| Period in arrears | Percentage applied to balance owing |
|---|-------------------------------------|
| 31-90 days | 20% |
| 91-181 days | 40% |
| 182-272 days | 60% |
| 273-364 days | 80% |
| 365 days and over and other loans at risk | 100% |

General Provision

| | | |
|--|-----------------|-----------------|
| Balance at beginning of year | 14,573 | 33,876 |
| Net charge to Statement of Financial Performance | 133 | (19,303) |
| Balance at end of year | \$14,706 | \$14,573 |

2005

2004

\$

\$

14,573

33,876

133

(19,303)

\$14,706

\$14,573

There is no specific provision at 30 September 2005 (2004 Nil).

7. Investments

NZACU Capital Notes

2005

2004

\$

\$

84,692

84,692

NZACU Business Services Division Trust Base Capital Notes represent monies invested with the NZACU Business Services Division Trust for an open-ended term. The Base Capital Notes constitute unsecured obligations of the NZACU Business Services Division and rank equally and without priority or preference among themselves. The Base Capital Notes rank after creditors in the event of the winding up of the NZACU Business Services Division.

Capital Notes may be sold or transferred only to another Credit Union that is a member of the NZACU Business Services Division and with the consent of the Business Services Division Board of Directors.

notes to financial statements

FOR THE YEAR ENDED 30TH SEPTEMBER 2005

8. Plant and Equipment

| | 30 September 2005 | | | | 30 September 2004 | | | |
|-------------------------|------------------------|--------------------|---------------------|-------------------|------------------------|--------------------|---------------------|-------------------|
| | Original Cost \$ | Acc. Dep. \$ | Book Value \$ | Dep 2005 \$ | Original Cost \$ | Acc. Dep. \$ | Book Value \$ | Dep 2004 \$ |
| Furniture & Fittings | 42,134 | 42,134 | - | - | 42,134 | 42,134 | - | 6 |
| Office Equipment | 41,460 | 33,494 | 7,966 | 3,868 | 37,916 | 29,626 | 8,290 | 3,550 |
| Motor Vehicles | 43,900 | 13,170 | 30,730 | 8,780 | 43,900 | 4,390 | 39,510 | 4,390 |
| Security Systems | 9,910 | 7,323 | 2,587 | 579 | 9,910 | 6,744 | 3,166 | 578 |
| Mobile Equip & Software | 23,245 | 21,512 | 1,733 | 2,321 | 21,271 | 19,192 | 2,079 | 4,735 |
| Computer Equipment | 27,095 | 22,533 | 4,562 | 2,733 | 23,877 | 19,800 | 4,077 | 2,719 |
| | 187,744 | 140,166 | 47,578 | 18,281 | 179,008 | 121,886 | 57,122 | 15,978 |

9. Members' Shares

| | 2005 \$ | 2004 \$ |
|--------------------------------------|--------------------|--------------------|
| At call shares | 3,176,664 | 3,041,376 |
| Term shares (maturing within 1 year) | 1,276,791 | 1,373,212 |
| | \$4,453,455 | \$4,414,588 |

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. Generally, 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 dividends on shares.

To meet the requirements of The Securities Act 1978 a Trust Deed was entered into on the 21st June 2001 between the Trustees of the Credit Union and 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 Credit Union & Friendly Societies Act 1982. Also, the Prudential Supervisor is under a duty to exercise reasonable diligence to ascertain whether or not the Credit Union has;

- i. committed any breach of the Trust Deed or any of the conditions of issue of the shares; and
- ii sufficient assets to meet its obligations to members, as they fall due.

10. Provision for Dividends

| | 2005 \$ | 2004 \$ |
|----------------|-----------------|-----------------|
| Christmas Club | 3,567 | 3,756 |
| Term shares | 25,676 | 30,160 |
| | \$29,243 | \$33,916 |

notes to financial statements

FOR THE YEAR ENDED 30TH SEPTEMBER 2005

11. Accounts Payable

| | 2005 | 2004 |
|--------------------------|------------------|------------------|
| | \$ | \$ |
| Resident withholding tax | 12,492 | 10,945 |
| Employee entitlements | 25,290 | 24,636 |
| Sundry creditors | 116,462 | 103,215 |
| | \$154,244 | \$138,796 |

12. Financial Instruments

Credit Risk

Loans to Members

The Friendly Societies and Credit Unions Act 1982, Section 110 limits the credit risk of any one member and provides along with the loan agreement that any and all shares might be used to offset an individual's loan to the limit of their liability. The credit risk calculation does not take into account any other forms of collateral. Current management policy requires all Loan Provider and Instant loans to be secured by way of shares, chattels, motor vehicles or real estate security.

Debtors and Investments

Debtors exposure is limited to the carrying amount. The Credit Union's management policies comply with the Friendly Societies and Credit Unions Act 1982 Sections 49 and 117 in regard to investments made by the Trustees. Investments are limited to the NZACU Central Fund, major banking institutions, Government and Local Body stock and bonds.

The Credit Union also has capital notes with the New Zealand Association of Credit Unions. The composite total of both bank balances and NZACU Capital notes is not a high-risk investment and any change in the rates offered through re-pricing would not materially affect the overall revenue earned by the Credit Union.

Liquidity Risk

The directors are constantly monitoring the Credit Union's liquidity to ensure that in general terms there is sufficient cash available to meet its obligations as they fall due. The Credit Union has access to its bank deposits should the need arise within 5 working days. \$1,050,000 of the cash deposits are invested through the New Zealand Association of Credit Unions. Loans are approved with an "on demand" facility within the loan contract. Loans are generally short term. \$58,050 is committed but not paid to members at 30 September 2005.

There are eleven members who have loans exceeding 10% of equity at balance date.

Amounts in excess of 10% of equity have been invested as follows:-

| | |
|-----------|---|
| 10% - 20% | 9 |
| 21% - 30% | 2 |

notes to financial statements

FOR THE YEAR ENDED 30TH SEPTEMBER 2005

12. Financial Instruments (continued)

Concentration of Credit Risk and Funding

Financial assets, which potentially subject the Credit Union to concentrations of credit risk principally, consist of:

| | 2005 | 2004 |
|-------------------------------------|-----------|-----------|
| | \$ | \$ |
| Cash and Bank | 1,112,840 | 1,354,192 |
| Accounts Receivable and Prepayments | 21,650 | 64,388 |
| NZACU Base Capital Notes | 84,692 | 84,692 |
| Loans to Members | 4,056,626 | 3,679,763 |

The Credit Union places its cash and short-term investments with high credit quality financial institutions through the NZACU Central Fund and limits the amount of credit exposure to any one financial institution. Concentrations of credit risk with respect to member loans are limited due to the large number of members included in the Credit Union's membership base. The membership is principally drawn from the Auckland area and many of these are employed within the Fletcher Building group of companies. The directors do not consider the risk to exceed normal business risk.

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 as a consequence the Credit Union funding is principally drawn from individuals residing in the Auckland area and many of these are employed within the Fletcher Building group of companies. The funding from members is recorded as Members Shares in the Statement of Financial Position.

Interest Rate Risk

Loans to Members

The Credit Union standard agreement provides for adjustments to the interest rate of all approved loans with written notice to the members, therefore no fixed interest rate lending is entered into. Loans are predominantly short term with the loan term varying from 12 months to 25 years, although all loans are repayable on demand. The general short term nature of borrowing and lending ensure that the Credit Union does not face any material interest rate risk.

Investments

The Credit Union policy requires that investments can be converted into cash within 5 working days, to maintain liquidity capability. The Credit Union limits interest rate risk from market fluctuations.

Shares

Dividend rates payable on members' shares are set by the Board of Directors and as a management policy generally on par with market indicators. These rates and their effect on the Credit Union's overall return are kept under constant review. Term shares are generally limited to terms under 12 months to allow for re-pricing.

Fair Values

All financial instruments are carried in the Statement of Financial Position at their fair value, except loans to members.

The fair value of Loans to Members cannot be determined with an acceptable level of reliability within the constraints of timeliness and cost, because it is not practicable to consider all relevant factors to determine a fair value for each loan. Loans to members are stated in these financial statements at their estimated recoverable amounts which is the gross amount receivable for all loans less the provision for doubtful loans. The Provision for Doubtful Loans is the maximum expected losses arising from borrowers at balance date. While loans are recoverable for the full loan amount there are likely to be a number of borrowers who will be unable to repay the full amount due when called upon to do so and the provision for doubtful debts has been calculated accordingly.

notes to financial statements

FOR THE YEAR ENDED 30TH SEPTEMBER 2005

15. Related Party

The total amounts owing from and to the Directors of the Credit Union as at the date of these financial statements are:

| | 2005 | 2004 |
|------------------|--------|--------|
| | \$ | \$ |
| Shares owing to | 67,131 | 60,833 |
| Loans owing from | 23,617 | 47,259 |

All the Directors' Shares and Loans accounts are at the normal interest rates, and all their loans are current.

The Chief Executive Officer is also a major shareholder and a director in a company that provides computer services. The amount paid in the 2005 financial year was \$105,520 (2004 \$69,252) and the amount outstanding at 30 September 2005 is \$11,026 (2004 \$6,541). These services ceased on 30 September 2005 following transfer of records onto the NZ Association of Credit Unions FACTS software.

16. Subsequent Events

No known events have occurred subsequent to the date of these financial statements which could materially affect these accounts.

17. Segmental Reporting and Concentration of Funding and Lending

The Credit Union operates in the New Zealand financial services industry. All operations are based in the Auckland region.

18. Contingent Liabilities

There are no contingent liabilities at 30 September 2005 (30 September 2004 Nil).

19. Adoption of New Zealand Equivalents to International Financial Reporting Standards

In December 2002 the New Zealand Accounting Standards Review Board (ASRB) formally announced that New Zealand reporting entities would be required to comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) for financial years commencing on or after 1 January 2007. The ASRB also allowed the option of adopting NZ IFRS one or two years earlier.

The transition to NZ IFRS is being managed by the directors, in consultation with staff of New Zealand Association of Credit Unions and with our auditors, assessing the significance of these changes and preparing for their implementation. It is planned to adopt these standards for the first time for the year ending 30 September 2008 with comparative information being restated to conform to the requirements of the new standards.

To date, key differences between existing accounting policies and those that are expected to arise from adopting NZ IFRSs have not yet been determined and consequently, the impact of the changes on the financial statements cannot be quantified.

Auditors' Report

To the members of Fletcher Challenge Employees Credit Union

We have audited the financial statements on pages 16 to 29. The financial statements provide information about the past financial performance and cash flows of the Credit Union for the year ended 30 September 2005 and its financial position as at that date. This information is stated in accordance with the accounting policies set out on page 21.

Directors' Responsibilities

The Credit Union's Directors are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the Credit Union as at 30 September 2005 and its financial performance and cash flows for the year ended on that date.

Auditors' Responsibilities

We are responsible for expressing an independent opinion on the financial statements presented by the Directors and reporting 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 statements. It also includes assessing:

- (a) the significant estimates and judgements made by the Directors in the preparation of the financial statements, and
- (b) 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 to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by error or fraud. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

We have no relationships with or interests in the Credit Union, other than in our capacity as auditors.

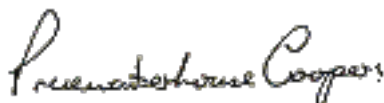
Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion:

- (a) proper accounting records have been kept by the Credit Union as far as appears from our examination of those records; and
- (b) the financial statements on pages 16 to 29:
 - comply with generally accepted accounting practice in New Zealand; and
 - give a true and fair view of the financial position of the Credit Union as at 30 September 2005 and its financial performance and cash flows for the year ended on that date.

Our audit was completed on 14 November 2005 and our unqualified opinion is expressed as at that date.



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