

PROSPECTUS OF
MANCHESTER UNITY CREDIT UNION

This Prospectus is dated 9th September 2011 and amended by
Memorandum of Amendments dated the 18th of January 2012

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All legislation referred to herein may be viewed online at www.legislation.govt.nz

EXEMPTIONS

Credit Unions have been granted an exemption by the Securities Commission from compliance with:

- (i) Sections 51 and 52 of the Securities Act 1978. (Registers of Securities)
- (ii) Section 37 A (1) (d) of the Securities Act 1978. (Voidable irregular allotments)
Section 54 of the Securities Act 1978 (Certificates of Securities)
- (iii) Clauses 1 (3) (Maximum amount of Securities) and 12 (Issue Expenses) of the Second Schedule of the Securities Regulations 2009.
- (iv) Regulation 40 of the Securities Regulations 2009, (clauses deemed to be contained in Trust Deeds) subject to certain conditions.

The exemptions are by virtue of the Securities Act (Credit Unions) Exemption Notice 2010. This exemption notice may be inspected at the registered office of the Manchester Unity Credit Union referred to in paragraph 1.1 of the Prospectus or under Regulations at www.legislation.govt.nz.

1. MAIN TERMS OF OFFER

1.1 Name and Address of Issuer:

Name of Credit Union: Manchester Unity Credit Union referred to as "the Credit Union".

Registered Office:

54 Clive Square East, Napier.

Office and Service Locations:

Office: 54 Clive Square East.
 Postal: PO Box 587, Napier 4140.
 Hours: Monday- Friday 9am to 4.30pm

Telephone: 06 835 5515 – 0800 68 28 48
 Facsimile: 06 835 5535

Agencies for Share Deposits:

Manchester Unity Credit Union
 54 Clive Square East
 NAPIER
 Telephone: 06 835 5515

Manchester Unity Manawatu
 26 Walding Street
 PALMERSTON NORTH
 Telephone: 06 357 6420

Manchester Unity Credit Union
 260 Gloucester Street
 TARADALE
 Telephone: 06 844 9095

Manchester Unity Hastings Lodge
 Market Street
 HASTINGS
 Telephone: 06 878 5134

Manchester Unity Credit Union
 17/1 Nobs Line
 NEW PLYMOUTH
 Telephone: 06 758 0949

Carran Miller
 38 Halifax Street
 NELSON
 Telephone: 03 548 1549

Manchester Unity
 Pall Mall Arcade
 Dee Street
 INVERCARGILL
 Telephone: 03 218 4539

Manchester Unity
 363 Colombo Street
 Sydenham
 CHRISTCHURCH
 Telephone: 03 353 5840

Sheppard and Ormsby
 Manchester Unity Building
 77/83 High Street
 RANGIORA
 Telephone: 03 313 6001

Manchester Unity
 306 Havelock Street
 ASHBURTON
 Telephone: 03 308 1533

1.2 **A Brief Description of the Credit Union, the activities of the Credit Union and the Securities being offered:**

The Credit Union is a non profit financial co-operative registered as a Credit Union under the Friendly Societies and Credit Unions Act 1982. The objects of the Credit Union are essentially the promotion of thrift amongst its members by the accumulation of their savings, the use and control of the members' savings for their mutual benefit; and the training and education of the members in the wise use of money and in the management of their financial affairs. The Credit Union's primary activity, over the past 5 years preceding the date this Prospectus was delivered to the Registrar of Companies for registration, has been to provide a co-operative saving facility for members to form a loan fund.

Restrictions on Allotment:

Shares may be allotted only to financial members of the Manchester Unity Friendly Society (the Society).

Members contribute to the Credit Union by way of shares which make up the capital of the Credit Union. A person to be a member must hold a minimum of \$1.00 in fully paid-up share(s), and a member cannot have or claim interest in shares of the Credit Union exceeding \$250,000.00 (or such lesser amount as may be determined by the provisions of the Friendly Societies and Credit Unions Act 1982, Sections 106 (2) & (3)).

All shares are of two class rankings, namely term shares and call shares, both of a fixed amount of \$1.00 denomination, and cannot be allotted to a member until fully paid-up in cash.

There is no maximum amount of the securities being offered by this Prospectus.

Payments for shares not in whole dollar amounts are credited to the member's account and are deemed to be an advance payment of subscription for shares.

The Credit Union makes loans from the share capital of the Credit Union to members. The availability of loans to members is dependent on the availability of funds to the Credit Union from the Credit Union's share capital at any particular time. The Credit Union reserves the right to decline any application for a loan without giving any reason.

Subject to the provisions of the Friendly Societies and Credit Unions Act 1982, members operate their share accounts in a similar manner to savings and withdrawals in a passbook account. While shares are usually available to be withdrawn at call, the Rules of the Credit Union provide that a 60 day notice period for withdrawal may be required. Generally, withdrawals would not be available where such withdrawal of shares would reduce a member's paid-up shareholding in the Credit Union to less than the member's total liability (including any contingent liability) to the Credit Union.

Shares in the Credit Union are not transferable and the Credit Union may not issue to a member a certificate denoting ownership of a share. The Credit Union reserves the right to decline any application for share subscription without giving any reason.

A dividend may be paid on a member's share account; however the payment of a dividend is not guaranteed by the Credit Union. Any dividend is determined by the Directors of the Credit Union annually.

On every matter determined by a vote of members of the Credit Union each member is entitled to vote; however that member has one vote only, irrespective of the number of shares held by that member.

Members will be issued with statements of account at the end of September and March each year.

Life Savings Insurance to a maximum of \$20,000 is provided to members under the age of 65 years, free of charge to the member.

Special Accounts:

NIL

Investment Shares:

The Credit Union does not offer investment shares.

Credit Union may amend rates and terms offered

During the term of the Prospectus the Credit Union in its absolute discretion reserves the right to alter the rates or terms offered on any fund received, with the proviso that such changes apply to new funds or reinvestment of matured funds of any member and the member has been notified and agrees to the new terms or exercises an option to withdraw.

If any change takes place it shall be announced by the Credit Union and, if necessary, this Prospectus shall be amended.

Credit Rating

The Credit Union is required to have a credit rating from a rating agency approved by the Reserve Bank of New Zealand under section 157J of the Reserve Bank of New Zealand Act 1989.

International credit ratings agency Standard & Poor's (Australia Pty) Limited reaffirmed Manchester Unity Credit Union with B+/B Ratings; Outlook Stable on the 13th of December 2011. Securities rated in this category are not investment grade. An obligor rated 'B' is more vulnerable than other obligor's rated higher, but the obligor currently has the capacity to meet financial commitments. Adverse business, financial or economic conditions will likely impair the obligor's capacity or willingness to meet financial commitments.

A more comprehensive report of the current rating is available at www.standardandpoors.com or www.mucreditunion.co.nz

The general meaning of the Standard and Poor's Long-Term Credit Rating system is set out below:
AAA – An obligor rated 'AAA' has extremely strong capacity to meet its financial commitments, this is the highest issuer rating assigned by Standard and Poor's.

AA- An obligor rated 'AA' has very strong capacity to meet its financial commitments.

A – An obligor rated 'A' has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher rates categories

BBB – An obligor rated 'BBB' has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet financial commitments.

BB – An obligor rated 'BB' is less vulnerable in the near term than other lower rates obligors. However it faces major ongoing uncertainties and exposure to adverse business, financial or economic conditions which should lead to the obligor's inadequate capacity to meet its financial commitments.

B – An obligor rated 'B' is more vulnerable than the obligors rated 'BB' but the obligor currently has the capacity to meet its financial commitments. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitments.

CCC- An obligor rated 'CCC' is currently highly vulnerable.

R- An obligor rated 'R' is under regulatory supervision

SD- assigned when Standard and Poor's believes that the obligor has selectively defaulted on a specific issue or class of obligations.

NR – an issuer is not rated.

Credit ratings issued by Standard & Poor's Rating services are solely statements of opinion and not statements of fact or recommendations to purchase, hold or sell any securities or make any other investment decisions. Accordingly any user of credit ratings issued by Standard & Poor's Ratings Services should not rely on any such ratings or other opinions issued by Standard & Poor's Ratings Services in making any investment decision. Credit ratings may be changed, withdrawn or suspended at any time.

1.3 Guarantors

- a. There are no guaranteeing subsidiaries in respect of the securities. Neither the trustees of the Credit Union, the trustee of the securities appointed under the Securities Act 1978 nor any other party guarantees the repayment of the shares withdrawn or the payment of a dividend (if any) on shares held in the Credit Union.

2. DETAILS OF REGISTRATION OF ISSUER

The Manchester Unity Credit Union results from the passing of the Friendly Societies and Credit Unions Act 1982 which required the previous Manchester Unity Credit Union (registered on 3 May 1943, Registration No 425, as a "specially authorised Society" under the provision of the Friendly Society Act 1909) to register its branches as separate legal entities.

With the enactment of the Friendly Societies and Credit Unions Act 1982, the Credit Union under Section 160 (2) is deemed to now be registered under Part III of this latter Act.

The Credit Union was registered on 26 July 1985 as the Hawkes Bay District Manchester Unity Credit Union, with Registration No. 805. The name was changed to Manchester Unity Regional Credit Union on 1 April 1997 and changed to Manchester Unity Credit Union on 13 June 2006.

2.1 Public File of the Credit Union for Inspection:

The public file of the Credit Union may be searched on the Companies Office website www.companies.govt.nz under "Search other Registers" with reference number "1802888". Copies of documents not available on the website may be obtained by contacting the Ministry of Economic Development Business Service Centre at telephone 0508 266-726 or e-mail info@companies.govt.nz.

2.2 Documents available to Members:

Each member and prospective member is entitled to obtain on request and free of charge, the most recent copies of:

- (a) the Credit Union's Rules;
- (b) this Prospectus, the Investment Statement and the Trust Deed; and
- (c) the Credit Union's audited financial statements.

The documents may be requested during normal office hours from the offices of the Credit Union.

Office: 54 Clive Square East. Napier 4110
 Postal: PO Box 587, Napier 4140.
 Hours: Monday- Friday 9am to 4.30pm

2.3 Register of Members:

A register of the members of the Credit Union is kept at the registered office of the Credit Union specified in paragraph 1.1 of this Prospectus. The register is open to inspection during ordinary office hours by any member of the Credit Union. The Credit Union will not charge an inspection fee for producing the register .

2.4 Other Statutory Information:

- (a) The Prospectus delivered to the Registrar of Financial Service Providers was accompanied by the Auditors' Report together with their consent to the Report appearing in this Prospectus.
- (b) Application will not be made to the Stock Exchange for listing of any securities under this Prospectus.

3. NAMES, ADDRESSES AND OTHER INFORMATION

3.1 Directors:

Name and Address:	Title:	Occupation:	Qualification:
Mr J H Lowe 11 Eden Terrace WAIPUKURAU	Chairman	Manager	
Mr B Robinson 63 Napier Terrace NAPIER	Credit Union Trustee	Solicitor	LLB
Mr L L Searle Rotowhenua Road RD 2 NAPIER	Credit Union Trustee	Company Director	
Mr M C Plested 125a Chaucer Road North NAPIER	Credit Union Trustee	Valuer	FNZIV
Mr R C Hocking 18 Webb Place TARADALE	Treasurer	Administrator	BSc
Mr I R Fitchett 10 Hanmer Place PALMERSTON NORTH	Deputy Chairman	Manager	
Mr P L Haglund 47 Stackhouse Avenue CHRISTCHURCH	Director	Retired	

The members elect three directors to be Trustees of the Credit Union for the purposes of the Friendly Societies Credit Union Act.

3.2 General Manager/Securities Registrar/Secretary

Ms R Henderson
45a Park Road
NAPIER

3.3 Particulars of Directors and Officers:

The Directors are required to be members of the Credit Union.

Under Section 157L of the Reserve Bank Act no directors are employees of the Credit Union and do not, directly or indirectly, have a qualifying interest in more than 10% of the voting securities of the deposit taker or a related party.

All directors are considered independent as under section 106 (8) of the Friendly Societies and Credit Union Act every member shall be entitled to vote and shall have one vote only.

The Credit Union Trustees are elected by the members for three year terms with one retiring each year by rotation and eligible for re-election.

As at the date of this Prospectus the Directors of the Credit Union are:

John Lowe- Chairman

Involved in the Stock & Station industry for 21 Year, for the last 6 years as produce merchandise manager.

Currently manager of a plumbing, drainage, and roofing company for last 22 years in Waipukurau. John has been a member of Manchester Unity Friendly Society for 25 years and is a Trustee of Napier MUFS lodge.

Chairman of Manchester Unity Credit Union for last 10 years.

Grandmaster, Chairman, Trustee and director of Manchester Unity Friendly Society.

Blair Robinson – LLB – Credit Union Trustee

Commenced work with Willis Toomey Robinson in Napier in 1992

In 2009 established Napier law firm Lawson Robinson Ltd

Blair's areas of speciality are conveyancing, subdivisional developments, commercial law, trusts, wills and estates. He has substantial experience in these areas including representing financial institutions, security legislation compliance and in the property area advising and completing large scale subdivisions and developments.

Director of the Central District Cricket Association and solicitor to the Hawkes Bay Rugby Union.

Len Searle. ORS. Trade Certificate Company Director – Credit Union Trustee

First joined the Credit Union as a trustee in 1981 .He is a director of Searle Travel Ltd and a shareholder in First Travel Group Ltd, the largest Independent group of Travel Agents in New Zealand.

Prior to starting his own business, he was District Manager for the

New Zealand Automobile Association Inc. and a member of their management team. Len was

President of the New Zealand Amateur Athletic Association in 1981-1982 and managed various NZ Teams to International Meetings in many countries overseas.

Max Plested, VPU Registered Valuer – Credit Union Trustee

Max joined the Board of MUCU in 2000. He is a director of a local valuation practice Telfer Young (Hawkes Bay) Limited who are part of a New Zealand wide joint venture of independent registered valuers and property advisors. Max undertakes a wide variety of urban valuation work specialising in commercial, industrial and residential property. His experience dates from 35 years of public valuation practice and he is Consultant Valuer to the Napier City Council.

Max served on the Council of the New Zealand Institute of Valuers from 1994 till 2001 rising to Vice President of the Institute.

Ian Fitchett - Deputy Chairman – Fraternal Manager

Ian Fitchett joined Manchester Unity Credit Union in 1998 as Deputy Chairman. Ian has owned his own business and practised as a Chartered Accountant. Ian is currently employed by Manchester Unity Friendly Society as their Fraternal Manager/Secretary of the Order. Ian is involved with a number of Manchester Unity Branches and other community groups.

Richard Hocking – Treasurer – Bsc

Richard joined the board as treasurer in 1995. Richard was the Manager of the Napier branch of Manchester Unity Friendly Society from 1993 to 2011 having previously worked in the Business Services Division of Ernst & Young. He is currently the Financial Manager at Hukarere Girls School in Eskdale.

Paul Haglund – Advanced Trade Certificate in Telecommunications – Director

Paul was appointed to the Board in 2002 as the representative from the Manchester Unity North Canterbury District. Prior to the Transfer of Engagements of the North Canterbury District Credit Union, Paul was the Secretary, having filled that position from 1998. He was also a representative on the Manchester Unity Association of Credit Unions. Paul's background with Telecom and KPMG extended into Training, Quality Improvement and Strategic Planning of which knowledge and skills he brings to the Board. Paul is a Director of Manchester Unity Friendly Society having previously been Chairman and Grandmaster.

The General Manager, who is employed full-time, is a permanent appointment. The Treasurer is an annual appointment.

All Directors receive honoraria.

There are no restrictions on directors powers.

3.4 **Particulars of Trustees:**

In accordance with the Friendly Societies and Credit Unions Act 1982 all property belonging to the Credit Union is vested in the trustees (the present trustees being named in paragraph 3.1 above of this Prospectus) for the use and benefit of all persons claiming through the members of the Credit Union according to the Rules of the Credit Union.

The trustees of the Credit Union do not guarantee the repayment of shares withdrawn or the payment of a dividend on shares held in the Credit Union.

The Credit Union Trustees are

Blair Robinson

Len Searle

Max Plested

3.5 **Accountants:**

Gardiner Knobloch Ltd

Chartered Accountants

PO Box 145

Napier

3.6 **Auditor:**

Staples Rodway Hawkes Bay

Chartered Accountants

PO Box 46

Hastings

3.7 **Solicitors:**

Lawson Robinson

73 Raffles Street

Napier

Principal Blair Robinson is also a Credit Union Trustee. All transactions are undertaken on normal commercial terms. Where there is potential conflict of interest the Credit Union seeks independent advice.

3.8 **Trustee of the Securities Offered (the Securities Trustee):**

Perpetual Trust Ltd

187 Featherston Street

P O Box 3845

Wellington 6140

The Securities Trustee does not guarantee the repayment of shares (deposits) or dividends (interest)

4. MATERIAL CONTRACTS

There have been no material contracts entered into by the Credit Union in the two years preceding the date of this prospectus, other than;

4.1 Deed of Amendment

A Deed of Amendment and Restatement of Trust Deed was entered into between Manchester Unity Credit Union (formerly known as Manchester Unity Regional Credit Union) and Perpetual Trust Limited (together the "Parties") dated 1 December 2010. This amendment was registered with the Registrar of Credit Unions and Friendly Societies and is available at the address provided at 2.1 Public File of the Credit Union for Inspection.

5. PENDING PROCEEDINGS

There are no legal proceedings or arbitrations pending at the date this Prospectus was delivered to the Registrar of Financial Service Providers for registration.

6. PROVISIONS OF TRUST DEED AND RESTRICTIONS ON THE ISSUER

The Securities Trustee appointment and the parties' respective rights and obligations are recorded in a Trust Deed entered into by the parties dated 17th April 2001 as amended by Deed of Amendment and Restatement dated 1st December 2010, ("Trust Deed") and registered with the Registrar of Credit Unions and Friendly Societies.

There is no mortgage or charge in the Trust Deed that secures the shares being offered.

The Trust Deed contains terms that prescribe limitations relating to the ratio of reserves to assets of the Credit Union. These have substantially the same effect as a limitation on liabilities. The Credit Union is required to ensure that at all times it complies with the Deposit Takers (Credit Ratings, Capital Ratios and Related Party Exposures) Regulations 2010 and the Deposit Takers (Liquidity Requirements) Regulations 2010 (together "the Regulations") as amended from time to time and includes any regulations replacing those Regulations.

In accordance with the requirements of the Deposit Takers (Credit Ratings, Capital Ratios and Related Party Exposures) Regulations 2010 the Credit Union must ensure that its Capital Ratio is not less than 8%. The Capital Ratio is calculated by measuring the credit unions capital against specific weightings for credit, market and operational risk that the Credit Union is exposed to in the course of its business.

Related Party exposure is not to exceed a maximum ratio of 15% of the Credit Unions Capital calculated in accordance with the provision of Deposit Takers (Credit Ratings, Capital Ratios and Related Party Exposures) Regulations 2010. Related Parties include directors, senior management and relatives of directors or senior management.

Eligible Liquid assets are to be not less than 15% of share monies held by members in accordance with the Deposit Takers (Liquidity Requirements) Regulations 2010.

In addition to the restrictions required by the Regulations the Credit Union is also required to ensure that at all times:

- It maintains a general reserve in accordance with the Friendly Societies and Credit Unions Act 1982
- Total Liabilities will not exceed 95% of Total Assets
- Total Reserves comprise not less than 5% of Total Assets
- Cash is not less than 15% of its Total Assets
- The aggregate of Share Moneys is not at any time less than 95% of Total Liabilities.

The Credit Union is required to operate its business in accordance with its lending policy, which details the nature, terms and procedures adopted for lending by the Credit Union.

The Credit Union may not, without the prior written approval of the Securities Trustee or by special resolution,

Make or permit any change to the nature of its business which will or may materially affect its abilities to meet its obligations under the Trust Deed
 Charge any of its assets as security for indebtedness except as permitted by clause 6.2 (b) of the Trust Deed
 Amalgamate with any other Credit Union.

The Securities Trustee has a duty to members to exercise reasonable diligence to ascertain whether or not any breach of the Securities Act 1978, the terms of the Trust Deed or (to the extent that they relate to the terms of the offer of the shares) the Rules of the Credit Union has occurred, and except where it is satisfied that the breach will not materially prejudice interests of members, to do all such things as it is empowered by the Trust Deed to do, or cause any breach of those terms to be remedied. The Securities Trustee also has a duty to exercise reasonable diligence to ascertain whether or not the assets of the Credit Union that are or may be available are sufficient or likely to be sufficient for the Credit Union to meet its obligations to members as they become due in accordance with the Rules of the Credit Union and the terms of the issue of the shares.

In the performance of those duties the Securities Trustee may rely on the financial information, certificates and reports it receives from the Credit Union under the Trust Deed and has complete discretion in the exercise of any of its powers. Those powers include the ability to give directions to the Credit Union regarding its management and to refer matters to the Registrar of Friendly Societies and Credit Unions ("the Registrar") for his or her consideration as well as give waivers in whole or in part of the Credit Union's obligations under the Trust Deed. The Securities Trustee may also seek and act on directions of the members but is not bound to act on any such direction unless it is first indemnified to its satisfaction in respect of any liability it may incur.

In addition to its specific powers under the Trust Deed the Securities Trustee also has all powers conferred by law whether relating to trustee powers or otherwise.

The Trust Deed requires the Credit Union to comply with the Friendly Societies and Credit Unions Act 1982. Under section 109 of the Act there are several restrictions on the ability of the Credit Union to borrow. These are as follows:

Except as provided for in the Act, and notwithstanding anything to the contrary in the rules of the Credit Union, the Credit Union is not entitled to borrow money and no person is entitled to lend it money.

The Credit Union may receive accommodation by way of overdraft in aid of any account established with that Bank by the Credit Union. The account may be overdrawn for a term not exceeding 6 months at any one time, unless a longer term or an extension of an existing term is authorised in writing by the Registrar.

The Credit Union may borrow money from another credit union or credit unions or an Association of credit unions or, where the common bond for membership of the Credit Union is membership of a registered friendly society, that friendly society if its rules so provide, for any continuous period not exceeding one year at any one time unless a longer term or an extension of an existing term is authorised in writing by the Registrar.

The above is a summary only of the provisions of the Trust Deed and specific queries about matters relating to the Trust Deed should be dealt with by reference to the Trust Deed itself.

7. RANKING OF SECURITIES

The securities offered in this prospectus are not secured by a mortgage or charge over any of the assets of the Credit Union. As at the date of this prospectus the Credit Union has not created any mortgage or charge over any of its assets that ranks in point of security equally with or ahead of the securities being offered.

8. ISSUE EXPENSES

The Credit Union is exempted from disclosure by virtue of clause 5(c) of the Securities Act (Credit Unions) Exemption Notice 2010.

9. ACQUISITION OF BUSINESS OR SUBSIDIARY

No acquisition has been made in the two years preceding the date of this Prospectus.

The Manchester Unity Credit Union has no subsidiaries.

10. OTHER MATERIAL MATTERS

- a. Not a registered Bank: The Credit Union is not a registered bank in terms of the Reserve Bank of New Zealand Act 1989
- b. Regulatory Reform Bill: The Regulatory Reform Bill (the "Bill") aims to reduce compliance costs and the regulatory burden on business. The Bill will affect the Friendly Societies Credit Union Act if passed in its current form. It is likely that amendments to the rules and Trust Deed of the Credit Union will be required to comply with the Bill. The amendments proposed by the bill include the following:
 - i. Removing the maximum limit on members shareholding
 - ii. Removing the requirement that Credit Unions only accept deposits by way of subscription for share and enabling credit unions to issue other types of securities
 - iii. Remove statutory restrictions on the ability of Credit Unions to borrow money, but linking these restrictions as may be in the Rules and the Trust Deed;
 - iv. Removing limitations on the amount and the term of the loan Credit Unions make to their members
 - v. Removing the restriction that Credit Unions may only hold land for the purpose of conducting their businesses
 - vi. Requiring the provisions dealing with the investment of surplus funds to be as prescribed by a Credit Unions rules and Trust Deed.
 - vii. Removing the requirement to maintain a general reserve.

There are no terms of the offer not elsewhere set out in this prospectus, other than those:

- a) implied by law; or
- b) set out in a document that:
 - I. is registered with a public official; and
 - II. is available for public inspection; and
 - III. is referred to in the registered prospectus.

10.1 Breaches of the Reserves and Debt Ratios of the Trust Deed

For the periods 31 October 2008 to 31 January 2009 and 31 March 2009 to 31 May 2009 the Credit Union was in breach of clauses 5.1(a), 5.1(b) and 5.1(c) of the Trust Deed under which the Credit Union undertakes to the Securities Trustee that it will, unless otherwise authorised in writing by the Securities Trustee, maintain the following:

- 5.1(a) Debt Ratio: Total Liabilities will not at any time exceed 95% of Total Assets
- 5.1(b) Reserves Ratio: Total Reserves will not at any time be less than 5% of Total Assets
- 5.1(c) Statutory Reserves: It maintains at all times a general reserve in accordance with Section 119 of the Friendly Societies and Credit Unions Act 1982.

The breaches of the covenants of the Trust Deed were the result of a number of factors including an unusually large inflow of members' funds and a change in the accounting treatment of the Credit Union's fixed term investments.

Following recognition of the breaches the Board of Directors immediately established a plan to remedy the breach by increasing the retained earnings of the Credit Union. The Securities Trustee continued to work with the Credit Union and monitor performance during the period of breach.

As a result of those actions the Credit Union attained compliance with the covenants of the Trust Deed on 31 May 2009.

On 20 August 2009 the Securities Trustee provided its consent to waive the breach of clauses 5.1 (a), 5.1 (b) and 5.1 (c) of the Trust Deed to 31 May 2009 conditional upon the Credit Union continuing to provide at least monthly financial information in order that ongoing monitoring of the forecast may be undertaken by the Securities Trustee. Full compliance has been maintained since then.

In the year to 31 March 2010 the Auditor's report to the Trustee identified that an unsecured loan of \$19,151 had been identified as being in Breach of the Credit Union's rules and lending policy. The breach related to the release of security in error when an accompanying loan was repaid in 2006. The breach was rectified in January 2010. Since this date compliance with the Rules and Trust Deed have been maintained.

11. OTHER TERMS OF OFFER AND SECURITIES

Some provisions of the Act make an investment in a Credit Union unique. Section 114 of the Act requires officers of a credit union to give security for the proper performance of their duties. The Obligations of the officers of the Credit Union are secured by an Insurance policy held with Vero, The Credit Union is also required to be insured against fraud or dishonesty. The Credit Union has an insurance policy with Vero in compliance with its obligations under the Act.

11.1 Risks

(1) 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 borrowers fail to repay their loans.

Loans can be made only to Credit Union members. Loan interest rates range from 6.15% to 20.25% (2010 6.65% to 15.25% 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 member's shares. The Credit Union has established policies and procedures for

- Credit assessment and approval of loans covering, acceptable risk assessment and security requirements
- Limits of exposure over the value to individual borrowers, non-mortgage secured loans, concentrations to geographic or 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 impairment of loans
- Debt recovery procedures
- Review of compliance with the above policies

The Credit Union manages credit risk by:

- Limiting the amount which may be advanced to any one member to \$310,000 for secured lending
- Limiting the amount which may be advanced to any one member for unsecured lending to \$10,000.
- Requiring a minimum equity of 20% from the borrower for residential properties.
- Limiting loans on commercial properties to 60% of valuation.
- Taking adequate security for the loans, usually by registered mortgage.
- Regular monitoring and review of loans in arrears.
- Establishing appropriate provisions where applicable to recognise the impairment of loans

(2) Credit Risk – Debt Securities and cash and cash equivalents

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 to the Credit Union.

The Board policy is to place the investments with New Zealand Registered Banks or in debt securities recommended by an Authorised Financial Adviser.

Credit Risk – Credit Rating

The credit rating has identified the following areas of weakness due to the size of the Credit Union and the nature of operations

- Key person Risk
- Limited Governance Capability
- Weak business position
- Weak risk positions
- Below average funding

Strengths of the Credit Union highlighted in the report are

- strong capital and earnings and
- adequate liquidity

The full credit rating report is available on our website – www.mucreditunion.co.nz

(3)Geographic Risk

The majority of savings and loans held by the credit union are held by members in Hawkes Bay. There is a risk that economic events may adversely affect Hawkes Bay. The nature of the Credit Union activities is such that transactional banking services, such as debit cards, cheque books and online internet activities are not offered to members. Services are primarily savings and loans.

As at the 30th of September 2011 the % of loans and members funds held by area is

	Hawkes Bay	Rest of New Zealand
Loans to members	70%	30%
Members Funds	61%	39%

4) Taxation

An investment in shares in the Credit Union will have taxation implications. The effect of taxation will vary according to each member's personal circumstances. Prospective existing members are encouraged to obtain independent professional advice on their personal circumstances.

(5) Insolvency

The main risk to members in investing in shares in the Credit Union is if the Credit Union was to become insolvent. The Credit Union could become insolvent and/or be wound up where a significant amount of the loans due for repayment remain unpaid for an extended period of time, or where as a result of the risks stated or otherwise, the Credit Union is for any reason unable to pay its debts as they fall due. 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.

(6) Interest Rate Risk

Interest rate risk is the risk that the fair values or future cash flows of a financial instrument will fluctuate because of changes in market interest rates

The Credit Union manages interest rate risk by:

- Regularly reviewing the interest rate paid on members' call and term shares. Term shares have been available since September 2010.
- Monitoring the interest rates available from short-term deposits and utilising the best rates available after assessing the forecast requirements.
- Regularly reviewing the interest rate charged on loans to members.

There is exposure to fair value interest rate risk, which is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Credit Union performs sensitivity analysis to measure market risk exposures. The method used in determining the sensitivity is to evaluate the profit based on the timing of the interest repricing on the lending book of the Credit Union for the next year. In doing the calculation the assumptions applied are that:

- The interest rate change would be applied in accordance with the repricing profile
- The rate change would be as at the beginning of the period and no other rate changes would be effective during the period.
- All loans would be repaid in accordance with the contractual repayment terms and replaced with loans of a similar rate and term.
- The term deposits would all reprice to the new interest rate at the term maturity, or be replaced by deposits with similar terms and rates applicable.
- 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.
- No change in basis risk.

(7) Members' returns

The rate of return on members' shares is dependent on annual surpluses being earned through the ongoing profitability of the Credit Union. The rate of return on the members' shares is therefore dependent on the ability of the board and senior management of the Credit Union to prudently manage the Credit Union and generate an operating surplus for its members. Should the Credit Union's profitability be threatened then the Credit Union may reduce the rate of return on member's shares or may even pay no return on member's shares. Current returns to members for on call and term shares are available by contacting the credit union on 0800 68 28 48 or www.mucreditunion.co.nz

(8) General market risk

Like all businesses, the financial performance of the Credit Union may be affected by the state of the New Zealand and international economies. Economic slowdowns will generally have a negative impact on demand for goods and services and thus, income, which may in turn adversely affect a member's ability to invest in shares in the Credit Union and to meet his or her loan payment obligations to the Credit Union. This in turn may affect the profitability of the Credit Union and returns paid to members.

(9) Risk of Non Compliance with Prudential Requirements of Non-Bank Deposit Takers

Manchester Unity Credit Union is subject to the following prudential requirements of the non-bank deposit taker legislation

I. Credit Rating

The Credit Union is required to have a credit rating from a rating agency approved by the Reserve Bank of New Zealand under section 157J of the Reserve Bank of New Zealand Act 1989.

International credit ratings agency Standard & Poor's (Australia Pty) Limited reaffirmed Manchester Unity Credit Union with B+/B Ratings; Outlook Stable on the 13th December 2011. Securities rated in this category are not investment grade. An obligor rated 'B' is more vulnerable than other obligors rated higher, but the obligor currently has the capacity to meet financial commitments. Adverse business, financial or economic conditions will likely impair the obligor's capacity or willingness to meet financial commitments.

A more comprehensive report of the current rating is available www.standardandpoors.com or www.mucreditunion.co.nz

The general meaning of the Standard and Poor's Long-Term Credit Rating system is set out below:
 AAA – An obligor rated 'AAA' has extremely strong capacity to meet its financial commitments, this is the highest issuer rating assigned by Standard and Poor's.

AA- An obligor rated 'AA' has very strong capacity to meet its financial commitments.

A – An obligor rated 'A' has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher rates categories

BBB – An obligor rated 'BBB' has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet financial commitments.

BB – An obligor rated 'BB' is less vulnerable in the near term than other lower rates obligors. However it faces major on-going uncertainties and exposure to adverse business, financial or economic conditions which should lead to the obligor's inadequate capacity to meet its financial commitments.

B – An obligor rated 'B' is more vulnerable than the obligors rated 'BB' but the obligor currently has the capacity to meet its financial commitments. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitments.

CCC- An obligor rated 'CCC' is currently highly vulnerable.

R- An obligor rated 'R' is under regulatory supervision

SD- assigned when Standard and Poor's believes that the obligor has selectively defaulted on a specific issue or class of obligations.

NR – an issuer is not rated.

Credit ratings issued by Standard & Poor's Rating services are solely statements of opinion and not statements of fact or recommendations to purchase, hold or sell any securities or make any other investment decisions. Accordingly any user of credit ratings issued by Standard & Poor's Ratings Services should not rely on any such ratings or other opinions issued by Standard & Poor's Ratings Services in making any investment decision. Credit ratings may be changed, withdrawn or suspended at any time.

- II. Minimum capital ratio is to maintained at not less than 8%
- III. Exposure to related parties is to not aggregate more than 15% of capital
- IV. Quantative Liquidity Requirements, Eligible liquid assets are to be not less than 15% of Share Monies held by Members
- V. Comply with a Risk Management Programme that meets the Requirements of the Reserve Bank Act 1989

The risk of noncompliance is that the Securities Trustee may require remedial action to be taken or for application to be made to the Registrar of Friendly Societies and Credit Union for the winding up the Credit Union.

The Credit Union is required to provide to the Securities Trustee 6 monthly unaudited financial accounts and annual audited financial statements prepared in accordance with generally accepted accounting standards.

The Trust Deed also requires that the Directors provide a monthly certificate to the Securities Trustee detailing the Credit Unions compliance with the ratios set out in the Trust Deed

The Trust Deed gives the Securities Trustee wide ranging powers to enforce the Credit Unions obligations under the Trust Deed. Member's requiring additional information on the covenants and enforcement powers of the Securities Trustee are referred to the Trust Deed, a copy of which is lodged with the Companies office, whose website is www.business.govt.nz/companies or by contacting the Credit Union during office hours.

(10) Liquidity Risk

Liquidity risk is the risk that the Credit Union may encounter difficulties raising funds to meet commitments associated with financial instruments, e.g. borrowing repayments. It is the policy of the Board of Directors that the Credit Union maintains adequate cash reserves so as to meet member withdrawal demands when requested. The majority of member's funds are held on call and as such and are able to be withdrawn without notice.

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 cash reserves.
- Regularly monitoring loan repayments and comparing to forecast cash flows.

The Credit Union's policy is to maintain at least 20% of total assets as liquid assets capable of being converted to cash within 7 days. (Statutory minimum requirement is 15% of Eligible Liquid Assets) 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 Credit Union also has the right at any time to require a sixty day notice period for repayment of members shares.

(11) Operational Risk

Relates to those risks arising from a number of sources including legal compliance, business continuity, data infrastructure and outsourced service failures, and employee errors and fraud. These risks are managed through the implementation of policies and systems to monitor the likelihood of the events and minimise the impact.

(12) Security pricing risk

Before making a loan the Credit Union assesses the debt servicing ability of the members and any security offered by him or her for a loan advance. Where security is taken for a loan advance, the value of the securities taken may fluctuate due to market prices for the same. If the market price of a security has decreased then it is possible that the Credit Union will not recover all moneys owed to it by a member in a default situation where it seeks to realise that security. The Credit Union manages this risk by limiting the maximum amount a member can borrow against the value of the security offered.

(13) Risk and return

Before making an investment in shares, members and prospective members should consider the special trade factors and risks for that investment against the returns offered. Investors should be aware that there is a direct relationship between the risks of the investment and the return offered.

12. SUMMARY OF FINANCIAL STATEMENTS

The reports required by clause 8 of the Second Schedule of the Securities Regulations 2009 where applicable are set out below.

12.1 Summary Statement of Comprehensive Income (\$000's):

	NZ-IFRS					Previous GAAP
	31.3.11	31.3.10	31.3.09	31.3.08	31.3.07	31.3.07
Revenue	3,184	3,203	4,150	4,221	3,932	3,921
Finance Costs	(1,259)	(1,275)	(3,053)	(3,282)	(3,104)	(3,104)
Other Expenses	(1,757)	(1,387)	(1,150)	(936)	(876)	(865)
	—	—	—	—	—	—
Profit (Loss)	168	541	(53)	3	(48)	(48)
Other Comprehensive Income	139	190	(228)	(217)	(37)	0
	—	—	—	—	—	—
Total Comprehensive Income	307	731	(281)	(214)	(85)	(48)
	==	==	==	==	==	==

12.2 Summary Statement of Changes in Equity (\$000's):

	NZ-IFRS					Previous GAAP
	31.3.11	31.3.10	31.3.09	31.3.08	31.3.07	31.3.07
Equity at 1st April	3,218	2,272	2,553	2,681	2,692	2,673
Total Comprehensive Income	307	731	(281)	(214)	(85)	(48)
Equity from Amalgamation	0	215	0	86	74	74
	—	—	—	—	—	—
Equity at 31st March	3,525	3,218	2,272	2,553	2,681	2,699
	==	==	==	==	==	==

12.3 Summary Statement of Financial Position (\$000's):

	NZ-IFRS					Previous GAAP
	31.3.11	31.3.10	31.3.09	31.3.08	31.3.07	31.3.07
Cash and Cash Equivalents	7,664	7,443	5,381	2,256	3,092	3,211
Short Term Investments	5,547	5,803	8,062	6,589	8,162	8,100
Trade and other receivables	6	8	6	19	6	5
Loans to Members	33,254	36,112	35,997	38,251	34,782	34,782
Available for Sale Debt securities	801	1002	917	3,558	4,499	4,469
Held to Maturity Debt Securities	2,193	2,136	1,076	-	-	-
Property Plant and Equipment	398	255	75	76	76	76
Total Assets	49,863	52,759	51,514	50,749	50,617	50,634
Trade & other Payables	351	524	123	694	82	82
Members Deposits	45,987	49,016	49,119	47,502	47,853	47,853
Total Liabilities	46,338	49,541	49,242	48,196	47,935	47,935
Total Reserves	3,525	3,218	2,272	2,553	2,682	2,699

12.4 Summary Statement of Cashflows (\$000's):

	NZ-IFRS					Previous GAAP
	31.3.11	31.3.10	31.3.09	31.3.08	31.3.07	31.3.07
Opening Cash and Cash Equivalents	7,443	5,380	2,256	2,944	796	796
Cash from Operating Activities	237	770	(499)	639	0	124
Cash from Investing Activities	(16)	3,156	2,006	(536)	2,299	2,159
Cash from Financing Activities	0	(3,497)	1,617	(1,850)	(299)	(299)
Cash Received upon Amalgamation	0	1,634	0	1,059	148	148
	—	—	—	—	—	—
Closing Cash and Cash Equivalents	7,664	7,443	5,380	2,256	2,944	2,928
	====	====	====	====	====	====
Date full financial statements authorised for issue by Directors	28/06/11	28/06/10	28/07/09	30/06/08	14/06/07	14/06/07

12.5 Notes to Five Year Summary of Financial Statements:

- (i) The amounts stated, other than the NZ-IFRS restated figures for 2007, have been taken from the audited financial statements. Transition to New Zealand equivalents to International Financial Reporting Standards (NZ-IFRS) from 1 April 2007 required the re-statement of 31 March 2007 figures, and these are shown as comparatives in the 31 March 2008 financial statements. The only significant change as a result of transition was the revaluation of negotiable fixed interest securities to market value with consequent reductions in total assets and equity. The expression "Previous GAAP" refers to the Financial Reporting Standards and Statements of Standard Accounting Practice applicable in New Zealand prior to the adoption of NZ-IFRS. The full year financial statements were audited and received unqualified opinions, although the report for 2009 contained reference to a fundamental uncertainty following the breach of trust deed ratios.
- (ii) These summary financial statements comply with FRS 43 and are presented in New Zealand dollars rounded to the nearest thousand dollars.
- (iii) A change in accounting policies took place from 1 April 2009, in that certain debt securities were recognised as "held to maturity" rather than "available for sale". The difference between the carrying value at 31 March 2009 and the face value of these securities was transferred from "Available for Sale Reserve" to "Held to Maturity Reserve" and is being amortised over the period to maturity for each investment. Available for sale financial assets continue to be reported at fair value.
- (iv) There are no abnormal items that derive from the ordinary activities of the Credit Union.
- (v) There are no extraordinary items that derive from events outside the ordinary activities of the Credit Union.
- (vi) No amounts have been provided for or credited by way of taxation as the Credit Union income is exempt under Section CW 44 of the Income Tax Act 2007.
- (vii) The amount provided for dividends on ordinary shares is credited to members' share accounts as at balance date and is available for withdrawal by the member at any time in the same manner as any share subscription paid by the member. For the purposes of this Prospectus such dividends are stated as "interest expense".
- (viii) The equity method of accounting has not been used.
- (ix) No commission is payable in respect of this issue of the Credit Union's shares.
- (x) "Other Comprehensive Income" comprises rent, commissions, movement in the Available for Sale Reserve and management fees received plus, in 2008, a distribution from the NZ Friendly Societies Fidelity Guarantee Association.
- (xi) There are no contingent liabilities
- (xii) The full financial statements have been prepared in accordance with New Zealand generally accepted accounting practice, as appropriate for public benefit entities. Manchester Unity Credit Union does not qualify for differential reporting.
- (xiii) Manchester Unity Credit Union made an explicit and unreserved statement of compliance with IFRS in its full financial statements for the years ended 31st March 2009 to 2011, and with NZ IFRS for the year ended 31st March 2008.
- (xiv) These summary financial statements cannot be expected to provide as complete an understanding as provided by the full financial statements.
- (xv) These summary financial statements were authorised for issue by the directors on 28th June 2011.

12. FINANCIAL STATEMENTS

The latest audited financial statements for the Credit Union, covering the year ended 31 March 2011, that comply with the Financial Reporting Act 1993 have been registered on 5 July 2011. They are available for inspection on the Companies Office website as detailed on page 5.

13. DIRECTORS' STATEMENT

The Directors having made due inquiry in relation to the period between the date of the latest Statement of Financial Position set out in this prospectus and the date this Prospectus was delivered to the Registrar of Companies for registration are of the opinion that no circumstances have arisen that materially adversely affect the trading or profitability of the Credit Union or the value of its assets or the ability of the Credit Union to pay its liabilities due within the next twelve (12) months.

_____ B Robinson

_____ M C Plested

_____ L L Searle

_____ R C Hocking

_____ I R Fitchett

_____ J H Lowe

_____ P L Haglund