

AWA Credit Union Ltd

Australia Wide Alumina & Aluminium

A different kind of banking

ABN 31 087 651 652

Incorporated in Australia

2013 ANNUAL FINANCIAL REPORT

Registered Office:

POINT HENRY ROAD
GEELONG VIC 3220
(03) 52 451739

AWA CREDIT UNION LTD

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CHAIRMAN'S REPORT

I am once again very pleased to present to you AWA's (44th) Annual Report. The past financial year represents an exceptional performance by AWA both in terms of financial outcomes and the delivery of member benefits during an extremely difficult period for smaller financial institutions.

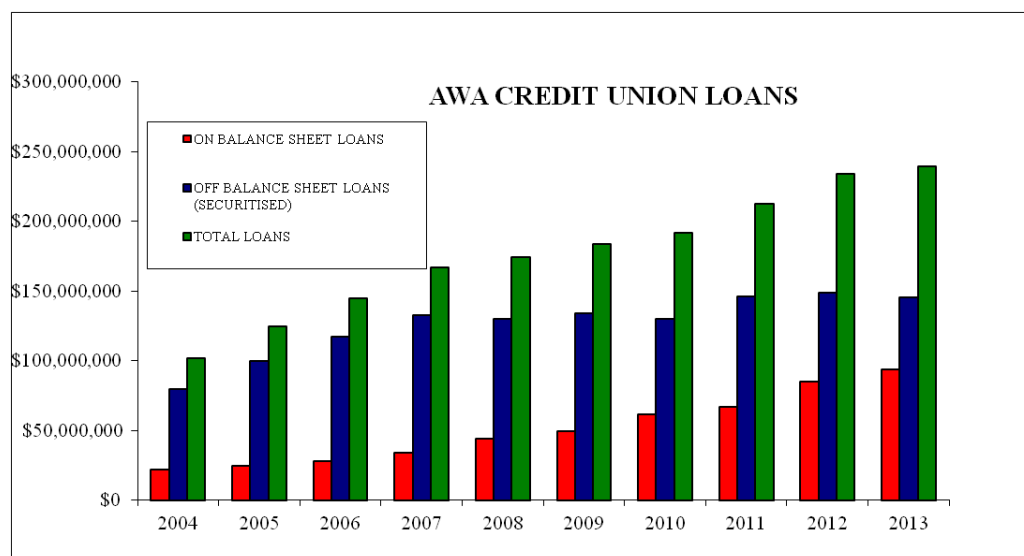
Despite this, AWA continues to fare very well in a tough environment.

Financial

With record low interest rates and low credit demand the mortgage lending market has become ultracompetitive as financial institutions strive to at least maintain and attempt to grow their market share. This in turn provides borrowers with some of the most attractive mortgage products ever seen.

Despite these favourable borrowing conditions, AWA's credit growth has slowed somewhat compared to prior years as has been the case for most lenders.

Although AWA's credit growth has been more subdued in the past year we still find it necessary to securitize significant volumes of our loan portfolio due to our loans demand significantly outstripping our ability to attract retail deposits and wholesale funding with the great majority of our loans continuing to be held in an industry owned securitization vehicle.



During 2012/13 AWA settled \$41.6m of loans which resulted in strong growth in the on-balance sheet loans portfolio from \$85.2m to \$93.8m at the end of the financial year. When combined with the off-balance sheet loans portfolio of \$145.7 m, this equates to total loans under management as at 30 June 2013 of \$239.5 million.

To support this strong growth in on-balance sheet lending AWA's funding (Deposits from members, Deposits from other institutions and Short term borrowings) grew from \$95.9m to \$106m during the year.

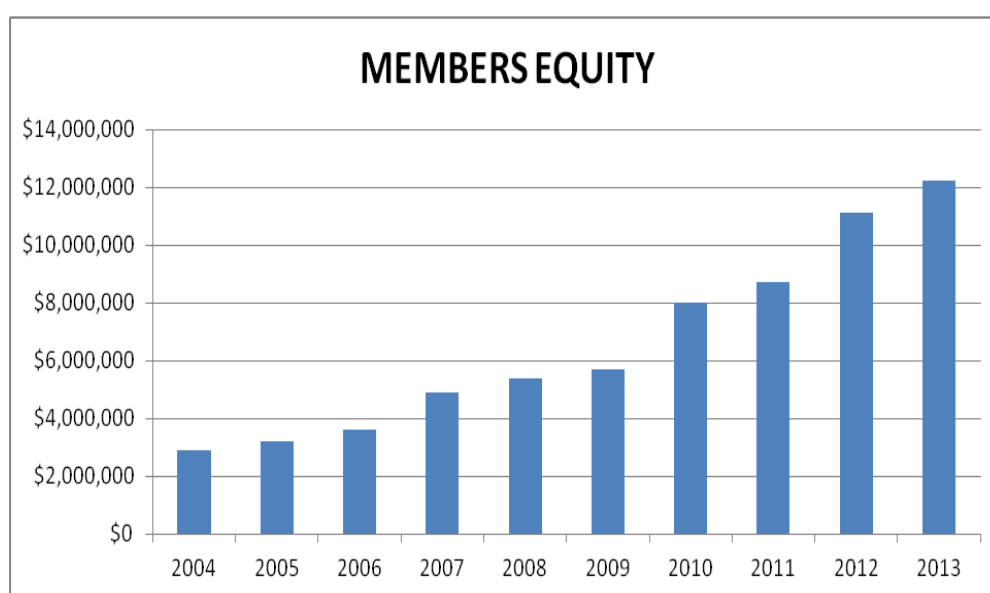
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The record profit result for 2012/13 of \$1,067,961 was considered an excellent result (exceeding the previous record result of \$843,962 in 2011/12), especially considering the pressure on interest margins (caused by a rapid fall in official interest rates) experienced by all financial institutions during the latter part of the financial year. A good deal of this profit can be attributed to Management Fees earned in relation to the off-balance sheet/secured loans portfolio (discussed earlier) as these Management Fees are generally higher in a falling interest rate environment.

AWA's Capital/Members' Equity (which is primarily made up of Retained Earnings) continues to grow on the back of two record profit results which is a clear indication of the strength of your Credit Union.



Milestones

At the 2013 Annual General Meeting Chris Welsh achieves 10 years as a Director of AWA Credit Union. We congratulate Chris on this achievement and thank him for his valuable contribution.

Staffing

We welcomed Wendy Taylor in January this year as a new staff member in our Mandurah WA office and wish her well in her new role.

The Future

As indicated earlier in my Report, AWA's current performance remains sound however we continue to look for opportunities to strengthen our competitive position and our ability to better serve our Members and the communities in which we operate. As part of this on-going quest we have been working with several like-minded credit unions to explore ideas to effectively address our current and foreseeable challenges and provide a better long-term future for our Members and staff. We will continue to diligently assess these opportunities in an attempt to enhance our current business model and to secure our organisation's long term wellbeing.

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Those of you present at the last two AGM's may recall that we spoke of our participation with a group of Credit Unions exploring the possibility of aggregating our service needs to ensure that we deal with any perceived strategic risks to our future.

We are hopeful of being able to share the outcomes of these initiatives with Members at this year's AGM as this long term project enters its final stages.

In Summary

I would like to thank my fellow Board members and our staff for their continued support during the past financial year. Their performance over past years has 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 2013.

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:-

Name	Qualifications	Experience
Brian R Virtue Chairman	MAMI Retired HR Consultant	Member of the Board of Directors since 1971 (resigned 1973, re-elected 1982), Chairman since 1983.
Peter Richardson Vice-Chairman	B Com, CPA, Dip Tm, Grad Dip Tax, MAMI Self-employed Consultant	Member of the Board of Directors since 1996, Vice-Chairman since 2002, Chairman of the BARC.
Richard P Lyle Director	B Com, CPA, MAMI Self-employed Consultant	Member of the Board of Directors since 2000 (resigned 2001, re-elected 2005). Member of the BARC.
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 Com, CPA, FAMI, Dip Financial Services Senior Management Accountant – Alcoa World Alumina Australia	Member of the Board of Directors since 2003, Member of the BARC.

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

Name	Qualification	Experience
Graeme N Scannell Secretary/Manager	B Com, CPA, FAMI	Manager of the Credit Union since 1991, Secretary of the Credit Union since 1992.

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Directors' Meeting Attendance

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

Director	Board		Strategic Planning		BARC		Period of Appointment
	H	A	H	A	H	A	
Brian R Virtue	12	10	1	1	-	-	Full Year
Peter Richardson	12	12	1	1	4	4	Full Year
Richard P Lyle	12	10	1	1	4	4	Full Year
Brett J Noonan	12	10	1	1	-	-	Full Year
Warwick J Peel	12	12	1	1	-	-	Full Year
Stevern J Ward	12	8	1	1	-	-	Full Year
Christopher Welsh	12	10	1	1	4	1	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	0	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.

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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 \$1,067,961 (2012 - \$843,962).

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.

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
- (iii) The state of affairs of the Credit Union

in the financial year subsequent to this financial year.

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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:



Brian R Virtue
Chairman



Peter Richardson
Vice-Chairman

Dated: 25 September 2013



Auditor Independence Declaration Under S307C 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 2013 there have been no contraventions of:

- 1) The auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- 2) Any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink that reads "Crowe Horwath".

CROWE HORWATH MELBOURNE

A handwritten signature in black ink that reads "Anne Lockwood".

ANNE LOCKWOOD
Partner

Geelong, Victoria
26 September 2013

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DIRECTORS DECLARATION

The directors of AWA Credit Union Limited declare that:-

The financial statements comprising Comprehensive Statement of Income, Statement of Financial Position, 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 2013 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.



Brian R Virtue
Chairman

Dated: 25 September 2013



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

Report on the financial report

We have audited the accompanying financial report of AWA Credit Union Ltd, which comprises the statement of financial position as at 30 June 2013, the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory notes 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 gives a true and fair view and 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 (IFRS).

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 judgment, 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 company's preparation of the financial report 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 entity'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*, provided to the directors of AWA Credit Union Ltd, would be in the same terms if provided to the directors as at the time of this auditor's report.

Auditor's opinion

In our opinion:

- a) the financial report of AWA Credit Union Ltd is in accordance with the *Corporations Act 2001*, including:
 - I. giving a true and fair view of the entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
 - II. complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

A handwritten signature in black ink that reads "Crowe Horwath".

CROWE HORWATH MELBOURNE

A handwritten signature in black ink that reads "Anne Lockwood".

ANNE LOCKWOOD
Partner

Geelong Victoria
26 September 2013

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**COMPREHENSIVE STATEMENT OF INCOME
FOR YEAR ENDED 30 JUNE 2013**

	Note	2013 \$'000	2012 \$'000
Interest revenue	2.a	6,659	6,887
Interest expense	2.c	4,036	4,320
Net interest income		<u>2,623</u>	<u>2,567</u>
Fee commission and other income	2.b	2,828	2,365
		<u>5,451</u>	<u>4,932</u>
Non interest expenses			
Impairment losses on loans receivable from members	2.d	-14	-17
General administration			
- Employees compensation and benefits	2.f	1,200	1,136
- Depreciation and amortisation	2.f	112	110
- Information technology		443	432
- Office occupancy		110	101
- Other administration		2,084	2,009
Total non interest expenses	2.e	<u>3,935</u>	<u>3,771</u>
Profit before income tax		<u>1,516</u>	<u>1,161</u>
Income tax expense	3	448	317
Profit after income tax		<u>1,068</u>	<u>844</u>
Other comprehensive income, net of income tax			
<i>Items that will be reclassified subsequently to profit or loss</i>			
Gain from transfer of business		-	1,522
Total other comprehensive Income, net of income tax		<u>-</u>	<u>1,522</u>
Total comprehensive income for the year		<u>1,068</u>	<u>2,366</u>

The accompanying notes form part of these financial statements

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STATEMENT OF FINANCIAL POSITION**AS AT 30 JUNE 2013**

	Note	2013	2012
		\$'000	\$'000
ASSETS			
Cash	4	388	398
Receivables from financial institutions	5	25,058	22,424
Receivables	6	505	529
Prepayments		11	10
Loans to members	7	93,730	85,230
Available for sale investments	9	142	148
Property, plant and equipment	10	211	253
Taxation assets	11	250	238
Intangible assets	12	57	85
TOTAL ASSETS		120,352	109,315
LIABILITIES			
Short term borrowings	13	27,492	25,122
Deposits from other institutions	13	20,508	21,178
Deposits from members	14	58,102	49,640
Creditor accruals and settlement accounts	15	1,294	1,685
Taxation liabilities	16	193	64
Employee Benefits	17	546	488
TOTAL LIABILITIES		108,135	98,177
NET ASSETS		12,217	11,138
MEMBERS' EQUITY			
Capital reserve account	18	47	36
General reserve for credit losses	19	281	256
Retained earnings		10,289	9,246
Subordinated debt	34	1,600	1,600
TOTAL MEMBERS' EQUITY		12,217	11,138

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 2013**

	Capital Reserve	Reserve for Credit Losses	Retained Earnings	Sub- debt	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Total at 1 July 2011	28	200	6,871	1,600	8,699
Total comprehensive income for the year	-	-	844	-	844
Transfers to (from) reserves					
Transfer to (from) reserves for credit losses in year	-	(9)	9	-	-
Transfer to (from) capital account on redemption of Shares	8	-	-	-	8
Transfer to retained earnings following merger with G&DCC	-	65	1,522	-	1,587
Total at 30 June 2012	36	256	9,246	1,600	11,138

	Capital Reserve	Reserve for Credit Losses	Retained Earnings	Sub- debt	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Total at 1 July 2012	36	256	9,246	1,600	11,138
Total comprehensive income for the year	-	-	1,068	-	1,068
Transfers to (from) reserves					
Transfer to (from) reserves for credit losses in year	-	25	(25)	-	-
Transfer to (from) capital account on redemption of Shares	11	-	-	-	11
Total at 30 June 2013	47	281	10,289	1,600	12,217

The accompanying notes form part of these financial statements

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**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2013**

	Note	2013	2012
		\$'000	\$'000
OPERATING ACTIVITIES			
Revenue Inflows			
Interest received		6,694	6,956
Fees and Commissions		2,742	2,262
Dividends		29	35
Other income		48	37
Revenue outflows			
Interest paid		(4,179)	(4,204)
Suppliers and employees		(4,005)	(3,285)
Income taxes paid		(331)	(419)
Net cash from revenue activities	33.b	<u>998</u>	<u>1,382</u>
Inflows from other operating activities			
Loans and advances to members – (Increase)/Decrease		(8,500)	(18,471)
Deposits and shares – Increase/(Decrease)		7,791	15,007
Deposits with other ADIs – (Increase)/Decrease		(2,635)	380
Net cash from/(used in) operating activities		<u>(3,344)</u>	<u>(3,084)</u>
INVESTING ACTIVITIES			
Investments – Sale		7	14
Intangible assets – (Acquisition)		(27)	(72)
Property, plant & equipment – (Acquisition)		(14)	(253)
Net cash received on transfer of business		-	1,522
Net cash from investing activities		<u>(34)</u>	<u>1,211</u>
FINANCING ACTIVITIES			
Borrowings – Increase/(Decrease)		2,370	722
Net cash from financing activities		<u>2,370</u>	<u>722</u>
Total net cash Increase/(Decrease)		(10)	231
Cash at beginning of year		398	167
Cash at end of year	33.a	<u>388</u>	<u>398</u>

The accompanying notes form part of these financial statements

Notes to the financial statements

For the year ended 30 June 2013

1. Significant accounting policies

AWA Credit Union Ltd (the Credit Union) is a for profit company domiciled in Australia. The Financial Statements were authorised for issuance by the Directors on 25 September 2013.

(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 2013

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

(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:

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 14 (2012 – 15.6) 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.

Notes to the financial statements

For the year ended 30 June 2013

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 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 Credit Union's investments are reported at their recoverable amount representing the aggregate amount of principal and unpaid interest owing to the credit union at balance date.

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.

(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)).

(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 |

Notes to the financial statements

For the year ended 30 June 2013

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

(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.

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For the year ended 30 June 2013

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.

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).

As a financial institution the company is input taxed on all income, except for income from commissions, rents and some fees. An input taxed supply is not subject to GST collection, and similarly the GST paid on related or apportioned purchases cannot be recovered. As some income is charged GST, the GST on purchases is generally recovered on a proportionate basis. In addition, certain prescribed purchases are subject to reduced input taxed credits (RITC), of which 75% of the GST paid is recoverable.

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 Statement of Financial

Notes to the financial statements

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Position. As a provider of input taxed services the Credit Union is entitled to claim a Reduced Input Tax Credit on certain supplies.

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 Statement of Financial Position 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 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 2012/13 totalled \$2.5m (2011/12 - \$5.8m) and the volume of "Bulk Sale" loans originated during 2012/13 totalled \$18.8m (2011/12 - \$13.8m).

(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 2013 are \$10.3m (2012 - \$9.2m).

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For the year ended 30 June 2013

Lending risk reserve (reserve for credit losses)

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 \$281,017 to a lending risk reserve account as at 30 June 2013 (2012 - \$255,566). This reserve is calculated at the rate of 0.03% of loan balances.

Member share redemption reserve (capital 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 \$47,230 (2012 - \$36,390) 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 2013 allocation amounts to \$10,840 (2012 - \$8,460).

(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

Notes to the financial statements

For the year ended 30 June 2013

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.

(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.

Notes to the financial statements

For the year ended 30 June 2013

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

AASB 9 simplifies the classification of financial assets into those to be carried at amortised cost and those to be carried at fair value – the 'available for sale' and 'held-to-maturity' categories no longer exist.

The new categories of financial assets are:

- Amortised cost – those assets with 'basic' loan features'
- Fair value through other comprehensive income - this treatment is optional for equity instruments not held for trading (this choice is made at initial recognition and is irrevocable)
- Fair Value through profit and Loss - everything that does not fall into the above two categories

The following changes also apply:

- Investments in unquoted equity instruments must be measured at fair value. However, cost may be the appropriate measure of fair value where there is insufficient more recent information available to determine a fair value
- There is no longer any requirement to consider whether 'significant or prolonged' decline in the value of financial assets has occurred. The only impairment testing will be on those assets held at amortised cost, and all impairments will be eligible for reversal.
- Similarly, all movements in the fair value of a financial asset now go to the income statement, or, for equity instruments not held for trading, other comprehensive income. There is no longer any requirement to book decrements through the income statement, and increments through equity.
- The rules for reclassification of financial assets have been simplified. Financial assets are now reclassified only when the entity's business model changes – this is expected to be very infrequent.

Notes to the financial statements

For the year ended 30 June 2013

In December 2010, the AASB released a revised version of AASB 9 which included new requirements for the measurement and classification of financial liabilities, with the following key features:

- Most liabilities continue to be measured at amortised cost.
- Where a liability is measured at fair value, any change in fair value which is attributable to the entity's own credit risk must be shown as part of Other Comprehensive Income, not as part of the profit or loss.

Due to the recent release of these amendments and that adoption is only mandatory for the 30 June 2016 year end, the entity has not yet made an assessment of the impact of these amendments.

At the 30 June 2013, the entity has \$106,102 of financial liabilities measured at fair value through profit or loss. The amendments require that any changes in fair value attributable to the liability's credit risk be recognised in other comprehensive income instead of profit or loss. The amendments apply retrospectively from date of initial application, which will be 1 July 2014. Therefore, at this stage, it is not yet possible for the entity to quantify the impact on the financial statements of first time application of these amendments.

AASB 13 replaces the existing IFRS guidance on fair value measurement and disclosure. It applies whenever another standard permits or requires the use of fair value measurements. It sets out a fair value hierarchy for such measurements:

- Level 1 – quoted prices in active markets for identical assets and liabilities, which can be accessed at the measurement date.
- Level 2 – inputs other than quoted market prices included within Level 1, which are observable for the asset or liability, either directly or indirectly.
- Level 3 – unobservable inputs for the asset or liability

There are also extensive disclosure requirements relating to each of the three levels within the hierarchy.

AASB 3 Business Combinations.

The Credit Union has applied revised AASB 3 Business Combinations 2008 for business combinations on or after 1 July 2009. All business combinations occurring on or after 1 July 2009 are accounted for by applying the acquisitions method.

For business combinations, the Credit Union is the combining entity that obtains control of the other combining entity or business. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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The acquisition date is the date on which control is transferred to the acquirer.

Consideration includes the value of the assets transferred, liabilities incurred and equity interests.

A contingent liability of the acquiree is assumed in a business combination only if such a liability represents a present obligation, arises from a past event and its fair value can be measured reliably.

Transaction costs that the Credit Union incurs in connection with a business combination, such as legal fees, due diligence fees and other professional consulting fees are expensed as incurred.

The 2012 balances include amounts acquired from Geelong & District Credit Co-operative Limited (G&DCC) as at 1 August 2012

AASB 119 Employee Benefits

The entity currently calculates its liability for annual leave employee benefits on the basis that it is due to be settled within 12 months of the end of the reporting period because employees are entitled to use this leave at any time. The amendments to AASB 119 require that such liabilities be calculated on the basis of when the leave is expected to be taken, i.e. expected settlement. When this standard is first adopted for 30 June 2014 year end, annual leave liabilities will be recalculated on 1 July 2013. Leave liabilities for any employees with significant balances of leave outstanding who are not expected to take their leave within 12 months will be discounted, which may result in a reduction of the annual leave liabilities recognised on 1 July 2013, and a corresponding increase in retained earnings at that date.

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	Note	2013 \$'000	2012 \$'000
2. INCOME STATEMENT			
a. Analysis of interest revenue			
Interest revenue on assets carried at amortised cost			
Cash – deposits at call	5	427	291
Receivables from financial institutions	5	667	891
Loans to members	7.a	5,565	5,705
TOTAL INTEREST REVENUE		6,659	6,887
b. Non-Interest Revenue			
Fee and commission revenue			
Fee income on loans – other than loan origination fees		131	168
Fee income from member deposits		237	228
Other fee income		2,319	1,847
Other commissions		64	50
TOTAL FEE AND COMMISSION REVENUE		2,751	2,293
Other income			
Available for sale assets			
Dividends received on available for sale assets		29	35
Bad debts recovered		-	4
Miscellaneous income		48	33
TOTAL OTHER INCOME		77	72
TOTAL FEE COMMISSION AND OTHER INCOME		2,828	2,365
c. Interest expense			
Interest expense on liabilities carried at amortised cost			
Short term borrowings		1,094	1,338
Deposits from financial institutions		1,132	1,100
Deposits from members		1,694	1,744
Interest on subordinated debt		116	138
TOTAL INTEREST EXPENSE		4,036	4,320

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	Note	2013 \$'000	2012 \$'000
d. Impairment losses			
Loans and advances			
Increase (decrease) in provision for impairment		-14	-17
TOTAL IMPAIRMENT LOSSES		-14	-17
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		276	253
Data Line Rental		60	60
Transaction Processing Costs		71	72
Redicard Transaction Fees		120	134
Corporate Insurances		44	42
Network Support		34	37
Bank Charges		62	39
Redicard Production and Participation Fees		26	14
Securitisation Expenses		14	33
f. Other prescribed disclosures			
General administration – employees compensation and benefits include:			
- net movement in provisions for employee annual leave		24	22
- net movement in provisions for employee long service leave		34	44
- superannuation		135	143
		<u>193</u>	<u>209</u>
General administration – depreciation & amortisation expenses include:			
- plant and equipment		27	25
- leasehold improvements		28	25
- amortisation of software		57	60
		<u>112</u>	<u>110</u>
General administration – office occupancy costs include:			
property operating lease payments		<u>92</u>	<u>84</u>

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	Note	2013 \$'000	2012 \$'000
Other administration expenses include:			
Auditor's remuneration			
- Audit Fees		24	27
- Other Services – Taxation		1	1
		25	28
3. INCOME TAX EXPENSE			
a. The income tax expense comprises amounts set aside as:-			
Current tax expense – current year profits		460	352
Deferred tax expense			
Decrease (increase) in the deferred tax asset account		(12)	(35)
Total income tax expense in comprehensive statement of income	3.b	448	317
b. The prima facie tax payable on profit is reconciled to the income tax expense in the accounts as follows:			
Profit		1,516	1,161
Prima facie tax payable on profit before income tax at 30%		455	348
Add tax effect of expenses not deductible		18	19
Less			
- Franking rebate		13	15
- Adjustment to recognise deferred tax assets increase		12	35
Income tax expense attributable to current year profit		448	317
4. CASH			
Cash on hand	33.a	388	398
5. RECEIVABLES FROM FINANCIAL INSTITUTIONS			
Deposits with industry bodies – Cuscal	27	621	825
Deposits with other Financial Institutions	27	24,437	21,599
		25,058	22,424

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	Note	2013 \$'000	2012 \$'000
6. RECEIVABLES			
Interest receivable on deposits with other financial institutions		314	348
Sundry debtors and settlement accounts		191	181
		505	529
7. LOANS TO MEMBERS			
a. Amount due comprises:			
Overdrafts and revolving credit		113	111
Term Loans		93,672	85,188
Subtotal		93,785	85,299
Less:			
Provision for impaired loans	8	55	69
		93,730	85,230
b. Credit quality			
Secured by mortgage over real estate		84,893	75,271
Partly secured by goods mortgage		7,325	8,009
Wholly unsecured		1,567	2,019
		93,785	85,299

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)	82,222	69,206
- 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)	2,671	6,065
Total	84,893	75,271

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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	2013	2012
	\$'000	\$'000
c. Concentration of loans		
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	2,566	2,578
(ii) Geographical concentrations		
2013	Housing	Personal
	Total	
NSW	5,767	616
Victoria	62,024	6,167
Queensland	1,124	52
South Australia	-	4
Western Australia	15,858	1,942
Territories	120	111
Total per Statement of Financial Position	84,893	8,892
		93,785
2012	Housing	Personal
	Total	
NSW	4,764	706
Victoria	55,627	6,966
Queensland	1,627	66
South Australia	-	17
Western Australia	13,253	2,193
Territories	-	80
Total per Statement of Financial Position	75,271	10,028
		85,299
	Note	
	2013	2012
	\$'000	\$'000
Loans to natural persons		
Residential loans and facilities	81,941	72,607
Personal loans and facilities	8,892	10,028
	90,833	82,635

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 \$14,758,804 (2012 \$13,830,148). The transfer satisfies the de-recognition criteria prescribed in AASB 139, and the value has been removed from the carrying loan value in the Statement of Financial Position. The purpose of the transfer

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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.

	2013	2012
	\$'000	\$'000
8. PROVISION ON IMPAIRED LOANS		
a. Total provision comprises		
Collective provisions	55	69
b. Movement in provision for impairment		
Balance at the beginning of year	69	86
Add (deduct):		
Transfers from (to) income statement	2	(7)
Bad debts written off provision	(16)	(10)
Balance at end of year	55	69
Details of credit risk management is set out in Note 20.c		
c. Impaired loans written off		
Amounts written off against the provision for impaired loans	16	10
Amounts written off directly to expense	-	-
Total bad debts	16	10
Bad debts recovered in the period	2	4
d. Analysis of loans that are impaired or potentially impaired by class		
In the Note below –		
• Carrying Value is the amount from the Statement of Financial Position		
• Impaired loans value is the ‘on balance sheet’ loan balances which are past due by 90 days or more		
• Provision for impairment is the amount of the impairment provision allocated to the class of impaired loans		

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	2013	2013	2013	2012	2012	2012
	Carrying value	Value of Impaired Loans	Provision for Impairment	Carrying value	Value of Impaired Loans	Provision for Impairment
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Mortgages	81,941	-	-	72,607	-	-
Personal	8,779	66	55	9,917	84	69
Overdrafts	113	-	-	111	-	-
Total to natural persons	90,833	66	55	82,635	84	69

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

	2013	2013	2012	2012
	Carrying Value	Provision	Carrying Value	Provision
	\$'000	\$'000	\$'000	\$'000
Non impaired up to 30 days	16,278	-	16,133	-
30 to 90 days in arrears	120	-	590	-
90 to 180 days in arrears	3	2	12	6
180 to 270 days in arrears	25	16	-	-
270 to 365 days in arrears	6	4	20	18
Over 365 days in arrears	33	33	45	45
Total	16,465	55	16,800	69

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 losses arising in past years. Given the relatively

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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%

2013 **2012**
\$'000 **\$'000**

9. AVAILABLE FOR SALE INVESTMENTS**Shares in unlisted companies – at cost**

- Cuscal Ltd	136	136
- TAS Pty Ltd	6	12
	142	148

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 however 2012/13 TAS undertook a share buyback which reduced our holding by \$6,000.

	2013	2012
	\$'000	\$'000
10. PROPERTY, PLANT AND EQUIPMENT		
a. Plant and equipment – at cost	248	239
Less: provision for depreciation	179	149
	<u>69</u>	<u>90</u>
Capitalised leasehold improvements at cost	280	273
Less: provision for amortisation	138	110
	<u>142</u>	<u>163</u>
Total Property, Plant and Equipment	<u>211</u>	<u>253</u>

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

	2013			2012		
	Plant & equipment \$'000	Leasehold improvements \$'000	Total \$'000	Plant & equipment \$'000	Leasehold improvements \$'000	Total \$'000
Opening balance	90	163	253	46	2	48
Plus Purchases	6	7	13	82	186	268
Less Assets disposed	-	-	-	(13)	-	(13)
Depreciation charge	(27)	(28)	(557)	(25)	(25)	(50)
Balance at the end of the year	<u>69</u>	<u>142</u>	<u>211</u>	<u>90</u>	<u>163</u>	<u>253</u>

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

	2013	2012
	\$'000	\$'000
11. TAXATION ASSETS		
Deferred tax assets comprise:		
Provisions for impairment on loans	76	80
Provisions for employee benefits	167	151
Provisions for other liabilities	7	7
	<u>250</u>	<u>238</u>

	2013	2012
	\$'000	\$'000
12. INTANGIBLE ASSETS		
Computer software	466	438
Less provision for amortisation	409	353
	<u>57</u>	<u>85</u>

Movement in the assets balances during the year were:

Opening balance	85	74
Plus Purchases	28	71
Less Amortisation charge	56	60
Balance at the end of the year	<u>57</u>	<u>85</u>

13. SHORT TERM BORROWINGS & DEPOSITS FROM OTHER INSTITUTIONS

Loans – Bridges Financial Services	8,492	8,122
Loans - Cuscal	19,000	17,000
	<u>27,492</u>	<u>25,122</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.

Deposits -		
Questor	11,508	11,878
Shell Employees Credit Union Limited	2,000	2,000
Esso Employees Credit Union	4,000	4,000
Ford Co-Operative Credit Society Limited	2,000	2,000
Circle Credit Co-operative Limited	1,000	300
Swan Hill Credit Union Limited	-	1,000
	<u>20,508</u>	<u>21,178</u>

14. DEPOSITS FROM MEMBERS

Member Deposits		
- at call	23,091	21,928
- term	34,961	27,655
Member withdrawable shares	50	57
	<u>58,102</u>	<u>49,640</u>

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

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	2013	2012
	\$'000	\$'000
Concentration of member deposits		
(i) Member deposits at balance date were received from individuals employed principally in Australia and principally with Alcoa Australia Ltd.		
(ii) Geographical concentrations		
Victoria	47,300	39,675
NSW	5,429	5,683
Queensland	536	418
South Australia	188	205
Western Australia	4588	3,605
Tasmania	31	24
Territories	30	30
Total per balance sheet	<u>58,102</u>	<u>49,640</u>

15. CREDITOR ACCRUALS AND SETTLEMENT ACCOUNTS

Interest payable on borrowings	235	50
Interest payable on deposits	608	936
Settlement Accounts	327	598
Sundry creditors	124	101
	<u>1,294</u>	<u>1,685</u>

16. TAXATION LIABILITIES

Current income tax liability/(refund)	<u>193</u>	<u>64</u>
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Current income tax liability/(refund) comprises:

Balance – previous year	64	131
Plus Liability for income tax in current year	460	352
Less Instalments paid in current year	(331)	(419)
Balance – current year tax liability (refund)	<u>193</u>	<u>64</u>

17. EMPLOYEE BENEFITS

Long service leave	302	268
Annual leave	244	220
	<u>546</u>	<u>488</u>

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	2013	2012
	\$'000	\$'000
18. CAPITAL RESERVE ACCOUNT		
Balance at beginning of year	36	28
Transfer from current year's profit on share redemptions	<u>11</u>	<u>8</u>
Balance at end of year	47	36

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.

19. GENERAL RESERVE FOR CREDIT LOSSES

General reserve for credit losses	281	256
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General reserve for credit losses

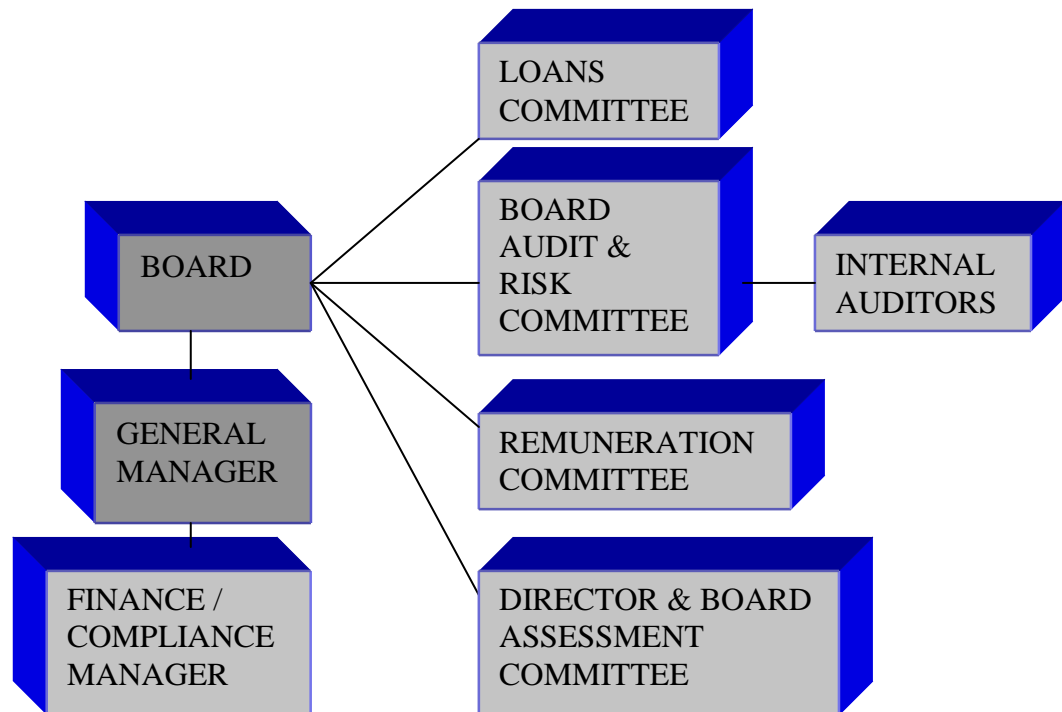
This reserve records amounts previously set aside as a general provision and is maintained to comply with the Prudential Standards set down by APRA

Balance at beginning of year	256	200
Add: increase (decrease) transferred from Retained Earnings	25	(9)
Add: increase following merger with G&DCC	-	65
Balance at end of year	<u>281</u>	<u>256</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.

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

The BARC has responsibility for managing and reporting credit risk exposure. It scrutinises operational reports and monitors exposures against limits determined by the Board. The BARC 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 BARC 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.

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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 BARC. 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 subject to approval by the Board.

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

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

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

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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 BARC, 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;

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-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 18% 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.

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

	2013	2012
To total adjusted liabilities		
As at 30 June	18.17%	18.20%
Average for the year	18.92%	19.67%
Minimum during the year	17.22%	16.06%
To total member deposits		

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As at 30 June	43.16%	46.67%
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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).

	2013	2013	2013	2012	2012	2012
Loan class	Carrying value	Off balance sheet	Max exposure	Carrying value	Off balance sheet	Max exposure
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Mortgage	84,893	29,325	114,218	75,271	25,313	100,584
Personal	8,779	-	8,779	9,917	-	9,917
Overdrafts	113	-	113	111	-	111
Total	93,785	29,325	123,110	85,299	25,313	110,612

Carrying value is the value on the Statement of Financial Position. Maximum exposure is the value on the Statement of Financial Position 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

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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.

Statement of Financial Position 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

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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.

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 \$5,400,000 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.

In accordance with the APS 330 Public Disclosure requirements, the credit union is required to include details on the composition and features of capital and risk weighted assets in the Regulatory Disclosure section on their website.

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:

- Tier 2 capital instruments – subordinated loan

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- A general reserve for credit losses.

Capital in the Credit Union is made up as follows:

	2013	2012
	\$'000	\$'000
Tier 1 Common Equity		
Retained earnings	10,336	9,283
Less prescribed deductions	(450)	(392)
Tier 1 capital	<u>9,886</u>	<u>8,891</u>
Tier 2 Capital		
Tier 2 capital instruments - subordinated loan	1,600	1,600
General Reserve for credit losses	281	256
Less prescribed deductions	(160)	(68)
Net Tier 2 capital	<u>1,721</u>	<u>1,788</u>
Total Capital	<u>11,607</u>	<u>10,679</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.

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.

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

2013	2012	2011	2010	2009
Basel III	Basel II	Basel II	Basel II	Basel II
17.62%	18.14%	15.95%	16.17%	14.38%

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.

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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	2013 \$'000	2012 \$'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	388	398
Receivables	6	505	529
Receivables from financial institutions	5	25,058	22,424
Loans to members	7	93,730	85,230
Total loans and receivables		<u>119,681</u>	<u>108,581</u>
Available for sale investments – carried at cost		142	148
TOTAL FINANCIAL ASSETS		<u>119,823</u>	<u>108,729</u>

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	Note	2013 \$'000	2012 \$'000
Financial Liabilities			
Short term borrowings	13	27,492	25,122
Creditor accrual and settlement accounts	15	1,294	1,685
Deposits from other institutions		20,508	21,178
Deposits from members	14	58,102	49,640
TOTAL FINANCIAL LIABILITIES		107,396	97,625

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.

2013	Within 1 month	1-3 months	3-12 months	1-5 years	No maturity	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
LIABILITIES						
Borrowings	2,000	12,492	13,000	-	-	27,492
Creditors	-	-	-	-	1,294	1,294
Deposits from other financial institutions	4,000	9,000	7,508	-	-	20,508
Deposits from members – at call	23,141	-	-	-	-	23,141
Deposits from members – term	8,996	9,714	10,480	5,771	-	34,961
Total financial liabilities	38,137	31,206	30,988	5,771	1,294	107,396
2012	Within 1 month	1-3 months	3-12 months	1-5 years	No maturity	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
LIABILITIES						
Borrowings	3,400	12,722	9,000	-	-	25,122
Creditors	-	-	-	-	1,685	1,685
Deposits from other financial institutions	5,000	8,300	7,878	-	-	21,178
Deposits from members – at call	21,985	-	-	-	-	21,985
Deposits from members – term	4,472	5,691	15,466	2,026	-	27,654
Total financial liabilities	34,867	26,713	32,344	2,026	1,685	97,624

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 \$14.7m 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 2013 is \$145.7m (2012: \$149.1m).

The Credit Union does not have any obligations in connection with performance, or impairment guarantees, or call options to repurchase the loans.

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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2013	Ave %	Within 1 month	1-3 months	3-12 months	1-5 years	Non interest bearing	Total
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<u>ASSETS</u>							
Cash	-	-	-	-	-	388	388
Receivables	-	-	-	-	-	505	505
Receivables from financial institutions	4.36	6,871	-	18,188	-		25,059
Loans & advances – mortgage	5.36	84,893	-	-	-	-	84,893
Loans & advances - personal	11.36	8,892	-	-	-	-	8,892
Loans & advances – other	10.7	113	-	-	-	-	113
Available for sale investments	-	-	-	-	-	142	142
Total financial assets		100,769	-	18,188	-	1,035	119,992
	Ave %	Within 1 month	1–3 months	3-12 months	1-5 years	Non interest bearing	Total
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<u>LIABILITIES</u>							
Borrowings	3.98	2,000	12,492	13,000			27,492
Creditors	-	-	-	-	-	1,294	1,294
Deposits from other financial institutions	5.51	4,000	9,000	7,508	-	-	20,508
Deposits from members	2.91	32,137	9,714	10,480	5,771	-	58,102
Total financial liabilities		38,137	31,206	30,988	5,771	1,294	107,396

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2012	Ave %	Within 1 month	1-3 months	3-12 months	1-5 years	Non interest bearing	Total
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<u>ASSETS</u>							
Cash	-	-	-	-	-	398	398
Receivables	-	-	-	-	-	529	529
Receivables from financial institutions	5.04	9,475	3,949	9,000	-	-	22,424
Loans & advances – mortgage	6.04	75,271	-	-	-	-	75,271
Loans & advances - personal	11.16	9,917	-	-	-	-	9,917
Loans & advances – other	11.25	111	-	-	-	-	111
Available for sale investments	-	-	-	-	-	148	148
Total financial assets		94,774	3,949	9,000	-	1,075	108,798
	Ave %	Within 1 month	1–3 months	3-12 months	1-5 years	Non interest bearing	Total
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<u>LIABILITIES</u>							
Borrowings	5.01	3,400	12,722	9,000	-	-	25,122
Creditors	-	-	-	-	-	1,685	1,685
Deposits from other financial institutions	5.50	5,000	8,300	7,878	-	-	21,178
Deposits from members	3.98	26,461	5,691	15,466	2,022	-	49,640
Total financial liabilities		34,861	26,713	32,344	2,022	1,685	97,265

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.

	2013			2012		
	Fair value	Carrying Value	Variance	Fair value	Carrying Value	Variance
		\$'000	\$'000	\$'000	\$'000	\$'000
<u>FINANCIAL ASSETS</u>						
Cash	388	388	-	398	398	-
Receivables	505	505	-	529	529	-
Receivables from financial institutions	25,059	25,059	-	22,424	22,424	-
Loans & advances – mortgage	84,893	84,893	-	75,271	75,271	-
Loans & advances - personal	8,892	8,892	-	9,917	9,917	-
Loans & advances – other	113	113	-	111	111	-
Available for sale investments	142	142	-	148	148	-
Total financial assets	119,992	119,992	-	108,798	108,798	-

	2013			2012		
	Fair value	Carrying Value	Variance	Fair value	Carrying Value	Variance
		\$'000	\$'000	\$'000	\$'000	\$'000
<u>FINANCIAL LIABILITIES</u>						
Borrowings	27,492	27,492	-	25,122	25,122	-
Creditors	1,294	1,294	-	1,684	1,684	-
Deposits from financial institutions	20,508	20,508	-	21,178	21,178	-
Deposits from members - Call	23,140	23,140	-	21,989	21,989	-
Deposits from members – Term	34,912	34,912	-	27,651	27,651	-
Total financial liabilities	107,346	107,346	-	97,624	97,624	-

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 Statement of Financial Position 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 Statement of Financial Position.

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.

	2013	2012
	\$'000	\$'000
28. FINANCIAL COMMITMENTS		
a. Outstanding loan commitments		
The loans approved but not funded	6,917	6,251
b. Loan redraw facilities		
The loan redraw facilities available	22,408	19,113
Total financial commitments	<u>29,325</u>	<u>25,364</u>
c. IT Expense commitments		
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	268	255
Later than 1 year but not 2 years	268	255
Later than 2 years but not 5 years	427	680
	<u>963</u>	<u>1,190</u>
d. Lease expense commitments for operating leases on property occupied by the Credit Union		
Not later than 1 year	84	83
Later than 1 year but not later than 5 years	140	169
	<u>224</u>	<u>252</u>

The operating leases are in respect of property used for providing branch services to members. There are no contingent rentals applicable to leases

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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:

	Gross	Current	Net
	\$'000	Borrowings	Available
		\$'000	\$'000
2013			
Loan facility	19,000	19,000	-
Overdraft facility	200	-	200
TOTAL BORROWING FACILITIES	19,200	19,000	200
2012			
Loan facility	17,000	17,000	-
Overdraft facility	200	-	200
TOTAL BORROWING FACILITIES	17,200	17,000	200

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:

	Gross	Current	Net
	\$'000	Borrowings	Available
		\$'000	\$'000
2013			
Loan facility	8,492	8,492	-
2012			
Loan facility	8,122	8,122	-

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 an Australian ADI. 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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	2013 Directors	2013 Other KMP	2013 Total	2012 Directors	2012 Other KMP	2012 Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
(a) short term employee benefits;	83	455	538	59	403	462
(b) Other long-term benefits – net increases in long service leave provision	-	20	20	-	44	44
TOTAL	83	475	558	59	447	506

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.

	2013 \$'000	2012 \$'000
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:	2,192	1,636
(ii) During the year the aggregate value of loans disbursed to directors and other KMP amounted to:	889	314
(iii) Interest and other revenue earned on Loans and revolving credit facilities to KMP	74	101

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	1,135	199
Total Interest paid on deposits to KMP	60	17

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.

In accordance with the APS 330 Public Disclosure requirements, the credit union is required to include both qualitative disclosure and quantitative disclosures for senior managers and material risk-takers in the Regulatory Disclosure section on their website.

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. OUTSOURCING ARRANGEMENTS

The Credit Union has arrangements with other organisations to facilitate the supply of services to members:

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;
- (iii) operates the computer network used to link Redicards operated through Reditellers and other approved ATM suppliers to the Credit Union's IT Systems.

b. Ultradata Australia Pty Limited

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

c. 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	2013 \$'000	2012 \$'000
33. NOTES TO CASH FLOW STATEMENT			
a. Reconciliation of cash.			
Cash includes cash on hand, and deposits at call with other financial institutions and comprises:			
Cash on hand	4	388	398
b. Reconciliation of cash from operations to accounting profit			
The net cash increase/(decrease) from operating activities is reconciled to the profit after tax			
Profit after income tax		1,068	844
Add (Deduct):			
Depreciation expense		112	110
Increase/(Decrease) in provision for employee entitlements		58	66
Increase/(Decrease) in provision for income tax		129	(67)
Increase/(Decrease) in payables		(238)	311
Increase/(Decrease) in interest payable		(143)	116
Decrease/(Increase) in receivables		24	37
Decrease/(Increase) in deferred tax assets		(12)	(35)
Net cash from revenue activities		<u>998</u>	<u>1,382</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. SUBORDINATED DEBT

The Credit Union issued a Subordinated Debt Small Scale Offering on 18 December 2009. This subordinated debt issue is unsecured and has a maturity of 5 years with repayment due on 18 December 2014.

The debt carries interest payable quarterly of 4% per annum above the 90 day bank bill swap rate.

The subordinated debt qualifies as capital under APRA's capital adequacy prudential standards and remains subordinated to the rights of all other present and future creditors of the Credit Union in the event of liquidation of the Credit Union.

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35. EVENTS SUBSEQUENT TO YEAR END

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.

36. 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:

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.