

# **AWA Credit Union Ltd**

*Australia Wide Alumina & Aluminium*

*A different kind of banking*

**ABN 31 087 651 652**

**Incorporated in Australia**

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**2011 ANNUAL FINANCIAL REPORT**

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**Registered Office:**

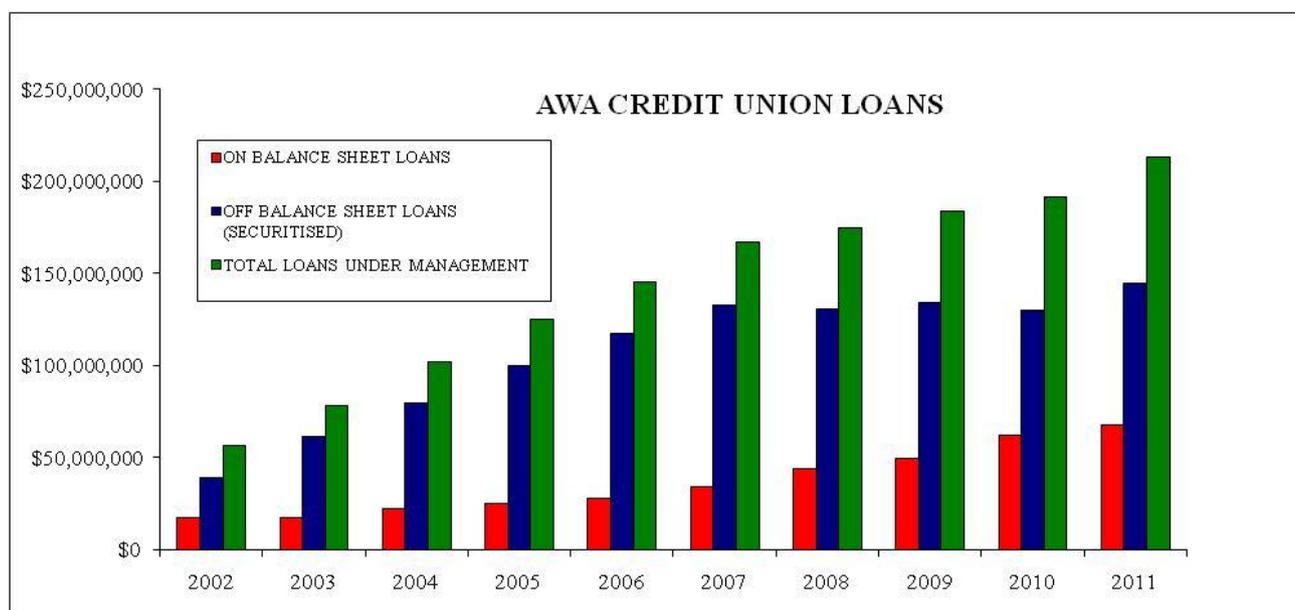
POINT HENRY ROAD  
GEELONG VIC 3220  
(03) 52 451739

## **CHAIRMAN'S REPORT**

I once again have great pleasure presenting to you AWA's (42<sup>nd</sup>) Annual Report. This Report portrays another strong financial and operational performance by your Credit Union and leaves us well placed to confront the many challenges that continue to present themselves in an ever evolving financial market place.

### Financial

Despite strong competition in the financial services market, AWA has continued to achieve significant growth in its overall lending portfolio, particularly its off-balance sheet (securitised) loans. Due to the demand for loans significantly outstripping the growth in retail deposits and wholesale funding, the great majority of our loans are being on-sold into the industry owned securitisation vehicle.



During 2010/11 AWA settled a record of \$60.4m of loans. This resulted in very strong growth in the off-balance sheet loans portfolio from \$129.9 m to \$146 m at the end of the financial year. When combined with the on-balance sheet loans portfolio of \$66.8 m, this equates to total loans under management as at 30 June 2011 of \$212.8 million.

Although AWA's funding (Deposits from members, Deposits from other institutions and Short term borrowings) grew from \$76.3 m to \$80.2 m during the year (as stated earlier), this was not sufficient to satisfy our overall loan demand.

The profit result for 2010/11 of \$681,687 was considered a very good result (despite not exceeding the record result of \$730,227 in 2009/10) due to the extent of one-off merger costs which impacted the 2010/11 result. In fact the underlying performance in 2011 well exceeded the 2010 result if you back out the one-off (negative) merger costs incurred in 2011 and the one-off (positive) revenues earned in 2010.

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To further emphasise the satisfactory nature of this result, the Board were able to increase the margin by which our standard variable mortgage loan rate undercuts the average of the four major banks from 0.75% to 0.80% with effect from 1 December 2010.

### The Past Year

Although not complete at the end of the 2011 financial year, two very significant projects, which have consumed considerable financial and human resources, have been underway for a good proportion of the year.

The first of these was the merger with Geelong and District Credit Co-operative Society (G&DCC), which occurred successfully with minimal disruption to members, on 1 August 2011. We welcome all existing members of G&DCC to AWA and guarantee that we will use our best endeavours to satisfy all of your banking needs. We hope that you see the benefits of taking up the much wider range of products that we offer and in particular take advantage of the convenience provided by our range of remote access products.

The second project saw the opening on 1 August 2011 of our new branch at 34A Malop Street which is centrally located in the Geelong CBD. We are now well placed to provide a much better service offering to all of our Geelong members (ie new G&DCC and pre-existing AWA members). We are very pleased with the final result and look forward to welcoming members into this new environment.

### Staffing

We have seen our first staff departures at AWA in well over a decade with Natalie Myers leaving our Mandurah office in June 2011, to relocate to Port Douglas in far north Queensland. We wish Natalie and her family all the best with their new life in the north of Australia.

After 16 years with AWA we were very sad to see Sue Trezise retire from our Portland office in July 2011. Sue has been an outstanding performer for us over this entire period and will be sadly missed by staff and members alike. We also wish Sue well in this new chapter in her life and already have regular feedback confirming that she is very much enjoying her travels around the country.

In April 2011 we welcomed Cara Bongiorno as a new trainee to our Point Henry office. Cara has settled in well and we hope that she has a long and happy career with AWA.

### The Future

As indicated in our achievements of the past year, AWACU's current performance continues to be quite sound however it would be remiss of us to rest on these laurels without continually seeking business improvement that will ensure our long term sustainability. Those of you present at last year's AGM may recall that we spoke of our participation with a group of credit unions exploring the possibility of aggregating our service needs to obtain economies of scale thereby reducing our operating costs.

At the risk of covering old ground, over recent years we have had to continually cope with the seemingly never ending challenges of the GFC, increased

regulatory compliance, increased competition with the major banks, the pursuit of cost effective funding and the building of capital.

Smaller credit unions in particular, have found the going just too tough and some have elected to seek solace in the arms of a bigger credit union through a business merger. Whilst this approach ensures the business remains in credit union world and the member continues to be served at optimum levels, the downside is; the merging credit union more often than not loses its identity.....forever.

In confronting our business challenges we too have given passing thought to the merger option but to date we've elected to be proactive and pursue alternative strategies that will ensure our ability to maintain our individual identity. For almost two years now we have actively participated in discussions with a number of similar minded credit unions in the investigation of options that will ensure our individual viability and continued control over the member relationship (including product pricing) without having to merge with a larger institution and lose our identity.

Discussions to date have been robust, realistic, perhaps even outside the box but have never been allowed to stray from our collective commitment to ensuring that we continue to build upon member value.

Currently, a small number of credit unions have entered into a confidential and exclusive Memorandum of Understanding with a potential Strategic ADI Partner to conduct a detailed Feasibility Study. Discussions with this ADI have been engaging, well developed and there is a high degree of enthusiasm and commitment to progress through the Feasibility Study.

Our focus is on building a model which we believe is a real and viable option for credit unions to remain relevant in the changing environment, promoting long term sustainability without having to merge yet also progressing the credit union ethos and being a real banking alternative to the majors.

I emphasise that we still have a lot of work to undertake before being able to put a potential option before members, but obviously it is important to continue to ensure members are kept informed on developments. Presuming these investigations prove the potential of this option, I expect you will find it to be as exciting as we do.

#### In Summary

I would like to thank my fellow Board members and our staff for their continued support during the past financial year. From a resourcing perspective it has been a challenging year and their efforts have resulted in an outstanding result for your Credit Union.



Brian Virtue  
Chairman

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### **DIRECTOR'S REPORT**

Your directors present their report on the credit union for the financial year ended 30 June 2011.

The credit union is a company registered under the Corporations Act 2001.

### **INFORMATION ON DIRECTORS**

The names of the directors in office at any time during or since the end of the year are:-

<b>Name</b>	<b>Qualifications</b>	<b>Experience</b>
Brian R Virtue Chairman	MAMI Retired HR Consultant	Member of the Board of Directors since 1971 (resigned 1973, re-elected 1982), Chairman since 1983, Member of the Audit Committee.
Peter Richardson Vice-Chairman	B Comm, CPA, Dip Tm, Grad Dip Tax, MAMI Self-employed Contractor	Member of the Board of Directors since 1996, Vice-Chairman since 2002, Chairman of the Audit Committee.
Richard P Lyle Director	B Comm, CPA, MAMI Point Henry Controller – Alcoa World Alumina Australia	Member of the Board of Directors since 2000 (resigned 2001, re-elected 2005).
Brett J Noonan Director	Grad Dip Bus, MAMI Union Steward – Alcoa World Alumina Australia	Member of the Board of Directors since 2001.
Warwick J Peel Director	MAMI Production Supervisor – Alcoa Australia Rolled Products	Member of the Board of Directors since 1992
Stevern J Ward Director	MAMI Work Execution Co- ordinator – Alcoa World Alumina Australia	Member of the Board of Directors since 2006.
Christopher Welsh Director	B Comm, CPA, MAMI Senior Compliance Advisor – Alcoa World Alumina Australia	Member of the Board of Directors since 2003, Member of the Audit Committee.

The name of the Company Secretary in office at the end of the year is:-

<b>Name</b>	<b>Qualification</b>	<b>Experience</b>
Graeme N Scannell Secretary/Manager	B Comm, CPA, AFAMI	Manager of the Credit Union since 1991, Secretary of the Credit Union since

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**Directors' Meeting Attendance**

H = Meetings held in the period of appointment A=Attended

Director	Board		Strategic Planning		Audit Committee		Period of Appointment
	H	A	H	A	H	A	
Brian R Virtue	12	10	1	1	1	1	Full Year (B) Part Year (AC)
Peter Richardson	12	11	1	1	3	3	Full Year
Richard P Lyle	12	11	1	1	2	2	Full Year (B) Part Year (AC)
Brett J Noonan	12	10	1	1	-	-	Full Year
Warwick J Peel	12	11	1	1	-	-	Full Year
Stevern J Ward	12	11	1	1	-	-	Full Year
Christopher Welsh	12	11	1	1	3	3	Full Year

Director	Remuneration Committee		Director & Board Assessment Committee		Period of Appointment
	H	A	H	A	
Brian R Virtue	1	1	1	1	Full Year
Peter Richardson	1	1	1	1	Full Year
Richard P Lyle	-	-	-	-	Full Year
Brett J Noonan	-	-	-	-	Full Year
Warwick J Peel	-	-	-	-	Full Year
Stevern J Ward	-	-	-	-	Full Year
Christopher Welsh	1	1	1	1	Full Year

**DIRECTORS' BENEFITS**

No director has received or become entitled to receive during, or since the financial year, a benefit because of a contract made by the credit union with a controlled credit union, a body corporate related to a director, a firm of which a director is a member or a credit union in which a director has a substantial financial interest.

**INDEMNIFYING OFFICER OR AUDITOR**

Insurance premiums have been paid to insure each of the directors and officers of the credit union, against any costs and expenses incurred by them in defending any legal proceedings arising out of their conduct whilst acting in their capacity as an officer of the credit union. In accordance with normal commercial practice disclosure of the premium amount and the nature of the insured liabilities is prohibited by a confidentiality clause in the contract.

No insurance cover has been provided for the benefit of the auditors of the credit union.

## **FINANCIAL PERFORMANCE DISCLOSURES PRINCIPAL ACTIVITIES**

The principal activities of the credit union during the year were the provision of retail financial services to members in the form of taking deposits and giving financial accommodation as prescribed by the Constitution.

No significant changes in the nature of these activities occurred during the year.

## **OPERATING RESULTS**

The net profit of the credit union for the year after providing for income tax was \$681,687 (2010 \$730,227).

## **DIVIDENDS**

No dividends have been paid or declared since the end of the financial year and no dividends have been recommended or provided for by the directors of the credit union.

## **REVIEW OF OPERATIONS**

The results of the credit union's operations from its activities of providing financial services to its members did not change significantly from those of the previous year.

## **SIGNIFICANT CHANGES IN STATE OF AFFAIRS**

There were no significant changes in the state of affairs of the credit union during the year.

## **EVENTS OCCURRING AFTER BALANCE DATE**

No matter or circumstance has arisen since the end of the financial year which significantly affected or may significantly affect the operations, or state of affairs of the credit union in subsequent financial years other than a merger which has occurred with Geelong and District Credit Co-Operative Society Limited (G&DCC) with effect from the 1 August 2011. The value of total assets of G&DCC at this date were \$6,966,417.

## **LIKELY DEVELOPMENTS AND RESULTS**

No matter, circumstance or likely development in the operations has arisen since the end of the financial year that has significantly affected or may significantly affect:-

- (i) The operations of the credit union;
- (ii) The results of those operations; or

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(iii) The state of affairs of the credit union

in the financial year subsequent to this financial year.

**AUDITORS' INDEPENDENCE**

The auditors have provided the declaration of independence to the board as prescribed by the Corporations Act 2001 as set out on page 9.

**ROUNDING**

The amounts contained in the financial statements have been rounded to the nearest one thousand dollars in accordance with ASIC Class Order 98/100 (as amended by 06/51). The credit union is permitted to round to the nearest one thousand (\$'000) for all amounts except prescribed disclosures which are shown in whole dollars.

This report is made in accordance with a resolution of the board of Directors and is signed for and on behalf of the directors by:



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Brian R Virtue  
Chairman



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Peter Richardson  
Vice-Chairman

Dated: 20 October 2011



## Auditor Independence Declaration Under S 307C of the *Corporations Act 2001* To The Directors Of AWA Credit Union Ltd

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2011 there have been:

1. no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
2. no contraventions of any applicable code of professional conduct in relation to the audit.

**CROWE HORWATH**

A handwritten signature in black ink, appearing to read "John J Gavens".

**John J Gavens**  
Geelong Victoria

Dated this...<sup>20<sup>th</sup></sup>...day of October 2011

## **DIRECTORS DECLARATION**

The directors of AWA Credit Union Limited declare that:-

The financial statements comprising Balance Sheet, Comprehensive Statement of Income, Statement of Changes in Members' Equity, Statement of Cash Flows, accompanying notes and notes related thereto, are in accordance with the Corporations Act 2001, and:-

- (a) comply with Australian Accounting Standards and Corporations Regulations 2001; and
- (b) give a true and fair view of the financial position of the credit union as at 30 June 2011 and performance for the year ended on that date.

In the directors' opinion there are reasonable grounds to believe that the credit union will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the board of Directors.



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Brian R Virtue  
Chairman

Dated: 20 October 2011



## Independent Auditor's Report to the Members of AWA Credit Union Limited

### Report on the financial report

We have audited the accompanying financial report of AWA Credit Union Limited, which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, statement of changes in members' equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

### Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

### Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Credit Union's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



## Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of AWA Credit Union Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

## Opinion

In our opinion:

(a) the financial report of AWA Credit Union Limited is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the company's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

*Crowe Horwath*

**CROWE HORWATH**

A handwritten signature in black ink, appearing to read "John Gavens", written over the printed name.

**John Gavens**

Geelong, Victoria

Dated this <sup>24<sup>th</sup></sup> day of October 2011

**COMPREHENSIVE STATEMENT OF INCOME  
 FOR YEAR ENDED 30 June 2011**

	Note	2011 \$'000	2010 \$'000
Interest revenue	2.a	6,319	4,666
Interest expense	2.c	3,983	2,429
<b>Net interest income</b>		<u>2,336</u>	<u>2,237</u>
Fee commission and other income	2.b	1,923	1,676
		<u>4,259</u>	<u>3,913</u>
<b>Non interest expenses</b>			
Impairment losses on loans receivable from members	2.d	40	26
General administration			
- Employees compensation and benefits	2.f	944	813
- Depreciation and amortisation	2.f	85	110
- Information technology		374	334
- Office occupancy		50	41
- Other administration		1,801	1,575
<b>Total non interest expenses</b>		<u>3,294</u>	<u>2,899</u>
Profit before income tax		<u>965</u>	<u>1,014</u>
Income tax expense	3	283	284
<b>Profit after income tax</b>		<u>682</u>	<u>730</u>
Other comprehensive income		-	-
<b>Total comprehensive income for the year</b>		<u>682</u>	<u>730</u>

The accompanying notes form part of these financial statements

**BALANCE SHEET**  
**AS AT 30 June 2011**

	Note	2011 \$'000	2010 \$'000
<b>ASSETS</b>			
Cash	4	167	202
Receivables from financial institutions	5	22,805	22,719
Receivables	6	566	500
Prepayments		10	12
Loans to members	7	66,759	61,907
Available for sale investments	9	131	130
Property, plant and equipment	10	48	49
Taxation assets	11	203	177
Intangible assets	12	74	86
<b>TOTAL ASSETS</b>		<u>90,763</u>	<u>85,782</u>
<b>LIABILITIES</b>			
Short term borrowings	13	24,400	29,400
Deposits from other institutions	13	13,500	5,500
Deposits from members	14	42,312	41,412
Creditor accruals and settlement accounts	15	1,299	981
Taxation liabilities	16	131	89
Provisions	17	422	385
<b>TOTAL LIABILITIES</b>		<u>82,064</u>	<u>77,767</u>
<b>NET ASSETS</b>		<u>8,699</u>	<u>8,015</u>
<b>MEMBERS' EQUITY</b>			
Capital reserve account	18	28	26
General reserve for credit losses	19	200	186
Retained earnings		6,871	6,203
Subordinated debt		1,600	1,600
<b>TOTAL MEMBERS' EQUITY</b>		<u>8,699</u>	<u>8,015</u>

The accompanying notes form part of these financial statements

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**STATEMENT OF CHANGES IN MEMBERS'  
EQUITY FOR THE YEAR ENDED 30 June 2011**

	<b>Capital Reserve</b>	<b>Reserve for Credit Losses</b>	<b>Retained Earnings</b>	<b>Sub- debt</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Total at 1 July 2009	23	133	5,526	-	5,682
Total comprehensive income for the year	-	-	730	-	730
<b>Transfers to (from) reserves</b>					
Transfer to (from) reserves for credit losses in year	-	53	(53)	-	-
Transfer to (from) capital account on redemption of Shares	3	-	-	-	3
Sub-debt	-	-	-	1,600	1,600
<b>Total at 30 June 2010</b>	<b>26</b>	<b>186</b>	<b>6,203</b>	<b>1,600</b>	<b>8,015</b>
	<b>Capital Reserve</b>	<b>Reserve for Credit Losses</b>	<b>Retained Earnings</b>	<b>Sub- debt</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Total at 1 July 2010	26	186	6,203	1,600	8,015
Total comprehensive income for the year	-	-	682	-	682
<b>Transfers to (from) reserves</b>					
Transfer to (from) reserves for credit losses in year	-	14	(14)	-	-
Transfer to (from) capital account on redemption of Shares	2	-	-	-	2
Sub-debt	-	-	-	-	-
<b>Total at 30 June 2011</b>	<b>28</b>	<b>200</b>	<b>6,871</b>	<b>1,600</b>	<b>8,699</b>

The accompanying notes form part of these financial statements

**STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED 30 June 2011**

	Note	2011 \$'000	2010 \$'000
<b>OPERATING ACTIVITIES</b>			
<b>Revenue Inflows</b>			
Interest received		6,300	4,403
Fees and Commissions		1,842	1,544
Dividends		18	54
Other income		15	67
<b>Revenue outflows</b>			
Interest paid		(3,666)	(2,209)
Suppliers and employees		(3,195)	(2,975)
Income taxes paid		(241)	(97)
<b>Net cash from revenue activities</b>	33.b	1,073	787
<b>Inflows from other operating activities</b>			
Loans and advances to members – (Increase)/Decrease		(4,852)	(12,172)
Deposits and shares – Increase/(Decrease)		8,899	7,020
Deposits with other ADIs – (Increase)/Decrease		(85)	(8,583)
<b>Net cash from/(used in) operating activities</b>		3,962	(13,735)
<b>INVESTING ACTIVITIES</b>			
Investments – Sale/(Acquisition)		-	(10)
Intangible assets – Sale/(Acquisition)		(43)	(36)
Property, plant & equipment – Sale/(Acquisition)		(27)	(9)
<b>Net cash from investing activities</b>		(70)	(55)
<b>FINANCING ACTIVITIES</b>			
Borrowings – Increase/(Decrease)		(5,000)	11,400
Subordinated debt – Increase/(Decrease)		-	1,600
<b>Net cash from financing activities</b>		(5,000)	13,000
Total net cash Increase/(Decrease)		(35)	(3)
Cash at beginning of year		202	205
Cash at end of year	33.a	167	202

The accompanying notes form part of these financial statements

**Notes to the financial statements**  
**For the year ended 30 June 2011**

**1. Significant accounting policies**

AWA Credit Union Ltd (the Credit Union) is a company domiciled in Australia. The Financial Statements were authorised for issuance by the Directors on 20 October 2011.

**(a) Statement of compliance**

The Financial Statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards adopted by the Australian Accounting Standards Board (“AASB”) and the Corporations Act 2001.

International Financial Reporting Standards (“IFRS”) form the basis of Australian Accounting Standards adopted by the AASB, being Australian equivalents to IFRS (“AIFRS”). The financial statements of the Credit Union comply with IFRSs and interpretations adopted by the International Accounting Standards Board, to the extent outlined below.

**(b) Basis of preparation**

The financial statements are presented in Australian dollars.

The financial statements have been prepared on the basis of historical costs except that the following assets and liabilities (if applicable) are stated at their fair value: derivative financial instruments and financial instruments classified as available-for-sale.

The preparation of financial statements in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experiences and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by the Credit Union.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of Australian Accounting Standards that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in

**Notes to the financial statements**  
**For the year ended 30 June 2011**

the next year are discussed in note 1(n).

*First-time adoption of changes to AASB 101: Presentation of financial statements*

In September 2007, the Australian Accounting Standards Board revised AASB 101, and as a result there have been changes to the presentation and disclosure of certain information within the financial statements.

The revised version of AASB 101 contains a number of terminology changes, including the amendment of the names of the primary financial statements. AASB 101 requires all changes in equity arising from transactions with owners in their capacity as owners to be presented separately from non-owner changes in equity. Owner changes in equity are to be presented in the statement of changes in equity, with non-owner changes in equity presented in the Comprehensive Statement of Income.

The Credit Union's financial statements now contain a Comprehensive Statement of Income and are prepared in accordance with the applicable changes to the requirements of AASB 101: Presentation of Financial Statements. Adjustments resulting from the introduction of the changes have been applied retrospectively to 2009 comparative figures.

*Determination of fair values*

A number of the Credit Union's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

**(c) Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits with a maturity of 12 months or less from balance date that can be readily converted into cash within two business days. Bank overdrafts that are repayable on demand and form an integral part of the Credit Union's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

**(d) Loans and advances**

Loans and advances are stated at their amortised cost less impairment losses (see note 1(f)).

All loans and advances are reviewed and graded according to the anticipated level of credit risk. The classification adopted is described below:

**Notes to the financial statements**

**For the year ended 30 June 2011**

*Non-accrual loans* - are loans and advances where the recovery of all interest and principal is considered to be reasonably doubtful, and hence impairment losses are recognised.

*Restructured loans* - arise when the borrower is granted a concession due to continuing difficulties in meeting the original terms, and the revised terms are not comparable to new facilities. Loans with revised terms are included in non-accrual loans when impairment losses are required.

*Assets acquired through the enforcement of security* - are assets acquired in full or partial settlement of a loan or similar facility through the enforcement of security arrangements.

*Past-due loans* - are loans where payments of principal and/or interest are at least 90 days in arrears. Full recovery of both principal and interest is expected. If an impairment loss is required, the loan is included in non-accrual loans.

**(e) Full time equivalent employees**

The Credit Union employed 11.1 (2010 – 11.5) full time equivalent staff at the end of the financial year.

**(f) Impairment**

The carrying amounts of the Credit Union's assets, other than deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount.

Impairment losses are recognised in the Comprehensive Statement of Income unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the Comprehensive Statement of Income.

Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

When a decline in the fair value of an available for sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that

**Notes to the financial statements**

**For the year ended 30 June 2011**

is recognised in profit or loss is the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

*Calculation of recoverable amount*

The recoverable amount of the Credit Union's investments is held to maturity. Securities and receivables carried at amortised cost are calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

*Reversals of impairment*

An impairment loss in respect of a held to maturity security or receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

If the fair value of a debt instrument classified as available for sale increase and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in the Comprehensive Statement of Income.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**(g) Property, plant and equipment & intangible assets**

*(i) Owned assets*

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

**Notes to the financial statements**

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(ii) *Leased assets*

Leases in terms of which the Credit Union assumes substantially all the risks and rewards of ownership are classified as finance leases. The owner-occupied property acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see below) and impairment losses (refer note 1(f)) Property held under operating leases that would otherwise meet the definition of investment property may be classified as investment property on a property-by-property basis.

(iii) *Subsequent assets*

The Credit Union recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred; if it is probable that the future economic benefits embodied within the item will flow to the Credit Union, and the cost of the item can be measured reliably. All other costs are recognised in the Comprehensive Statement of Income as an expense as incurred.

(iv) *Depreciation/amortisation*

Depreciation/amortisation is charged to the Comprehensive Statement of Income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

The estimated useful lives in the current and comparative periods are as follows:

- |                                |         |
|--------------------------------|---------|
| • Office furniture & equipment | 7 years |
| • Leasehold improvements       | 7 years |
| • Motor vehicles               | 5 years |
| • Computer hardware            | 4 years |

The residual value, if not insignificant, is reassessed annually.

(v) *Intangible assets*

Items of computer software which are not integral to the computer hardware owned by the Credit Union are classified as intangible assets.

Computer software is amortised over the expected useful life of the software. The estimated useful lives in the current and comparative periods are as follows:

- |                     |         |
|---------------------|---------|
| • Computer software | 3 years |
|---------------------|---------|

**Notes to the financial statements**

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**(h) Employee entitlements**

*Long term service benefits*

The Credit Union's net obligation in respect of long term service benefits is the amount of future benefits that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the Commonwealth Government bonds at the balance date which have maturity dates approximating to the terms of the Credit Union's obligations.

*Short term benefits*

Liabilities for employee benefits for wages, salaries and annual leave represent present obligations resulting from employees services provided to reporting date, calculated at undiscounted amounts based on remuneration wages and salary rates that the Credit Union expects to pay as at reporting date including related on-costs, such as, workers compensation insurance and payroll tax.

**(i) Income recognition**

*Interest revenue*

Loan interest is calculated on the daily balance outstanding and is charged in arrears to a member's account on the last day of each month.

*Fees and commissions*

Fees and commissions are recognised as revenues on an accrual basis.

*Dividend income*

Dividend income is taken into revenue as received.

**(j) Leases**

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

*Operating leases*

Payments made under operating leases are charged against profits in equal instalments over the accounting periods covered by the lease term.

**(k) Income tax**

Income tax on the Comprehensive Statement of Income for the periods presented comprises current and deferred tax. Income tax is recognised in the Comprehensive Statement of Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

**Notes to the financial statements**  
**For the year ended 30 June 2011**

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the Statement of Financial Position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance date.

A deferred tax asset is recognised only to the extent it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefits will be realised.

**(l) Goods and Services Tax**

Revenues, expenses and assets are recognised net of the goods and services tax (GST), except where the amount of the GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the Balance Sheet.

Cashflows are included on the Statement of Cashflows on a gross basis. The GST components of cashflows from investing and financing activities that are recoverable from, or payable to, the ATO are classified as operating cash flows.

**(m) Provisions**

A provision is recognised in the Balance Sheet when the Credit Union has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

**(n) Accounting estimates and judgements**

Management has been involved in the development, selection and disclosure of the Credit Union's critical accounting policies and estimates

**Notes to the financial statements**

**For the year ended 30 June 2011**

and the application of these policies and estimates. In particular, information about areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following note:

- Note 8 – Impairment of loans and advances.

**(o) Off balance sheet lending**

The Credit Union has facilitated the funding of Integris Securitisation Services Pty Ltd (Perpetual Trustees) securitised loans on both a “Drip Feed” and a “Bulk Sale” basis whereby the Credit Union has acted as an agent to promote and complete loans on their behalf, for on sale to an investment trust. The Credit Union receives a management fee in relation to loans originated via these methods. The Credit Union bears no risk exposure in respect of these loans.

The volume of “Drip Feed” loans originated during 2010/11 totalled \$6.6m (2009/10 - \$5.9m) and the volume of “Bulk Sale” loans originated during 2010/11 totalled \$30.3m (2009/10 - \$8.3m).

**(p) Reserves**

*Retained earnings*

Retained earnings represents the accumulation of the current year’s and prior years’ trading profits of the Credit Union. Retained earnings as at 30 June 2011 are \$6.9m (2010 - \$6.2m).

*Lending risk reserve*

AIFRS precludes the Credit Union from holding a general provision for doubtful debts in its Statement of Financial Position. The balance of the general provision is now carried in a suitably styled reserve account in equity as an allocation from retained profits.

The Credit Union has transferred the amount of \$200,193 to a lending risk reserve account as at 30 June 2011 (2010 - \$185,867). This reserve is calculated at the rate of 0.03% of loan balances.

*Member share redemption reserve*

The Capital reserve account includes amounts allocated for the purpose of a member share redemption balance per Compliance Note 2001.084. The balance of \$27,930 (2010 - \$25,800) represents the amount of redeemable preference shares redeemed by the Credit Union since 1 July 1999. The law requires that the redemption of the shares be made out of profits. Since the value of the shares has been paid to members in accordance with the terms and conditions of the share issue, the account represents the amount of profits appropriated to the account. The 2011 allocation amounts to \$2,130 (2010 - \$3,050).

**Notes to the financial statements**  
**For the year ended 30 June 2011**

**(q) Member Deposits**

*(i) Basis for Determination*

Deposits at call and term investments are quoted at the aggregate amount of money owing to depositors.

*(ii) Interest Payable*

Interest on deposits is calculated on the daily balance and posted to the accounts periodically, or on maturity of the term deposit. Interest on deposits is brought to account on an accrual basis in accordance with the interest rate terms and conditions of each deposit and term deposit account as varied from time to time. The amount of the accrual is shown as part of Creditor Accruals and Settlement Accounts.

**(r) Financial instruments**

***Recognition & initial measurement***

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the Credit Union becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

***Derecognition***

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed is recognised in profit or loss.

***Classification & subsequent measurement***

*(i) Financial assets at fair value through profit & loss*

Financial assets are classified at fair value through the profit and loss when they are held for trading for the purpose of short term profit taking. Realised and unrealised gains and losses arising from changes in fair value are included in profit or loss in the period in which they arise.

**Notes to the financial statements**

**For the year ended 30 June 2011**

(ii) *Loans & receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method.

(iii) *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Credit Union's intention to hold these investments to maturity. They are subsequently measured at amortised cost using the effective interest rate method.

(iv) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either designated as such or that are not classified in any of the other categories. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

(v) *Financial liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

***Fair value***

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

***Impairment***

At each reporting date, the Credit Union assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the Comprehensive Statement of Income.

(s) **New accounting standards and interpretations**

The following standards and amendments were available for early adoption but have not been applied by the Credit Union in these financial statements:

- Revised AASB 9 *Financial Instruments* and AASB 2009–11: Amendments to Australian Accounting Standards arising from AASB

**Notes to the financial statements**

**For the year ended 30 June 2011**

9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] (applicable for annual reporting periods commencing on or after 1 January 2013). AASB 9 will become mandatory for the Credit Union's 30 June 2014 Financial Statements. The changes made to accounting requirements include, simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value and removing the tainting rules associated with held to maturity assets.

Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ended 30 June 2012 or earlier.

- AASB 2009-5 – *Further amendments to Australian Accounting Standards arising from the Annual Improvements Process* affect various AASB's resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments which become mandatory for the Credit Union's 30 June 2011 financial statements are not expected to have a significant impact on the Credit Union's financial statements.

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	Note	2011 \$'000	2010 \$'000
<b>2. INCOME STATEMENT</b>			
<b>a. Analysis of interest revenue</b>			
<b>Interest revenue on assets carried at amortised cost</b>			
Cash – deposits at call	4	254	37
Receivables from financial institutions	5	947	732
Loans to members	7.a	5,118	3,897
<b>TOTAL INTEREST REVENUE</b>		<u>6,319</u>	<u>4,666</u>
<b>b. Non-Interest Revenue</b>			
<b>Fee and commission revenue</b>			
Fee income on loans – other than loan			
Origination fees		165	142
Fee income from member deposits		160	140
Other fee income		1,517	1,231
Other commissions		48	43
<b>TOTAL FEE AND COMMISSION REVENUE</b>		<u>1,890</u>	<u>1,556</u>
<b>Other income</b>			
<b>Available for sale assets</b>			
Dividends received on available for sale assets		18	54
Bad debts recovered		2	2
Miscellaneous income		13	64
<b>TOTAL OTHER INCOME</b>		<u>33</u>	<u>120</u>
<b>TOTAL FEE COMMISSION AND OTHER INCOME</b>		<u>1,923</u>	<u>1,676</u>
<b>c. Interest expense</b>			
<b>Interest expense on liabilities carried at amortised cost</b>			
Short term borrowings		1,804	900
Deposits from financial institutions		485	251
Deposits from members		1,551	1,208
Interest on subordinated debt		143	70
<b>TOTAL INTEREST EXPENSE</b>		<u>3,983</u>	<u>2,429</u>

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	Note	2011 \$'000	2010 \$'000
<b>d. Impairment losses</b>			
<b>Loans and advances</b>			
Increase (decrease) in provision for impairment		40	26
<b>TOTAL IMPAIRMENT LOSSES</b>		<u>40</u>	<u>26</u>

**e. Individually significant items of expenditure (detail)**

The following items of expense are shown as part of Administration Expenses and considered to be significant to the understanding of the financial performance:-

Computer Software Maintenance	211	196
Data Line Rental	59	39
Transaction Processing Costs	64	58
Redicard Transaction Fees	111	56
Corporate Insurances	42	36
Network Support	30	27
Bank Charges	25	27
Redicard Production and Participation Fees	27	60
Securitisation Expenses	69	20

**f. Other prescribed disclosures**

General administration – employees costs include:

- net movement in provisions for employee annual leave	2	(2)
- net movement in provisions for employee long service leave	35	(4)
- superannuation	115	117
	<u>152</u>	<u>111</u>

General administration – depreciation expenses include:

- plant and equipment	17	16
- leasehold improvements	11	11
- amortisation of software	57	83
	<u>85</u>	<u>110</u>

General administration – office occupancy costs include:

property operating lease payments	42	32
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	Note	2011 \$'000	2010 \$'000
Other administration expenses include:			
Auditor's remuneration			
- Audit Fees		30	22
- Other Services – Taxation		<u>1</u>	<u>1</u>
		<u>31</u>	<u>23</u>
<b>3. INCOME TAX EXPENSE</b>			
a. The income tax expense comprises amounts set aside as:-			
Current tax expense – current year profits		<u>309</u>	<u>285</u>
<b>Deferred tax expense</b>			
Decrease (increase) in the deferred tax asset account		<u>(26)</u>	<u>(1)</u>
<b>Total income tax expense in income statement</b>	3.b	<u>283</u>	<u>284</u>
b. The prima facie tax payable on profit is reconciled to the income tax expense in the accounts as follows:			
Profit		<u>965</u>	<u>1,014</u>
Prima facie tax payable on profit before income tax at 30%		290	304
Add tax effect of expenses not deductible		27	4
Less			
- Franking rebate		8	23
- Adjustment to recognise deferred tax assets increase		<u>26</u>	<u>1</u>
income tax expense attributable to current year profit		<u>283</u>	<u>284</u>
<b>4. CASH</b>			
Cash on hand		<u>167</u>	<u>202</u>
<b>5. RECEIVABLES FROM FINANCIAL INSTITUTIONS</b>			
Deposits with industry bodies – Cuscal	27	6,805	5,719
Deposits with other Financial Institutions	27	<u>16,000</u>	<u>17,000</u>
		<u>22,805</u>	<u>22,719</u>

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	Note	2011 \$'000	2010 \$'000
<b>6. RECEIVABLES</b>			
Interest receivable on deposits with other financial institutions		397	398
Sundry debtors and settlement accounts		<u>169</u>	<u>102</u>
		<u>566</u>	<u>500</u>
<b>7. LOANS TO MEMBERS</b>			
<b>a. Amount due comprises:</b>			
Overdrafts and revolving credit		115	112
Term Loans		<u>66,730</u>	<u>61,842</u>
<b>Subtotal</b>		66,845	61,954
Less:			
Provision for impaired loans (Note 8)		<u>86</u>	<u>46</u>
		<u>66,759</u>	<u>61,907</u>
<b>b. Credit quality</b>			
Secured by mortgage over real estate		56,376	50,473
Partly secured by goods mortgage		8,079	8,778
Wholly unsecured		<u>2,390</u>	<u>2,703</u>
		<u>66,845</u>	<u>61,954</u>

A breakdown of the quality of the residential mortgage secured loans portfolio is as follows:

- loan to valuation ratio of less than 80% (based upon a registered valuation of the collateral security at the commencement of the loan)	51,589	48,680
- loan to valuation ratio of more than 80% but mortgage insured (based upon a registered valuation of the collateral security at the commencement of the loan)	4,787	1,793
Total	<u>56,376</u>	<u>50,473</u>

Where the loan value is less than 80% there is a 20% margin to cover the costs of any sale, or potential value reduction.

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	<b>Note</b>	<b>2011</b>	<b>2010</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>c. Concentration of loans</b>			
The values discussed below include on balance sheet values and off balance sheet undrawn facilities as described in Note 28.			
(i) Loans to individual or related groups of members which exceed 10% of reserves in aggregate			
Total		<u>2,452</u>	<u>1,030</u>
(ii) Geographical concentrations			
<b>2011</b>	<b>Housing</b>	<b>Personal</b>	<b>Total</b>
NSW	2,884	814	3,698
Victoria	40,355	7,333	47,688
Queensland	1,458	100	1,558
South Australia	-	25	25
Western Australia	11,671	2,181	13,852
Tasmania	-	-	-
Northern Territory	7	17	24
ACT	-	-	-
Total per balance sheet	<u>56,375</u>	<u>10,470</u>	<u>66,845</u>
<b>2010</b>	<b>Housing</b>	<b>Personal</b>	<b>Total</b>
NSW	1,903	847	2,750
Victoria	33,426	8,053	41,479
Queensland	1,825	116	1,941
South Australia	-	32	32
Western Australia	13,302	2,312	15,614
Tasmania	-	1	1
Northern Territory	17	120	137
ACT	-	-	-
Total per balance sheet	<u>50,473</u>	<u>11,481</u>	<u>61,954</u>
	<b>Note</b>	<b>2011</b>	<b>2010</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>Loans to natural persons</b>			
Residential loans and facilities		56,375	50,473
Personal loans and facilities		<u>10,470</u>	<u>11,481</u>
		<u>66,845</u>	<u>61,954</u>

**d. Securitised loans**

The credit union has assigned the rights and benefits of a parcel of mortgage secured loans to a securitisation entity. The total value transferred during the financial year was \$30,287,542 (2010 - \$8,300,000). The transfer satisfies the de-recognition criteria prescribed in AASB 139, and the value has been removed from the carrying loan value in the balance sheet. The purpose of the transfer was to secure additional liquid funds to meet further loan demands from members.

In addition the credit union acts as the agent for the securitisation entity to arrange and fund loans made directly by the securitisation entity. These loans do not qualify for recognition in the books of the credit union and are not recognised in the books of the credit union at any time.

The value of the securitised loans under management comprising both those assigned and those funded as agents, is set out in note 25.

	Note	2011 \$'000	2010 \$'000
<b>8. PROVISION ON IMPAIRED LOANS</b>			
<b>a. Total provision comprises</b>			
Collective provisions		86	46
<b>b. Movement in provision for impairment</b>			
Balance at the beginning of year		46	20
Add (deduct):			
Transfers from (to) income statement		61	35
Bad debts written off provision		(21)	(9)
<b>Balance at end of year</b>		<u>86</u>	<u>46</u>
Details of credit risk management is set out in Note 20.c			
<b>c. Impaired loans written off</b>			
Amounts written off against the provision for impaired loans		21	9
Amounts written off directly to expense		-	-
Total bad debts		<u>21</u>	<u>9</u>
Bad debts recovered in the period		<u>2</u>	<u>2</u>
<b>d. Analysis of loans that are impaired or potentially impaired by class</b>			
In the Note below –			
<ul style="list-style-type: none"> <li>• Carrying Value is the amount from the balance sheet</li> <li>• Impaired loans value is the ‘on balance sheet’ loan balances which are past due by 90 days or more</li> </ul>			

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- Provision for impairment is the amount of the impairment provision allocated to the class of impaired loans

	<b>2011</b>	<b>2011</b>	<b>2011</b>		<b>2010</b>	<b>2010</b>	<b>2010</b>
	<b>Carrying value</b>	<b>Value of Impaired Loans</b>	<b>Provision for Impairment</b>		<b>Carrying value</b>	<b>Value of Impaired Loans</b>	<b>Provision for Impairment</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>		<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Mortgages	56,375	-	-		50,473	-	-
Personal	10,355	161	86		11,369	68	46
Overdrafts	115	-	-		112	-	-
Total to natural persons	66,845	161	86		61,954	68	46

Past due value is the 'on balance sheet' loan balances which are past due by 90 days or more. It is not practicable to determine the fair value of all collateral as at the balance date due to the variety of assets and conditions.

**e. Analysis of loans that are impaired or potentially impaired based on age of repayments outstanding**

	<b>2011</b>	<b>2011</b>		<b>2010</b>	<b>2010</b>
	<b>Carrying Value</b>	<b>Provision</b>		<b>Carrying Value</b>	<b>Provision</b>
	<b>\$'000</b>	<b>\$'000</b>		<b>\$'000</b>	<b>\$'000</b>
Non impaired up to 30 days	18,900	-		21,353	-
30 to 90 days in arrears	397	-		435	-
90 to 180 days in arrears	125	50		27	10
180 to 270 days in arrears	301	-		10	7
270 to 365 days in arrears	-	-		12	10
Over 365 days in arrears	36	36		19	19
Total	19,759	86		21,856	46

Some impaired or potentially impaired loans are secured by bill of sale over motor vehicles or residential property. It is not practicable to determine fair value of all collateral as at the balance date due to the variety of assets and condition.

**f. Key assumptions in determining the provision for impairment**

In the course of the preparation of the annual report the credit union has determined the likely impairment loss on loans which have not maintained the loan repayments in accordance with the loan contract, or where there is other evidence of potential impairment such as industrial restructuring, job losses or economic circumstances. In identifying the impairment likely from these events the credit union is required to estimate the potential impairment using the length of time the loan is in arrears and the historical

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losses arising in past years. Given the relatively small number of impaired loans, the circumstances may vary for each loan over time resulting in higher or lower impairment losses. An estimate is based on the period of impairment.

Period of impairment	
Up to 90 days	0%
90 days to 181 days	40%
181 days to 270 days	60%
270 days to 265 days	80%
Over 365 days	100%

Note	2011 \$'000	2010 \$'000
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**9. AVAILABLE FOR SALE INVESTMENTS****Shares in unlisted companies – at cost**

- Cuscal Ltd	9a	105	104
- TAS Pty Ltd	9a	26	26
		<u>131</u>	<u>130</u>

**a. Disclosures on shares held at cost**

The shareholdings in Cuscal and TAS are measured at cost as its fair value could not be measured reliably. These companies were created to supply services to the member credit unions and do not have an independent business focus. These shares are held to enable the credit union to receive essential banking and information technology services – refer Note 32. The shares are not able to be traded and are not redeemable.

The financial reports of Cuscal and TAS record net tangible asset backing of these shares exceeding their cost value. Based on the net assets of Cuscal and TAS, any fair value determination on these shares is likely to be greater than their cost value, but due to the absence of a ready market and restrictions on the ability to transfer the shares, a market value is not able to be determined readily.

In the normal course of business the credit union would not, nor would be able to, dispose of these shares.

	Note	2011 \$'000	2010 \$'000
<b>10. PROPERTY, PLANT AND EQUIPMENT</b>			
a. Plant and equipment – at cost		181	154
Less: provision for depreciation		<u>135</u>	<u>119</u>
		46	35
Capitalised leasehold improvements at cost		87	87
Less: provision for amortisation		<u>85</u>	<u>73</u>
		2	14
Total Property, Plant and Equipment		<u>48</u>	<u>49</u>

**b. Movement in the assets balances during the year were:**

	2011			2010		
	Plant & equipment \$'000	Leasehold improvements \$'000	Total \$'000	Plant & equipment \$'000	Leasehold improvements \$'000	Total \$'000
Opening balance	35	14	49	42	25	67
Plus						
Purchases	28	-	28	9	-	9
Less Assets disposed	-	-	-	-	-	-
Depreciation charge	(17)	(12)	(29)	(16)	(11)	(27)
<b>Balance at the end of the year</b>	<b>46</b>	<b>2</b>	<b>48</b>	<b>35</b>	<b>14</b>	<b>49</b>

Note – Leasehold improvement includes the operating lease make good provisions where applicable.

	Note	2011 \$'000	2010 \$'000
<b>11. TAXATION ASSETS</b>			
Deferred tax assets comprise:			
Provisions for impairment on loans		26	53
Provisions for employee benefits		127	119
Provisions for other liabilities		<u>50</u>	<u>5</u>
		203	177

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	Note	2011 \$'000	2010 \$'000
<b>12. INTANGIBLE ASSETS</b>			
Computer software		367	321
Less provision for amortisation		293	235
		<u>74</u>	<u>86</u>

**Movement in the assets balances during the year were:**

Opening balance		86	133
Plus Purchases		45	36
Less Depreciation charge		57	83
<b>Balance at the end of the year</b>		<u>74</u>	<u>86</u>

**13. SHORT TERM BORROWINGS & DEPOSITS FROM OTHER INSTITUTIONS**

Loans – Bridges Financial Services		10,400	19,400
Cuscal		14,000	10,000
		<u>24,400</u>	<u>29,400</u>

The above loans are unsecured with varying repayment terms of up to 6 months. There were no defaults on interest and capital payments on these liabilities in the current or prior year.

Questor		9,000	-
Shell Employees Credit Union Limited		2,000	2,000
Geelong & District Credit Co-Operative Society Limited		500	-
Mecu Limited		-	1,500
Ford Co-Operative Credit Society Limited		2,000	2,000
		<u>13,500</u>	<u>5,500</u>

**14. DEPOSITS FROM MEMBERS**

Member Deposits			
- at call		18,310	19,811
- term		23,965	21,565
Member withdrawable shares		37	36
		<u>42,312</u>	<u>41,412</u>

There were no defaults on interest and capital payments on these liabilities in the current or prior year.

**Concentration of member deposits**

- (i) Significant individual member deposits which in \_\_\_\_\_ - \_\_\_\_\_ - aggregate represent more than 10% of total liabilities.

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- (ii) Member deposits at balance date were received from individuals employed principally in Australia and principally with Alcoa Australia Ltd.

	Note	2011 \$'000	2010 \$'000
(iii) Geographical concentrations			
Victoria		35,614	35,590
NSW		3,510	2,892
Queensland		170	163
South Australia		234	36
Western Australia		2,759	2,703
Tasmania		9	1
Northern Territory		16	27
ACT		-	-
Total per balance sheet		<u>42,312</u>	<u>41,412</u>

**15. CREDITOR ACCRUALS AND SETTLEMENT ACCOUNTS**

Interest payable on borrowings	100	173
Interest payable on deposits	770	379
Settlement Accounts	341	369
Accrual for other tax liabilities	-	-
Sundry creditors	88	60
	<u>1,299</u>	<u>981</u>

**16. TAXATION LIABILITIES**

Current income tax liability/(refund)	<u>131</u>	<u>89</u>
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**Current income tax liability/(refund) comprises:**

Balance – previous year	89	(97)
Plus Liability for income tax in current year	283	284
Less Instalments paid in current year	<u>(241)</u>	<u>(98)</u>
Balance – current year tax liability (refund)	<u>131</u>	<u>89</u>

**17. PROVISIONS**

Long service leave	225	190
Annual leave	<u>197</u>	<u>195</u>
	<u>422</u>	<u>385</u>

The movement of the provisions during the financial year have been reflected in Note 2(f).

**18. CAPITAL RESERVE ACCOUNT**

Balance at the beginning of the year	26	23
Transfer from current year's profit on share redemptions	<u>2</u>	<u>3</u>
Balance at the end of year	<u>28</u>	<u>26</u>

**Share Redemption**

The Capital Reserve Account represents the amount of member withdrawable shares redeemed by the credit union since 1 July 1999. The Law requires that the redemption of the shares be made out of profits. Since the value of the shares has been paid to members in accordance with the terms and conditions of the share issue, the account represents the amount of profits appropriated to the account.

<b>Note</b>	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>

**19. GENERAL RESERVE FOR CREDIT LOSSES**

General reserve for credit losses	200	186
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**General reserve for credit losses**

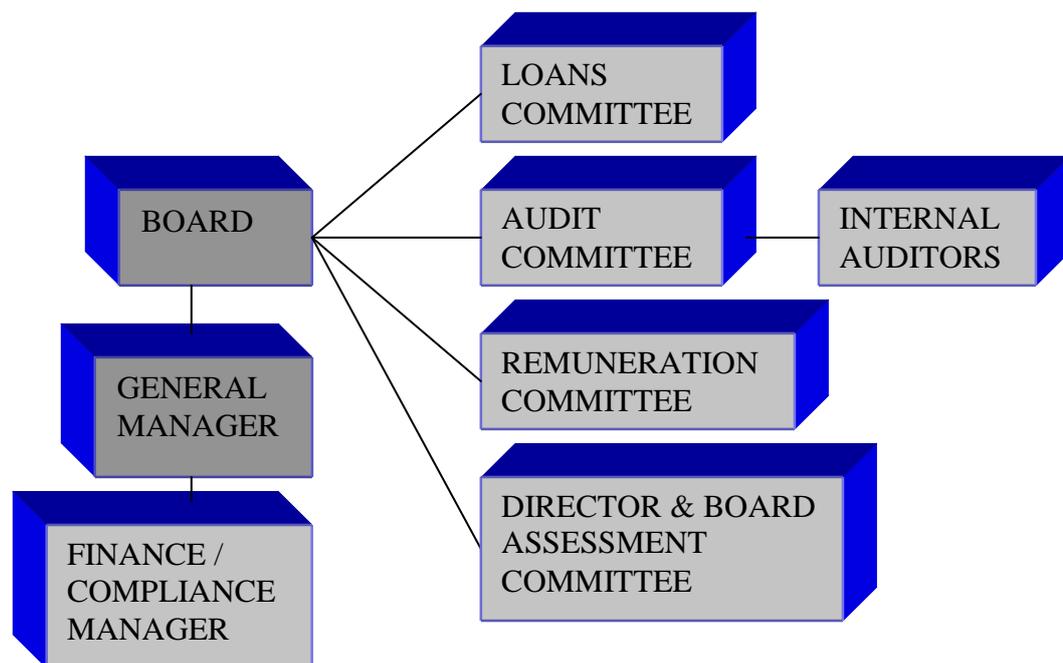
This reserve records amounts previously set aside as a General provision and is maintained to comply with the Prudential Standards set down by APRA

Balance at beginning of year	186	133
Add: increase (decrease) transferred from Retained Earnings	14	53
Balance at end of year	<u>200</u>	<u>186</u>

**20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES****Introduction**

The board has endorsed a policy of compliance and risk management to suit the risk profile of the credit union.

The credit union's risk management focuses on the major areas of market risk, credit risk and operational risk. Authority flows from the board of directors to the various committees which are integral to the management of risk. The following diagram gives an overview of the structure.



The main elements of risk governance are as follows:

**Board:** This is the primary governing body. It approves the level of risk which the credit union is exposed to and the framework for reporting and mitigating those risks.

**Audit Committee:** Its key role in risk management is the assessment of the controls that are in place to mitigate risks. The Audit Committee considers and confirms that the significant risks and controls are assessed within the internal audit plan. The Audit Committee receives the internal audit reports on assessment and compliance with the controls, and provides feedback to the Board for their consideration.

The Audit Committee has responsibility for managing and reporting credit risk exposure. It scrutinises operational reports and monitors exposures against limits determined by the board. The Audit Committee also determines the credit risk of loans in the banking book, ensures provisioning is accurate and determines controls that need to be put in place regarding the authorisation of new loans.

The Audit Committee has responsibility for implementing policies to ensure that all large credit exposures are properly pre-approved, measured and controlled. Details concerning a prospective borrower are subject to a criteria-based decision-making process. Criteria used for this assessment include: credit references, loan-to-value ratio on security and borrower's capacity to repay which vary according to the value of the loan or facility.

All large credit exposure facilities above policy limits are approved by the Board.

Accounts where the arrears are over 90 days or overlimit facilities over 14 days, have collective provisions charged against them. Other provisions are taken up on accounts considered doubtful and the status of these loans is reported to the Board monthly.

Arrears are strictly controlled. The size of the loan book is such that it is possible to monitor each individual exposure to evaluate whether specific provisions are necessary and adequate. Additionally, a collective provision is held to cover any losses where there is objective evidence that losses are present in components of the loans and advances portfolio at the balance date.

**Loans Committee:** Its role is to approve loans based upon pre-approved authority levels established by the Audit Committee. These loans are generally of a higher value and of a higher risk than those that are able to be approved by the General Manager and Senior Management.

**Director & Board Assessment Committee:** Its role is to ensure compliance with the Fit and Proper Policy and Prudential Standards.

**Remuneration Committee:** Its role is to oversee the General Manager's performance assessment and remuneration arrangements and to make recommendations in relation to board remuneration.

**General Manager:** The General Manager has responsibility for managing interest rate risk exposures, and ensuring that the treasury and finance functions adhere to the exposure limits as outlined in the policies. All interest rate recommendations from the General Manager are approved by the Board.

**Finance/Compliance Manager:** The Compliance Manager has responsibility for ensuring that instructions passed down from the Board, Audit Committee and General Manager are implemented.

**Internal Auditors:** Internal Auditors have responsibility for monitoring the controls, testing and assessment as required by the Audit Committee.

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

- Liquidity Management
- Credit Risk Management
- Operations Risk Management including Data Risk Management
- Capital Management

The credit union has undertaken the following strategies to minimise the risks arising from financial instruments.

**a) Market Risk Policy**

The objective of the credit union's market risk management is to manage and control market risk exposures in order to optimise risk and return.

Market risk is the risk that changes in interest rates will have an adverse effect on the credit union's financial conditions or results. The credit union is not exposed to currency risk, and other significant price risk. The credit union does not trade in the financial instruments it holds on its books. The credit union is exposed only to interest rate risk arising from changes in market interest rates.

The management of market risk is the responsibility of the Audit Committee, which reports directly to the Board.

### **Interest rate risk**

Interest rate risk is the risk of variability of the fair value or future cash flows arising from financial instruments due to the changes in interest rates.

Most banks are exposed to interest rate risk within its treasury operations. This credit union does not have a treasury operation and does not trade in financial instruments.

### **Interest rate risk in the banking book**

The credit union is exposed to interest rate risk in its banking book due to mismatches between the repricing dates of assets and liabilities.

In the banking book the most common risk the credit union faces arises from fixed rate assets and liabilities. This exposes the credit union to the risk of sensitivity should interest rates change. The level of mismatch on the banking book is set out in Note 26. The table set out at note 26 displays the period that each asset and liability will reprice at the balance date. This risk is not considered significant to warrant the use of derivatives to mitigate this risk.

### **Interest rate sensitivity**

The credit union performs a sensitivity analysis to measure market risk exposures.

The method used in determining the sensitivity was to evaluate the profit based on the timing of the interest repricing on the banking book of the credit union for the next 12 months. In doing the calculation the assumptions applied were that:

- the interest rate change would be applied equally over the loan products and term deposits;
- the rate change would be as at the beginning of the 12 month period and no other rate changes would be effected during the period;
- 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;
- savings deposits would not reprice in the event of a rate change;
- mortgage loans would all reprice to the new interest rate within 28 days;
- personal loans would reprice after a 3 month delay;

- all loans would be repaid in accordance with the current average repayment rate (or contractual repayment terms);
- the value and mix of call savings to term deposits will be unchanged; and
- the value and mix of personal loans to mortgage loan will be unchanged.

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

## **b) Liquidity Risk**

Liquidity risk is the risk that the credit union may encounter difficulties raising funds to meet commitments associated with financial instruments (eg borrowing repayments or member withdrawal demands). It is the policy of the Board that the credit union maintains adequate cash reserves and committed credit facilities so as to meet the member withdrawal demands when requested.

The credit union manages liquidity risk by:

- Continuously monitoring actual daily cash flows and longer term forecasted cash flows;
- Monitoring the maturity profiles of financial assets and liabilities;
- Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities; and
- Monitoring the prudential liquidity ratio daily.

The credit union has a longstanding arrangement with the industry liquidity support organisation, Credit Union Financial Support Services (CUFSS) which can access industry funds to provide support to the credit union should it be necessary at short notice.

The credit union is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 24 hours under the APRA Prudential standards. The credit union's policy is to apply a minimum of 15% of funds as liquid assets to maintain adequate funds for meeting member withdrawal requests. The ratio is checked daily. Should the liquidity ratio fall below this level management and board are to address the matter and ensure that the liquid funds are obtained from new deposits, or borrowing facilities. Note 29 describes the borrowing facilities as at the balance date. These facilities are in addition to the support from CUFSS.

The maturity profile of the financial liabilities, based on the contractual repayment terms are set out in note 26.

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The ratio of liquid funds over the past year is set out below:

	2011	2010
<b>To total adjusted liabilities</b>		
As at 30 June	21.33%	21.73%
Average for the year	21.08%	20.21%
Minimum during the year	17.30%	14.05%
<b>To total member deposits</b>		
As at 30 June	55.23%	55.34%

**c) Credit Risk**

Credit risk is the risk that members, financial institutions and other counterparties will be unable to meet their obligations to the credit union which may result in financial losses. Credit risk arises principally from the credit union's loan book, investment assets and derivative contracts (where applicable).

	2011	2011	2011	2010	2010	2010
Loan class	Carrying value	Off balance sheet	Max exposure	Carrying value	Off balance sheet	Max exposure
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Mortgage	56,376	22,390	78,766	50,473	7,478	57,951
Personal	10,354	-	10,354	11,369	-	11,369
Overdrafts	115	-	115	112	-	112
Total	66,845	22,390	89,235	61,954	7,478	69,432

Carrying value is the value on the balance sheet. Maximum exposure is the value on the balance sheet plus the undrawn facilities (loans approved not advanced, redraw facilities and overdraft facilities). The details are shown in note 28.

All loans and facilities are within Australia. The geographic distribution is not analysed into significant areas within Australia as the exposure classes are not considered material. Concentrations are described in note 7.c.

The method of managing credit risk is by way of strict adherence to the credit assessment policies before the loan is approved and close monitoring of defaults in the repayment of loans thereafter on a weekly basis. The credit policy has been endorsed by the board to ensure that loans are only made to members that are creditworthy (ie capable of meeting loan repayments).

The credit union has established policies over:

- Credit assessment and approval of loans and facilities covering acceptable risk assessment and security requirements;
- Limits of acceptable exposure to individual borrowers, non-mortgage secured loans and concentrations to geographic and industry groups considered at high risk of default;

- Reassessment and review of the credit exposures on loans and facilities;
- Establishment of appropriate provisions to recognise the impairment of loans and facilities;
- Debt recovery procedures.

A regular review of compliance is conducted as part of the internal audit scope.

### **Past due and impaired**

A financial asset is past due when the counterparty has failed to make a payment when contractually due. As an example, a member enters into a lending agreement with the credit union that requires interest and a portion of the principal to be paid every month. On the first day of the next month, if the agreed repayment amount has not been paid, the loan is past due. Past due does not mean that a counterparty will never pay, but it can trigger various actions such as renegotiation, enforcement of covenants, or legal proceedings. Once the past due exceeds 90 days the loan is regarded as impaired, unless other factors indicate the impairment should be recognised sooner.

Daily reports monitor the loan repayments to detect delays in repayments and recovery action is undertaken after 30 days. For loans where repayments are doubtful, external consultants are generally engaged to conduct recovery action once the loan is over 90 days in arrears. The exposures to losses arise predominantly in the area of personal loans and facilities not secured by registered mortgages over real estate.

If a loss is probable, the estimated recoverable amount of the asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised in the comprehensive statement of income. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral.

Balance sheet provisions are maintained at a level that management deems sufficient to absorb probable incurred losses in the credit union's loan portfolio from homogenous portfolios of assets and individually identified loans.

A provision for incurred losses is established on all past due loans after a specified period of repayment default where it is probable that some of the capital will not be repaid or recovered.

The provisions for impaired and past due exposures relate to loans to members. Loan balances which are 90 days or more in arrears are considered past due.

Details are as set out in Note 8.

### **Bad debts**

Amounts are written off when collection of the loan or advance is considered unachievable. All write offs are on a case by case basis.

In relation to secured loans, the write off takes place after realisation of collateral, or following claims on lenders mortgage insurance.

A reconciliation in the movement of both past due and impaired exposure provisions is provided in Note 8.

### **Collateral securing loans**

A sizeable portfolio of the loan book is secured by residential property in Australia. Therefore, the credit union is exposed to risks associated with a possible decline in property market values.

The risk of losses is primarily reduced by the nature and quality of the security taken.

Note 7.b describes the nature and extent of the security held against the loans held as at the balance date.

### **Concentration risk – individuals**

Concentration risk is a measurement of the credit union's exposure to an individual counterparty (or group of related parties). If prudential limits are exceeded as a proportion of the credit union's regulatory capital (10 per cent) a large exposure is considered to exist. No capital is required to be held against these but APRA must be informed. APRA may impose additional capital requirements if it considers the aggregate exposure to all loans over the 10% capital benchmark, to be higher than acceptable.

The credit union holds no significant concentrations of exposures to members. Concentration exposures to counterparties are closely monitored with quarterly reviews being undertaken for all exposures over 5 per cent of the capital base.

### **Concentration risk – industry**

The credit union minimises concentrations of credit risk in relation to loans receivable by undertaking transactions with a large number of members.

The credit union has a concentration in retail lending to members who comprise employees and family in the Alumina/Aluminium industry. This concentration is considered acceptable on the basis that the credit union was formed to service these members, and the employment concentration is not exclusive. Should members leave the industry the loans continue and other employment opportunities are available to the members to facilitate the repayment of loans.

The details of the geographical and industry concentrations are set out in Note 7 (c).

### **Credit Risk – Liquid Investments**

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

There is a concentration of credit risk with respect to investment receivables with the placement of investments with Cuscal who are eligible to receive 100% of the credit union's liquid funds. The credit policy is that investments are only made to institutions that are credit worthy. Directors have established policies that allow a minimum of 20% of liquid funds to be invested with any one financial institution other than Cuscal.

The risk losses from the liquid investments undertaken is reduced by the nature and quality of the independent rating of the investment body and the concentration limit imposed by the policy.

### **External Credit Assessment for Institution Investments**

The Credit Union's liquid funds are held in Australian ADIs with a limit of \$3,000,000 per ADI so as to satisfy the large exposure limitations under the prudential standards, except for holdings with CUSCAL which are not limited.

### **d) Operational Risk**

Operational risk is the risk of loss to the credit union resulting from deficiencies in processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks. Operational risks in the credit union relate mainly to those risks arising from a number of sources including legal compliance; business continuity; data infrastructure; outsourced services failures; fraud; and employee errors.

The credit union's objective is to manage operational risk so as to balance the avoidance of financial losses through the implementation of controls, whilst avoiding procedures which inhibit innovation and creativity. These risks are managed through the implementation of policies and systems to monitor the likelihood of the events and minimize the impact. Systems of internal control are enhanced through:

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

- education of members to review their account statements and report exceptions to the credit union promptly;
- effective dispute resolution procedures to respond to member complaints;
- effective insurance arrangements to reduce the impact of losses;
- contingency plans for dealing with the loss of functionality of systems or premises or staff.

## **Fraud**

Fraud can arise from member card PINS, and internet passwords being compromised where not protected adequately by the member. It can also arise from other system failures. The credit union has systems in place which are considered to be robust enough to prevent any material fraud. However, in common with all retail banks, fraud is potentially a real cost to the credit union.

## **IT systems**

The worst case scenario would be the failure of the credit union's core banking and IT network suppliers, to meet customer obligations and service requirements. The credit union has outsourced the IT systems management to an Independent Data Processing Centre (IDPC) which is owned by a collection of credit unions. This organisation has the experience in-house to manage any short-term problems and has a contingency plan to manage any related power or systems failures. Other network suppliers are engaged on behalf of the credit union by the industry body Cuscal to service settlements with other financial institutions for direct entry, ATM, and BPay etc.

A full disaster recovery plan is in place to cover medium to long-term problems which is considered to mitigate the risk to an extent such that there is no need for any further capital to be allocated.

## **e) Capital Management**

Capital levels are prescribed by the Australian Prudential Regulation Authority (APRA). Under the APRA prudential standards capital is determined in three components

- a. Credit risk
- b. Market risk (trading Book)
- c. Operations risk

The market risk component is not required as the credit union is not engaged in a trading book for financial instruments.

**Capital resources****Tier 1 Capital**

The vast majority of Tier 1 capital comprises

-Retained profits.

**Tier 2 Capital**

Tier 2 capital consists of capital instruments that combine the features of debt and equity in that they are structured as debt instruments, but exhibit some of the loss absorption and funding flexibility features of equity. There are a number of criteria that capital instruments must meet for inclusion in Tier 2 capital resources as set down by APRA.

Tier 2 capital generally comprises:

- Available for sale reserve which arises from the revaluation of financial instruments categorised as available for sale and reflects the net gains in the fair value of those assets in the year. This is included within upper Tier 2 capital.
- A subordinated loan, the principal amount of which is amortised on a straight line basis over the last 5 years to maturity of the loan in accordance with the requirements of APRA Prudential standard APS 111.
- A general reserve for credit losses.

Capital in the credit union is made up as follows:

	<b>Note</b>	<b>2011</b>	<b>2010</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>Tier 1</b>			
Retained earnings		6,899	6,283
Less prescribed deductions		<u>(338)</u>	<u>(323)</u>
Tier 1 capital		<u>6,561</u>	<u>5,960</u>
<b>Tier 2</b>			
Term Subordinated Debt		1,600	1,600
General Reserve for credit losses		200	186
Less prescribed deductions		<u>(60)</u>	<u>(61)</u>
Net Tier 2 capital		1,740	1,725
Total Capital		<u>8,301</u>	<u>7,685</u>

The credit union is required to maintain a minimum capital level of 8% as compared to the risk weighted assets at any given time.

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The risk weights attached to each asset are based on the weights prescribed by APRA in its Guidance AGN 112-1. The general rules apply the risk weights according to the level of underlying security.

		<b>2011</b>	<b>2010</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>Risk Weighted Value</b>			
Cash	0%	-	-
Deposits in highly rated ADI's	20%	1,772	1,984
Deposits in less highly rated ADI's	50%-150%	6,669	6,600
Standard Loans secured against eligible residential mortgages	35%-50%	20,047	17,570
Other assets	100%	9,857	12,170
Total		<u>38,345</u>	<u>38,324</u>

The capital ratio as at the end of the financial year over the past 5 years is as follows

<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
15.95%	16.17%	14.38%	14.73%	16.00%

The level of the capital ratio can be affected by growth in assets relative to growth in reserves and by changes in the mix of assets.

To manage the credit union's capital the credit union reviews the ratio monthly and monitors major movements in the asset levels. Policies have been implemented to require reporting to the board if the capital ratio falls below 12% and to APRA if the capital ratio falls below 10%.

### **Pillar 2 Capital on Operational Risk**

This capital component was introduced as from the 1 January 2008 and coincided with changes in the asset risk weightings for specified loans and liquid investments. Previously no operational charge was prescribed.

The credit union uses the Standardised approach which is considered to be most suitable for its business given the small number of distinct transaction streams. The Operational Risk Capital Requirement is calculated by mapping the credit union's three year average net interest income and net non-interest income to the credit union's various business lines.

It is considered that the Standardised approach accurately reflects the credit union's operational risk other than for the specific terms set out below.

**Internal capital adequacy management**

The credit union manages its internal capital levels for both current and future activities through a combination of the various committees. The outputs of the individual committees are reviewed by the board in its capacity as the primary governing body. The capital required for any change in the credit union's forecasts for asset growth, or unforeseen circumstances, are assessed by the board. The finance department then update the forecast capital resources models produced and the impact upon the overall capital position of the credit union is reassessed.

In relation to the operational risks, the major measurements for additional capital are:

1. Fraud risk – As the credit union has not experienced minimal fraud losses over the past ten years no capital is currently held to cover fraud risk.
2. Property value decline – As all mortgage loans with an LVR in excess of 80% are mortgage insured, no capital is held as a consequence of this risk.

Note	2011 \$'000	2010 \$'000
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**21. CATEGORIES OF FINANCIAL INSTRUMENTS**

**The following information classifies the financial instruments into measurement classes**

**Financial assets – carried at amortised cost**

Cash	4	167	202
Receivables	6	566	500
Receivables from financial institutions	5	22,805	22,719
Loans to members	7	66,759	61,907
<b>Total loans and receivables</b>		90,297	85,328
Available for sale investments – carried at cost		131	130
<b>TOTAL FINANCIAL ASSETS</b>		90,428	85,458

**Financial liabilities**

Short term borrowings	13	24,400	29,400
Creditor accrual and settlement accounts	15	1,299	981
Deposits from other institutions		13,500	5,500
Deposits from members	14	42,312	41,412
<b>TOTAL FINANCIAL LIABILITIES</b>		81,511	77,293

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**22. MATURITY PROFILE OF FINANCIAL LIABILITIES**

Monetary liabilities have differing maturity profiles depending on the contractual term.

The table below shows the period in which different monetary liabilities held will mature and be eligible for renegotiation or withdrawal.

2011	Within 1 month	1-3 months	3-12 months	1-5 years	After 5 years	No maturity	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b><u>LIABILITIES</u></b>							
Borrowings	9,400	9,000	6,000	-	-	-	24,400
Creditors	-	-	-	-	-	1,299	1,299
Deposits from other financial institutions	-	6,000	7,500	-	-	-	13,500
Deposits from members – at call	18,347	-	-	-	-	-	18,347
Deposits from members – term	4,041	4,504	13,779	1,643	-	-	23,967
<b>Total financial liabilities</b>	<b>31,788</b>	<b>19,504</b>	<b>27,279</b>	<b>1,643</b>	<b>-</b>	<b>1,299</b>	<b>81,513</b>
2010	Within 1 month	1-3 months	3-12 months	1-5 years	After 5 years	No maturity	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b><u>LIABILITIES</u></b>							
Borrowings	14,000	9,400	6,000	-	-	-	29,400
Creditors	-	-	-	-	-	981	981
Deposits from other financial institutions	500	4,000	1,000				5,500
Deposits from members – at call	19,847	-	-	-	-	-	19,847
Deposits from members – term	1,336	7,506	11,468	1,255			21,565
<b>Total financial liabilities</b>	<b>35,683</b>	<b>20,906</b>	<b>18,468</b>	<b>1,255</b>		<b>981</b>	<b>77,293</b>

**23. SEGMENTAL REPORTING**

The credit union operates exclusively in the retail financial services industry within Australia.

**24. SUPERANNUATION LIABILITIES**

The credit union contributes to two separate superannuation plans for the purpose of superannuation guarantee payments and payment of other superannuation benefits on behalf of employees. The plans are administered by independent corporate trustees. The credit union has no interest in the superannuation plans (other than as a contributor) and is not liable for the performance of the plans, or the obligations of the plans.

## **25. SECURITISATION**

The credit union has an arrangement with Integris Securitisation Services Pty Limited whereby it acts as an agent to promote and complete loans on their behalf for on sale to an investment trust. The credit union also manages the loans portfolio on behalf of the trust. The credit union bears no risk exposure in respect of these loans. The credit union receives a management fee to recover the costs of on-going administration of the processing of the loan repayments and the issue of statements to the members.

In addition the credit union is able to assign mortgage secured loans to Integris at the book value of the loans, subject to acceptable documentation criteria. During the year the credit union assigned \$30.3m in loans to Integris. These loans qualify for de-recognition on the basis that the assignment transfers all the risks and rewards to Integris and there is no residual benefits to the credit union. The amount of securitised loans under management as at 30 June 2011 is \$146 m (2010: \$129.9m).

## **26. INTEREST RATE CHANGE PROFILE OF FINANCIAL ASSETS AND LIABILITIES**

Financial assets and liabilities have conditions which allow interest rates to be amended either on maturity (term deposits and term investments) or after adequate notice is given (loans and savings). The table below shows the respective value of funds where interest rates are capable of being altered within the prescribed time bands, being the earlier of the contractual repricing date, or maturity date.

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2011	Ave %	Within 1 month	1-3 months	3-12 months	1-5 years	After 5 years	Non interest bearing	Total
		<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b><u>ASSETS</u></b>								
Cash	-	-	-	-	-	-	167	167
Receivables	-	-	-	-	-	-	566	566
Receivables from financial institutions	5.51	7,805	3,000	12,000	-	-	-	22,805
Loans & advances – mortgage	7.80	56,376	-	-	-	-	-	56,376
Loans & advances - personal	11.33	10,354	-	-	-	-	-	10,354
Loans & advances – other	11.5	115	-	-	-	-	-	115
Available for sale investments	-	-	-	-	-	-	131	131
<b>Total financial assets</b>	<b>-</b>	<b>74650</b>	<b>3000</b>	<b>12000</b>	<b>-</b>	<b>-</b>	<b>864</b>	<b>90,514</b>
	Ave %	Within 1 month	1–3 months	3-12 months	1-5 years	After 5 years	Non interest bearing	Total
		<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b><u>LIABILITIES</u></b>								
Borrowings	6.11	9,400	7,000	8,000	-	-	-	24,400
Creditors	-	-	-	-	-	-	1,299	1,299
Deposits from other financial institutions	6.27	-	6,000	7,500	-	-	-	13,500
Deposits from members	3.93	22,648	6,827	12,162	675	-	-	42,312
<b>Total financial liabilities</b>	<b>-</b>	<b>32,048</b>	<b>19,827</b>	<b>27,662</b>	<b>675</b>	<b>-</b>	<b>1,299</b>	<b>81,511</b>

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2010	Ave %	Within 1 month	1-3 months	3-12 months	1-5 years	After 5 years	Non interest bearing	Total
		<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b><u>ASSETS</u></b>								
Cash	-	-	-	-	-	-	202	202
Receivables	-	-	-	-	-	-	500	500
Receivables from financial institutions	5.94	4,719	1,000	16,000	1,000	-	-	22,719
Loans & advances – mortgage	7.39	50,473	-	-	-	-	-	50,473
Loans & advances - personal	11.01	11,481	-	-	-	-	-	11,481
Loans & advances – other	11.25	112	-	-	-	-	-	112
Available for sale investments	-	-	-	-	-	-	130	130
<b>Total financial assets</b>		<b>66,785</b>	<b>1,000</b>	<b>16,000</b>	<b>1,000</b>	<b>-</b>	<b>832</b>	<b>85,617</b>
	Ave %	Within 1 month	1–3 months	3-12 months	1-5 years	After 5 years	Non interest bearing	Total
		<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b><u>LIABILITIES</u></b>								
Borrowings	5.75	14,000	9,400	6,000	-	-	-	29,400
Creditors	-	-	-	-	-	-	981	981
Deposits from other financial institutions	6.07	500	4,000	1,000	-	-	-	5,500
Deposits from members	3.43	21,554	7,250	11,393	1,215	-	-	41,412
<b>Total financial liabilities</b>		<b>36,054</b>	<b>20,650</b>	<b>18,393</b>	<b>1,215</b>	<b>-</b>	<b>981</b>	<b>77,293</b>

**27. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES**

Fair value has been determined on the basis of the present value of expected future cash flows under the terms and conditions of each financial asset and financial liability. Significant assumptions used in determining the cash flows are that the cash flows will be consistent with the contracted cash flows under the respective contracts. The information is only relevant to circumstances at balance date and will vary depending on the contractual rates applied to each asset and liability, relative to market rates and conditions at the time. No assets held are regularly traded by the credit union, and there is no active market to

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assess the value of the financial assets and liabilities. The values reported have not been adjusted for the changes in credit ratings of the assets.

	2011			2010		
	Fair value	Carrying Value	Variance	Fair value	Carrying Value	Variance
		\$'000	\$'000	\$'000	\$'000	\$'000
<b>FINANCIAL ASSETS</b>						
Cash	167	167	-	202	202	-
Receivables	566	566	-	500	500	-
Receivables from financial institutions	22,805	22,805	-	22,719	22,719	-
Loans & advances – mortgage	56,376	56,376	-	50,473	50,473	-
Loans & advances - personal	10,354	10,354	-	11,481	11,481	-
Loans & advances – other	115	115	-	112	112	-
Available for sale investments	131	131	-	130	130	-
<b>Total financial assets</b>	<b>90,514</b>	<b>90,514</b>	-	<b>85,617</b>	<b>85,617</b>	-

	2011			2010		
	Fair value	Carrying Value	Variance	Fair value	Carrying Value	Variance
		\$'000	\$'000	\$'000	\$'000	\$'000
<b>FINANCIAL LIABILITIES</b>						
Borrowings	24,400	24,400	-	29,400	29,400	-
Creditors	1,299	1,299	-	981	981	-
Deposits from financial institutions	13,500	13,500	-	5,500	5,500	-
Deposits from members - Call	18,347	18,347	-	19,847	19,847	-
Deposits from members – Term	23,965	23,965	-	21,565	21,565	-
<b>Total financial liabilities</b>	<b>81,511</b>	<b>81,511</b>	-	<b>77,293</b>	<b>77,293</b>	-

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

**Liquid assets and receivables from other financial institutions**

The carrying values of cash and liquid assets and receivables due from other financial institutions redeemable within 12 months approximate their fair value as they are short term in nature or are receivable on demand.

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**Loans and advances**

The carrying value of loans and advances is net of unearned income and specific provisions for doubtful debts.

For variable rate loans, (excluding impaired loans) the amount shown in the balance sheet is considered to be a reasonable estimate of fair value.

**Deposits from members**

The fair value of call and variable rate deposits, and fixed rate deposits is the amount shown in the Balance Sheet.

**Short term borrowings**

The carrying value of payables due to other financial institutions approximate their fair value as they are short term in nature and reprice frequently.

	Note	2011 \$'000	2010 \$'000
<b>28. FINANCIAL COMMITMENTS</b>			
<b>a. Outstanding loan commitments</b>			
The loans approved but not funded		<u>9,938</u>	<u>5,402</u>
<b>b. Loan redraw facilities</b>			
The loan redraw facilities available		<u>12,452</u>	<u>7,478</u>
<b>Total financial commitments</b>		<u>22,390</u>	<u>12,692</u>
<b>c. Future capital commitments</b>			
Computer Equipment		<u>-</u>	<u>-</u>
<b>d. Computer capital commitments</b>			
Costs committed under contracts relating to the ongoing support and maintenance of the Ultradata core banking system are as follows			
Not later than one year		131	210
Later than 1 year but not 2 years		-	122
Later than 2 years but not 5 years		-	-
Later than 5 years		<u>-</u>	<u>-</u>
		<u>131</u>	<u>332</u>
<b>e. Lease expense commitments for operating leases on property occupied by the credit union</b>			
Not later than 1 year		36	33
Later than 1 year but not later than 5 years		72	99
Over 5 years		<u>-</u>	<u>-</u>
		<u>108</u>	<u>132</u>

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The operating leases are in respect of property used for providing branch services to members. There are no contingent rentals applicable to leases taken out. The term lease is for 5 years and options for renewal are also for 5 year terms.

**29. STANDBY BORROWING FACILITIES**

The credit union has a borrowing facility with Credit Union Services Corporation (Australia) Limited (Cuscal) of:

	<b>Gross</b>	<b>Current</b>	<b>Net</b>
	<b>\$'000</b>	<b>Borrowing</b>	<b>Available</b>
<b>2011</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Loan facility	14,000	14,000	-
Overdraft facility	200	-	200
<b>TOTAL BORROWING FACILITIES</b>	<u>14,200</u>	<u>14,000</u>	<u>200</u>
<b>2010</b>			
Loan facility	10,000	10,000	-
Overdraft facility	200	-	200
<b>TOTAL BORROWING FACILITIES</b>	<u>10,200</u>	<u>10,000</u>	<u>200</u>

Borrowings under the loan facility are subject to the availability of funds at Cuscal.

Cuscal holds an equitable mortgage charge over all of the assets of the credit union as security against loan and overdraft amounts drawn under the facility arrangements.

The credit union has a borrowing facility with Bridges Financial Services (The Wholesale Trust – TWT) of:

	<b>Gross</b>	<b>Current</b>	<b>Net</b>
	<b>\$'000</b>	<b>Borrowing</b>	<b>Available</b>
<b>2011</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Loan facility	11,000	10,400	600
<b>2010</b>			
Loan facility	20,000	19,400	600

Borrowings under the loan facility are subject to the availability of funds at Bridges Financial Services.

### **30. CONTINGENT LIABILITIES**

#### **Liquidity support scheme**

The credit union is a member of the Credit Union Financial Support Scheme Limited (CUFSS) a Company limited by guarantee, established to provide financial support to member credit unions in the event of a liquidity or capital problem. As a member, the credit union is committed to maintaining 3.2% of the total assets as deposits with Cuscal Limited. Under the terms of the Industry Support Contract (ISC), the maximum call for each participating credit union would be 3.2% of the credit union's total assets

(3% under loans and facilities and 0.2% under the cap on contributions to permanent loans). This amount represents the participating credit union's irrevocable commitment under the ISC. At the balance date there were no loans issued under the arrangement.

#### **Guarantees**

The credit union has provided a guarantee to Cuscal to drawings made by members up to a limit of \$400,000 per day, to enable Cuscal to settle the funds transferred by way of direct credit to other financial institutions. The guarantee is cancellable by either the credit union or Cuscal. Members are required to maintain sufficient funds in their account to settle the payments as and when required.

### **31. DISCLOSURES ON DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL**

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

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

**Key management persons (KMP)** have been taken to comprise the directors and the four members of the management group responsible for the day to day financial and operational management of the credit union.

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

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	<b>2011 Directors</b>	<b>2011 Other KMP</b>	<b>2011 Total</b>	<b>2010 Directors</b>	<b>2010 Other KMP</b>	<b>2010 Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
(a) short term employee benefits;	44	404	448	33	394	427
(b) Other long-term benefits – net increases in long service leave provision	-	24	24	-	4	4
<b>TOTAL</b>	44	428	472	33	398	431

In the above table, remuneration shown as short term benefits means (where applicable) **wages, salaries, superannuation, paid annual leave and paid sick leave** but excludes out of pocket expense reimbursements. All remuneration to directors was approved by the members at the previous Annual General Meeting of the Credit Union.

<b>Note</b>	<b>2011 \$'000</b>	<b>2010 \$'000</b>
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**b. Loans to and Deposits from Directors and other Key Management Persons**

(i) The aggregate value of loans to directors and other KMP as at balance date amounted to:	<u>1,287</u>	<u>716</u>
(ii) During the year the aggregate value of loans disbursed to directors and other KMP amounted to:	<u>522</u>	<u>200</u>
(iii) Interest and other revenue earned on Loans and revolving credit facilities to KMP	<u>81</u>	<u>40</u>

The credit union's policy for lending to directors and management is that all loans are approved on the same terms and conditions which applied to members for each class of loan. There are no loans which are impaired in relation to the loan balances with director's or other KMPs.

Total value term and savings deposits from KMP	<u>376</u>	<u>266</u>
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Total Interest paid on deposits to KMP	<u>19</u>	<u>4</u>
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The credit union's policy for receiving deposits from KMP is that all accounts are approved and deposits accepted on the same terms and conditions which applied to members for each type of deposit.

**c. Transactions with Other Related Parties**

Other transactions between related parties include deposits from and loans to director and other KMP related entities or close family members of directors and

other KMP. The credit union's policy for receiving deposits from or approving loans to related parties is that all transactions are carried out on the same terms and conditions which applied to ordinary members.

The Credit Union has a service contract with Transaction Solutions Limited of which the Credit Union's General Manager is a Director. This contract is on normal commercial terms and conditions.

### **32. ECONOMIC DEPENDENCY**

The Credit Union has an economic dependency on the following suppliers of services:

#### **a. Cuscal Limited**

Cuscal is an Approved Deposit Taking Institution (ADI) registered under the Corporations Act 2001 and the Banking Act. This ADI:

- (i) provides settlement with Bankers for ATM, EFT transactions, cheque transactions, direct entry transactions, as well as the production of redicards for use by members;
- (ii) provides treasury and money market facilities to the Credit Union. The credit union has invested some of its liquid assets with the ADI to facilitate its cheque, direct entry and EFT clearing activities, and to comply with the Credit Union Liquidity Support Scheme requirements.

#### **b. First Data International (FDI)**

FDI operates the computer network used to link Redicards operated through Reditellers and other approved ATM suppliers to the credit union's IT Systems.

#### **c. Ultradata Australia Pty Limited**

Provides and maintains the application software utilised by the Credit Union to deliver its banking services.

#### **d. Transaction Solutions Pty Limited (TAS)**

This entity operates the computer facility on which the Credit Union (along with many other credit unions) runs its core banking system. The Credit Union has a management contract with TAS to supply computer support staff and services to meet the day to day needs of the Credit Union and compliance with the relevant Prudential Standards.

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	Note	2011 \$'000	2010 \$'000
<b>33. NOTES TO CASH FLOW STATEMENT</b>			
<b>a. Reconciliation of cash.</b>			
Cash includes cash on hand, and deposits at call with other financial institutions and comprises:			
Cash on hand		167	202
<b>b. Reconciliation of cash from operations to accounting profit</b>			
The net cash increase/(decrease) from operating activities is reconciled to the profit after tax			
Profit after income tax		682	730
<b>Add (Deduct):</b>			
Bad debts written off		-	-
Depreciation expense		85	110
Increase/(Decrease) in provision for employee entitlements		36	(5)
Increase/(Decrease) in provision for income tax		42	186
Increase/(Decrease) in payables		2	(179)
Increase/(Decrease) in interest payable		318	221
Decrease/(Increase) in receivables		(66)	(275)
Decrease/(Increase) in deferred tax assets		(26)	(1)
<b>Net cash from revenue activities</b>		<u>1,073</u>	<u>787</u>

Cash flows arising from the following activities are presented on a net basis in the Statement of Cash Flows:

- (i) investor deposits to and withdrawals from deposit accounts and short term borrowings;
- (ii) borrowings and repayments on loans, advances and other receivables; and
- (iii) movements in investment securities.

**34. EVENTS SUBSEQUENT TO YEAR END**

Effective the 1 August 2011 the Credit Union merged with Geelong & District Credit Co-Operative Society Limited (G&DCC). The value of total assets of GDCCS at this date were \$6,966,417.

Other than the above, no matter or circumstance has arisen since the end of the financial year which significantly affected or may significantly affect the operations, or state of affairs of the credit union in subsequent financial years.

**35. CORPORATE INFORMATION**

The Credit Union is a company limited by shares, and is registered under the Corporations Act 2001.

The addresses of the principal places of business are:

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Point Henry Rd, Geelong, VIC, 3220

Point Danger, Portland, VIC, 3305

Shop 13C Sutton Square Shopping Centre, Mandurah, WA, 6210

10 Nelson Rd, Yennora, NSW, 2161

34A Malop St, Geelong, VIC, 3220

The nature of the operations, and its principal activities are the provision of deposit taking facilities and loan facilities to the members of the Credit Union.