



# 2012 Annual Report

Horizon Credit Union Ltd  
ABN 66 087 650 173  
AFSL 240573  
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# Mutual Banking Code of Practice

## Our 10 Key Promises

1. We will be fair and ethical in our dealings with you
2. We will focus on our members
3. We will give you clear information about products and services
4. We will be responsible leaders
5. We will deliver high customer service and standards
6. We will deal fairly with any complaints
7. We will recognise member rights as owners
8. We will comply with our legal and industry obligations
9. We will recognise our impact on the wider community
10. We will support and promote this Code of Practice

These 10 Key Promises are presented to you as a part of the Mutual Banking Code of Practice which began on the 1st of July 2009.

The Code expresses our commitment to member benefit, community involvement, fairer fees and member service.

## CHAIRMAN'S REPORT

On behalf of the Board of Directors I am pleased to present to our members the 2012 Horizon Credit Union Annual Report. As was the case in the preceding three years, it has been a challenging environment for financial institutions with ongoing concerns in the global economic environment as European debt issues continue to erode investor confidence. There has also been a slowing demand for credit products as Australian households increase savings and reduce debt. Despite these pressures, I am very pleased however to report that Horizon continues to operate extremely well, reflected by yet another year of solid profitability, increasing capital adequacy, and most importantly, exceptional levels of member satisfaction.

Credit Union profitability for the year was slightly down on the 2011 levels, with Net Profit before Tax decreasing by 15.5% to \$875,217. As always, credit union profitability was driven primarily by our Net Interest Margin, which fell from 2.76% to 2.60%, reflecting increased competition for retail term deposits in conjunction with further reductions in the RBA cash rate. Horizon was able to partly offset this fall through prudent expense management, and an outstanding result in bad and doubtful debts expense of just \$16,905 from a total loan portfolio of \$197.9m.

Horizon's asset growth of 5.3% was slightly higher than for 2011 with deposit growth of 6.5% and loan growth of 2.3% a pleasing outcome and consistent with expectations in a difficult market. As a result, Horizon's capital adequacy ratio rose from 14.50% to 14.59% through the year, and members can be satisfied that not only does this comfortably exceed our regulatory requirement; it provides a substantial buffer against future economic shocks. Total assets of the credit union now exceed \$253m.

Some milestones for the credit union during 2011/2012 include: The opening of our new Ulladulla Branch in May 2012, implementation of our first Teller Cash Recycler (TCR) providing efficient and personalised member service without the need for glass security screens, winner of the Money Magazine best Credit Union secured loan product, Money Magazine Personal Lender of the year award, finalist in the Money Magazine Credit Union of the year, the launch of our mobile banking product enabling members to conduct banking services through smart devices such as iPhones and the launch of "Business Banking" providing more efficient internet banking services to small and medium sized organisations. These are but a few of our outstanding achievements during 2011/2012.

In looking ahead to the new financial year in 2012/2013, we can unfortunately expect to experience continued uncertainty in global financial markets amidst European and North American debt concerns and questions about China's ability to sustain current growth rates. Further legislative changes and the implementation of APRA's reforms known as 'Basel 3' is likely to impose additional capital and liquidity obligations upon financial institutions. We are fortunate however that the high standard of prudential management in Australian banking institutions generally, and Horizon in particular, will mean that the impact of new reforms will hopefully be minimal. 2013 will also see a necessary migration of Horizon's payments and switching services from First Data International to Cuscal. While this represents a fundamental change to transaction processing, this change will be relatively "invisible" to members and will provide Horizon with the ability to provide more flexible payment services into the future.

I would like to thank Jon Stanfield and the Senior Management Team for their efforts during 2011/2012. Their skill and professionalism is second to none as the financial results indicate. Customer service continues to be our strong point and the service to our members is exemplary. This is also a direct result of dedicated skilled and passionate staff who are at the forefront of every member transaction.

The Board as a whole and individual Directors strive to ensure that Policy matters and our strategic direction sets the foundation for Horizon to prosper and succeed in difficult economic times. I thank them for their efforts and continued support. Each Director continues to upgrade their professional development through training courses and industry seminars to ensure that they are well abreast of current legislative, regulatory and governance requirements.

Finally it is you the members who I wish to thank for your trust and continued support over the years. Horizon Credit Union is a prosperous and safe financial institution and I am proud to be both a long term member and Chairman of an award winning team.



Leigh Wallace  
Chairman of the Board of Director

# DIRECTORS' REPORT

Your Directors present their report on the credit Union for the financial year ended 30th June 2012.

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: -

<i>Name</i>	<i>Qualifications</i>	<i>Experience</i>	<i>Responsibilities</i>
L Wallace	B Bus, MBA, AFAMI	Director – 1998 to 2012	Chairman Chairman of the Remuneration Committee Chairman of the Corporate Governance Committee Member of the Audit and Risk Committee
I Bonella	B.A., M.Appl. Sci., FAMI	Director – 1988 to 2012	Member of the Corporate Governance Committee Member of the Remuneration Committee
J Hinge	MAMI	Director – 2009 to 2012	Chairperson of the Audit and Risk Committee Member of the Remuneration Committee
P McLeod	FAMI	Director – 1967 to 2012	Member of the Audit and Risk Committee
G Papac	MAMI	Director – 2010 to 2012	Member of the Corporate Governance Committee Member of the Remuneration Committee
M Poulton	FAMI, GAICD	Director – 1987 to 2012	Member of the Audit and Risk Committee
S Scard	FAMI, GAICD	Director – 1977 to 2012	Member of the Corporate Governance Committee

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

<i>Name</i>	<i>Qualifications</i>	<i>Experience</i>
J. Stanfield	B Ec., ACA, F Fin., MAMI	Chief Executive Officer

## Directors' meeting attendance

Director	Board		Audit & Risk Committee		Corporate Governance Committee		Nomination Committee		Remuneration Committee	
	H	A	H	A	H	A	H	A	H	A
L Wallace	13	12	3	3	4	4	1	1	5	4
I Bonella	13	12	2	1	3	3			5	5
J Hinge	13	13	3	3	1	1			5	5
P McLeod	13	12	2	2	1	1	1	1		
G Papac	13	13	2	2	3	3	1	1	5	5
M Poulton	13	11	3	3	1	1				
S Scard	13	13	2	2	3	3				

*H = Meetings Held in the period of appointment    A = Attended*

## 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, controlled entity, or a related body corporate with a Director, a firm of which a Director is a member or an entity in which a Director has a substantial financial interest, other than that disclosed in note 31 of the financial report.

## 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 proceeding arising out of their conduct while acting in their capacity as an officer of the credit union. In accordance with normal commercial practice, disclosure of the premium amount and the nature of the insured liabilities is prohibited by a confidentiality clause in the contract.

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

## Financial Performance Disclosures

### Principal Activities

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

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

### Operating Results

The net profit of the credit union for the year after providing for income tax was \$646,915 [2011 \$753,386].

### 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 the affairs of the credit union during the year.

### Likely Developments and Results

No other 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: -

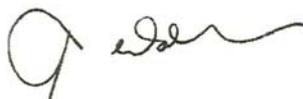
- (i) The operations of the credit union;
- (ii) The results of those operations; or
- (iii) The state of affairs of the credit union

in the financial year subsequent to this financial year.

### Auditors' Independence

The auditors have provided the following declaration of independence to the board as prescribed by the Corporations Act 2001 as set out on page 6.

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:



Chairman  
Signed and dated this 22nd August 2012



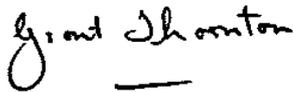
Director

## AUDITOR'S INDEPENDENCE DECLARATION

### To the Directors of Horizon Credit Union Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor of Horizon Credit Union Limited for the year ended 30th June 2012, I declare that to the best of my knowledge and belief, that there have been:

- a) no contraventions of the auditor independence requirements of the Corporations Act in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.



GRANT THORNTON AUDIT PTY LTD  
Chartered Accountants



**Max Perry**  
Director – Audit & Assurance

Signed in Sydney this 22nd day of August 2012

## INDEPENDENT AUDIT REPORT

### To the members of Horizon Credit Union Limited

#### Report on the Financial Report

We have audited the accompanying financial report of Horizon Credit Union Limited, which comprises the statement of financial position as at 30th June 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

#### Directors' Responsibility for the Financial Report

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

#### Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. 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 misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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.

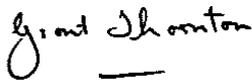
#### Independence

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*, which has been given by the directors of Horizon Credit Union Limited, would be in the same terms if given to the directors at the time of this auditor's report.

## Auditor's Opinion

In our opinion:

- a. the financial report of Horizon Credit Union Limited is in accordance with the *Corporations Act 2001*, including:
  - i. giving a true and fair view of the credit union's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
  - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.



GRANT THORNTON AUDIT PTY LTD  
Chartered Accountants



**Max Perry**  
Director – Audit & Assurance

Signed in Sydney this 22nd day of August 2012

## DIRECTORS' DECLARATION

The directors' of Horizon Credit Union Limited declare that: -

1. The financial statements comprising the statement of financial position, the statement of comprehensive income, statement of changes in equity, statement of cash flows, accompanying notes and notes related thereto, are in accordance with the Corporations Act 2001, and: -
  - a. comply with Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
  - b. give a true and fair view of the financial position of the credit union's financial position as at 30th June 2012 and of its performance for the year ended on that date.
2. The credit union has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.
3. 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 and is signed for and on behalf of the directors by.



Director

Dated this 22nd August 2012

# STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2012

	Note	2012 \$	2011 \$
<b>Revenue</b>			
Interest revenue	2a	16,008,327	15,889,743
Interest expense	2c	(9,586,139)	(9,392,917)
<b>Net interest income</b>		<b>6,422,188</b>	<b>6,496,826</b>
Fees, commission and other income	2b	2,770,425	2,803,978
		9,192,613	9,300,804
Less			
<b>Non Interest Expenses</b>			
Impaired losses on loans receivable from members	2d	(16,905)	1,188
Fee and commission expenses		(625,557)	(627,149)
General Administration			
- Employees costs		(3,859,999)	(3,808,558)
- Depreciation and amortisation		(372,979)	(555,824)
- Information technology		(940,817)	(924,397)
- Office occupancy		(517,760)	(516,783)
- Other administration		(528,383)	(556,780)
Total General Administration		(6,219,938)	(6,362,342)
Other Operating Expenses		(1,454,996)	(1,276,445)
Total Non Interest Expenses		(8,317,396)	(8,264,748)
<b>Profit before Income Tax</b>		<b>875,217</b>	<b>1,036,056</b>
Income Tax Expense	3	(228,302)	(282,670)
<b>Profit after Income Tax</b>		<b>646,915</b>	<b>753,386</b>

The above statement should be read in conjunction with the attached notes

# STATEMENT OF CHANGES IN MEMBER EQUITY

FOR THE YEAR ENDED 30 JUNE 2012

	Capital Reserve Account \$	Retained Earnings \$	Reserve for Credit Losses \$	Other Reserves \$	Total \$
Total at 1 July 2010	132,216	14,645,769	972,813	403,283	16,154,081
Net Profit for the year	-	753,386	-	-	753,386
Transfers to (from) Reserves	2,096	127,314	(6,386)	(123,024)	-
Total at 30 June 2011	<u>134,312</u>	<u>15,526,469</u>	<u>966,427</u>	<u>280,259</u>	<u>16,907,467</u>
Net Profit for the year	-	646,915	-	-	646,915
Transfers to (from) Reserves	2,236	(88,296)	86,060	-	-
Total as at 30 June 2012	<u>136,548</u>	<u>16,085,088</u>	<u>1,052,487</u>	<u>280,259</u>	<u>17,554,382</u>

The above statement should be read in conjunction with the attached notes

# STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2012

	Note	2012 \$	2011 \$
<b>ASSETS</b>			
Cash and cash equivalents	4	7,501,808	6,075,964
Liquid investments	5	42,881,812	36,158,944
Receivables	6	760,044	718,311
Prepayments		129,677	152,645
Loans to members	7 & 8	197,944,560	193,551,454
Investments	9	549,569	549,569
Property, plant and equipment	10	2,958,518	2,851,904
Intangible assets	11	46,042	55,849
Taxation assets	12	416,157	404,730
<b>TOTAL ASSETS</b>		<b>253,188,187</b>	<b>240,519,370</b>
<b>LIABILITIES</b>			
Borrowings	13	12,000,000	13,464,410
Deposits from financial institutions	14	3,000,000	2,500,000
Deposits from members	15	216,929,629	203,678,720
Payables	16	3,260,885	3,453,087
Taxation liabilities	17	273,175	341,245
Provisions	18	170,116	174,441
<b>TOTAL LIABILITIES</b>		<b>235,633,805</b>	<b>223,611,903</b>
<b>NET ASSETS</b>		<b>17,554,382</b>	<b>16,907,467</b>
<b>MEMBERS EQUITY</b>			
Capital reserve account	19	136,548	134,312
Reserves	21	1,332,746	1,246,686
Retained earnings	22	16,085,088	15,526,469
<b>TOTAL MEMBERS EQUITY</b>		<b>17,554,382</b>	<b>16,907,467</b>

The above statement should be read in conjunction with the attached notes

## Table of other notes to accounts

23	Financial risk management objectives and policies
24	Categories of financial instruments
25	Maturity profile of financial assets and liabilities
26	Interest rate change profile of financial assets and liabilities
27	Net fair value of financial assets and liabilities
28	Financial commitments
29	Standby borrowing facilities
30	Contingent liabilities
31	Disclosures on directors and other key management personnel
32	Economic dependency
33	Segmental reporting
34	Superannuation liabilities
35	Securitisation
36	Notes to statement of cash flows
37	Corporate information

# STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2012

	Note	2012 \$	2011 \$
<b>OPERATING ACTIVITIES</b>			
<b>Inflows</b>			
Interest received		16,006,004	15,842,543
Fees and commissions		2,552,636	2,526,835
Dividends Received		118,596	171,998
Other income		57,129	38,291
<b>Outflows</b>			
Interest paid		(9,916,168)	(8,883,819)
Suppliers and employees		(7,771,703)	(7,846,072)
Income taxes (paid)/refunded		(289,628)	(219,394)
<b>Net Cash from Revenue Activities</b>	36b	<b>756,866</b>	<b>1,630,382</b>
<b>Inflows (outflows) from other operating activities</b>			
(Increase) in Member loans (net movement)		(4,425,116)	(11,874,228)
Increase in Member deposits and shares (net movement)		13,250,909	10,748,846
Decrease/(increase) in receivables from financial institutions (net movement)		(6,722,868)	3,313,606
<b>Net Cash used in Operating Activities</b>		<b>2,859,791</b>	<b>3,818,606</b>
<b>INVESTING ACTIVITIES</b>			
<b>Inflows</b>			
Proceeds on sale of property, plant and equipment		16,364	32,010
<b>Less: Outflows</b>			
Purchase of intangible assets		(25,774)	(58,810)
Purchase of property, plant and equipment		(460,127)	(456,847)
<b>Net Cash (used in)/from Investing Activities</b>		<b>(469,537)</b>	<b>(483,647)</b>
<b>FINANCING ACTIVITIES</b>			
<b>Inflows (Outflows)</b>			
Increase in borrowings (net movement)		(964,410)	(1,991,599)
<b>Net Cash (used in)/from Financing Activities</b>		<b>(964,410)</b>	<b>(1,991,599)</b>
Total Net Cash increase/(decrease)		1,425,844	1,343,360
Cash at Beginning of Year		6,075,964	4,732,604
<b>Cash at End of Year</b>	36a	<b>7,501,808</b>	<b>6,075,964</b>

The above statement should be read in conjunction with the attached notes

## 1. STATEMENT OF ACCOUNTING POLICIES

The financial report is prepared for Horizon Credit Union Limited as a single entity, for the year ended the 30th June 2012. The report was authorised for issue on 22nd August 2012 in accordance with a resolution of the board of directors. The financial report is presented in Australian dollars. The financial report is a general purpose financial report that has been prepared in accordance with the *Australian equivalents to International Financial Reporting Standards* (AIFRS), other authoritative pronouncements of the Australian Accounting Standards board and the *Corporations Act 2001*. Compliance with AIFRS ensures the financial statements and notes comply with the *International Financial Reporting Standards* (IFRS).

### a. Basis of measurement

The financial statements have been prepared on an accruals basis, and are based on historical costs, which do not take into account changing money values or current values of non current assets, with the exception of real property and available for sale assets, which are stated at fair values. The accounting policies are consistent with the prior year unless otherwise stated.

### b. Loans to members

#### (i) Basis of recognition

All loans are initially recognised at fair value, net of loan origination fees and inclusive of transaction costs incurred. Loans are subsequently measured at amortised cost. Any difference between the proceeds and the redemption amount is recognised in the statement of comprehensive income over the period of the loan using the effective interest method.

Loans to members are reported at their recoverable amount representing the aggregate amount of principal and unpaid interest owing to the credit union at balance date, less any allowance or provision against debts considered doubtful. A loan is classified as impaired where recovery of the debt is considered unlikely as determined by the board of directors.

#### (ii) Interest earned

**Term loans** - The loan interest is calculated on the basis of the daily balance outstanding and is charged in arrears to a member's account on the last day of each month.

**Overdraft** - The loan interest is calculated initially on the basis of the daily balance outstanding and is charged in arrears to a member's account on the last day of each month.

**Credit cards** - the interest is calculated initially on the basis of the daily balance outstanding and is charged in arrears to a members account on the 28th day of each month, on cash advances and unpaid purchases at the payment due date. Purchases are granted up to 45 days interest free until the due date for payment which is the 12th day of the following month.

**Non accrual loan interest** - while still legally recoverable, interest is not brought to account as income when the credit union is informed that the member has deceased, or where a loan is impaired.

#### (iii) Loan origination fees and discounts

Loan establishment fees and discounts are initially deferred as part of the loan balance, and are brought to account as income over the expected life of the loan as interest revenue.

#### (iv) Transaction costs

Transaction costs are expenses which are direct and incremental to the establishment of the loan. These costs are initially deferred as part of the loan balance, and are brought to account as a reduction to income over the expected life of the loan, and included as part of interest revenue.

#### (v) Fees on loans

The fees charged on loans after origination of the loan are recognised as income when the service is provided or costs are incurred, with the exception of fixed rate loan renegotiation fees. Fees charged to members who break their fixed rate loan contract and continue to hold the loan with either a variable interest rate or renegotiated fixed rate, are recognised over the remainder of the fixed rate period.

## 1. STATEMENT OF ACCOUNTING POLICIES (Continued)

### c. Loan impairment

#### (i) Specific and collective provision for impairment

A provision for losses for impaired loans is recognised when there is objective evidence that the impairment of a loan has occurred. Estimated impairment losses are calculated on an individual basis. The amount provided is determined by management and the board to recognise the probability of loan amounts not being collected in accordance with the terms of the loan agreement. The critical assumptions in the calculation are as set out in Note 8g. Note 23C details the credit risk management approach for loans.

APRA Prudential Standards require a minimum provision to be maintained, based on specific percentages on the loan balance which are contingent upon the length of time the repayments are in arrears. This approach is used to assess the collective provisions for impairment.

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset or a group of financial assets is impaired. Evidence of impairment may include indications that the borrower has defaulted, is experiencing significant financial difficulty, or where the debt has been restructured to reduce the burden to the borrower.

#### (ii) Reserve for credit losses

In addition to the above specific provision, the Board has recognised the need to make an allocation from retained earnings to ensure there is adequate protection for members against the prospect that some members will experience loan repayment difficulties in the future. The reserve is based on estimation of potential risk in the loan portfolio based upon:

- The level of security taken as collateral.
- The concentration of loans taken by employment type.

#### (iii) Renegotiated loans

Loans which are subject to renegotiated terms which would have otherwise been impaired do not have the repayment arrears diminished and interest continues to accrue to income. Each renegotiated loan is retained at the full arrears position until the normal repayments are reinstated and brought up to date and maintained for a period of 6 months.

### d. Bad debts written off

Bad debts are written off from time to time as determined by management and the board of directors when it is reasonable to expect that the recovery of the debt is unlikely. Bad debts are written off against the provision for impairment if a provision for impairment had previously been recognised. If no provision had been recognised, the write offs are recognised as expenses in the statement of comprehensive income.

### e. Property, plant and equipment

Land and buildings are measured at cost or deemed cost (being fair value as at 1st July 2005), less accumulated depreciation.

Property plant and equipment, with the exception of freehold land, is depreciated on a straight-line basis so as to write off the net cost of each asset over its expected useful life to the credit union. Estimated useful lives are as follows:

- Buildings – 40 years.
- Leasehold Improvements – 10 years.
- Plant and Equipment – 3 to 7 years.
- Assets less than \$300 are not capitalised.

### f. Receivables from other financial institutions

Term deposits and Negotiable Certificates of deposit with other financial institutions are unsecured and have a carrying amount equal to their principal amount. Interest is paid on the daily balance at maturity or on an annual basis if invested longer than 12 months. All deposits are in Australian currency.

The accrual for interest receivable is calculated on a proportional basis of the expired period of the term of the investment. Interest receivable is included in the amount of receivables in the statement of financial position.

## 1. STATEMENT OF ACCOUNTING POLICIES (Continued)

### g. Equity investments and other securities

Investments in shares are classified as available-for-sale financial assets where they do not qualify for classification as loans and receivables, or investments held for trading.

Investments in shares that do not have a ready market and are not capable of being reliably valued are recorded at the lower of cost or recoverable amount.

All investments are in Australia currency.

### h. Member deposits

#### (i) Basis for measurement

Member savings and term investments are quoted at the aggregate amount of money owing to depositors.

#### (ii) Interest payable

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

### i. Borrowings

All borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the statement of comprehensive income over the period of the loans and borrowings using the effective interest method.

### j. Provision for employee benefits

Provision is made for the credit union's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year, have been measured at their nominal amount.

Other employee benefits payable later than one year have been measured at the present value of the estimates future cash outflows to be made for those benefits discounted using national government bond rates.

Provision for long service leave is on a pro-rata basis from commencement of employment with the credit union based on the present value of its estimated future cash flows.

Annual Leave is accrued in respect of all employees on a pro-rata entitlement for a part year of service and leave entitlement due but not taken at balance date.

Contributions are made by the credit union to an employee's superannuation fund and are charged as expenses when incurred.

### k. Leasehold on premises

Leases where the lessor retains substantially all the risks and rewards of ownership of the net asset are classified as operating leases. Payments made under operating leases (net of incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

A provision has not been recognised for the estimate of make good costs on the operating leases, based on the immaterial nature of these expenses and the intention of the credit union to maintain branches at the current locations for the foreseeable future.

## 1. STATEMENT OF ACCOUNTING POLICIES (Continued)

### l. Income tax

The income tax expense shown in the statement of comprehensive income is based on the operating profit before income tax adjusted for any non tax deductible, or non-assessable items between accounting profit and taxable income. Deferred tax assets and liabilities are recognised using the statement of financial position liability method in respect of temporary differences arising between the tax bases of assets or liabilities and their carrying amounts in the financial statements. Current and deferred tax balances relating to amounts recognised directly in equity are also recognised directly in equity.

Deferred tax assets and liabilities are recognised for all temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable. These differences are presently assessed at 30%.

Deferred tax assets are only brought to account if it is probable that future taxable amounts will be available to utilise those temporary differences. The recognition of these benefits is based on the assumption that no adverse change will occur in income tax legislation; and the anticipation that the credit union will derive sufficient future assessable income and comply with the conditions of deductibility imposed by the law to permit a future income tax benefit to be obtained.

### m. Intangible assets

Items of computer software that are not integral to the computer hardware owned by the credit union are classified as intangible assets.

Computer software held as intangible assets is amortised over the expected useful life of the software. These lives range from 2 to 3 years.

### n. Goods and services tax

As a financial institution the credit union is input taxed on all income except income from commissions and some fees. An input taxed supply is not subject to goods and services tax (GST) collection, and similarly the GST paid on purchases cannot be recovered. As some income is charged GST, the GST on purchases are generally recovered on a proportionate basis. In addition certain prescribed purchases are subject to Reduced Input Tax Credits, of which 75% of the GST paid is recoverable.

Revenue, expenses and assets are recognised net of the amount of GST, except where the amount of the GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included where applicable GST is collected. The net amount of GST recoverable from, or payable to, the ATO is included as an asset or liability in the statement of financial position. Cashflows are included in the statement of cashflows on a gross basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the Australian Taxation Office, are classified as operating cashflows.

### o. Cash and cash equivalents

*Cash* comprises cash on hand and demand deposits.

*Cash equivalents* are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

### p. Impairment of assets

At each reporting date the credit union assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, the recoverable amount is determined and impairment losses are recognised in the statement of comprehensive income where the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of 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. Where it is not possible to estimate recoverable amount for an individual asset, recoverable amount is determined for the cash-generating unit to which the asset belongs.

### q. Accounting estimates and judgements

Management have made judgements when applying the credit union's accounting policy with respect to the classification of assets as available for sale.

The detail of the critical accounting estimates and assumptions are set out in note 8 for the impairment provisions for loans.

## 1. STATEMENT OF ACCOUNTING POLICIES (Continued)

### r. New standards applicable for the current year

The credit union applies the current revised accounting standards applicable for financial years commencing the 1st July 2011. There are no new standards applicable for the current financial year. Some amendments have been made to standards that apply to the credit union, as follows:

#### **AASB 7 Financial Instrument Disclosures**

##### **Nature of change**

Deletes various disclosures relating to credit risk, renegotiated loans and receivables and the fair value of collateral held.

##### **Application date**

Periods commencing on or after 1st January 2011.

##### **Impact on initial application**

There will be no impact on initial adoption to amounts recognised in the financial statement as the amendments result in fewer disclosures only.

#### **AASB 101 Presentation of Financial Statements**

##### **Nature of change**

A detailed reconciliation of each item of other comprehensive income may be included in the statement of changes in equity or in the notes to the financial statements.

##### **Application date**

Periods commencing on or after 1st January 2012.

##### **Impact on initial application**

There will be no impact on initial adoption of this amendment as a detailed reconciliation of each item of other comprehensive income has always been included in the statement of changes in equity.

### s. New or emerging standards not yet mandatory

Certain new accounting standards and interpretations have been published that are not mandatory for the 30th June 2012 reporting period. The credit union's assessment of the impact of these new standards and interpretations is set out below:

#### **AASB 9 Financial Instruments** (Issued December 2009 and amended December 2010)

##### **Nature of change**

Amendments the requirements for classification and measurement of financial assets. The following requirements have generally been carried forward unchanged from AASB 139 *Financial Instruments Recognition and Measurement* into AASB 9. These include the requirements relating to;

- Classification and measurement of financial liabilities; and
- Derecognition requirements for financial assets and liabilities.

However, AASB9 requires that gains or losses on financial liabilities measured at fair value are recognised in profit or loss, except that the effects of changes in the liabilities credit risk are recognised in other comprehensive income.

##### **Application date**

Periods beginning on or after 1st January 2015.

##### **Impact on initial application**

The entity does not have any financial liabilities measured at fair value through the statement of comprehensive income. There will therefore be no impact on the financial statements when these amendments to AASB 9 are first adopted.

#### **AASB 2010-6** (Issued November 2010)

##### **Nature of change**

Amendments to Australian accounting standards disclosures on transfers of financial assets.

##### **Application data**

Annual reporting periods commencing on or after 1st July 2011.

##### **Impact on initial application**

Additional disclosures required for entities that transfer financial assets, including information about the nature of financial assets involved and the risks associated with them. As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements.

2. STATEMENT OF COMPREHENSIVE INCOME	Note	2012 \$	2011 \$
<b>a. Analysis of interest revenue</b>			
<b>Interest revenue on assets carried at amortised cost</b>			
Cash – deposits at call		303,314	69,981
Receivables from financial institutions		1,924,869	2,083,849
Loans to members		13,780,144	13,735,913
		<u>16,008,327</u>	<u>15,889,743</u>
<b>b. Non-interest revenue</b>			
<b>Fee and commission revenue</b>			
- Loan fee income – other than loan origination fees		486,333	480,006
- Transaction fee income		724,402	692,912
- ATM income		853,861	862,854
- Insurance commissions		279,473	313,036
- Other commissions		247,977	239,469
<b>Total Fee and commission revenue</b>		<u>2,592,046</u>	<u>2,588,277</u>
<b>Other Income</b>			
Dividends received		118,596	171,998
Bad debts recovered		5,842	4,852
Gain on disposal of assets			
- Property, Plant and Equipment		2,654	5,412
Miscellaneous revenue		51,287	33,439
		<u>2,770,425</u>	<u>2,803,978</u>
<b>c. Interest expense</b>			
<b>Interest expense on liabilities carried at amortised cost</b>			
Short term borrowings		511,279	800,067
Deposits from financial institutions		124,832	208,389
Deposits from members		8,950,028	8,384,461
		<u>9,586,139</u>	<u>9,392,917</u>
<b>d. Impairment losses on loans and advances</b>			
Increase/(Decrease) in provision for impairment		16,905	(1,188)
		<u>16,905</u>	<u>(1,188)</u>
<b>e. Individually Significant items of Expenditure (detail)</b>			
There are no items of expense shown as part of Administration expenses that are considered to be significant to the understanding of the financial performance.			
<b>f. Other prescribed expense disclosures</b>			
Auditors remuneration (excluding GST)			
- Audit fees		63,618	75,083
- Other services – taxation		4,075	4,000
		<u>67,693</u>	<u>79,083</u>
Bad and doubtful debts expense, net of recoveries and movement of provisions		16,905	(1,188)
Depreciation of			
- Buildings		18,099	18,099
- Plant and equipment		276,339	290,855
- Leasehold improvements		42,961	38,771
Loss on disposal of assets			
- Property plant & equipment		2,405	805
Property Leases		429,407	399,326
Net movement in provisions for:			
- Employee Entitlements		35,570	31,122
- Redemption of CCI Commission		(6,595)	(115,993)
- Director's Gifts		1,509	(431)
Supervisory levy paid to APRA		10,641	10,354

3. INCOME TAX EXPENSE	Note	2012 \$	2011 \$
<b>a. The income tax expense comprises amounts set aside as:</b>			
Current tax expense		227,869	228,333
Deferred tax		394	32,585
Adjustments from previous years		39	21,752
Total income tax expense in the statement of comprehensive income		<u>228,302</u>	<u>282,670</u>
<b>b. The prima facie tax payable on profit is reconciled to the income tax expense in the accounts as follows:</b>			
Profit		<u>875,217</u>	<u>1,036,056</u>
Prima facie tax payable on profit before income tax at 30%		262,565	310,817
Add tax effect of expenses not deductible			
- Other non-deductible expenses		748	1,701
- Dividend imputation adjustment		15,191	22,114
- Under provision in previous years		39	21,752
- Adjustment to deferred tax asset in previous years		394	-
<b>Subtotal</b>		<u>278,937</u>	<u>356,384</u>
Less			
- Imputation credits		(50,635)	(73,714)
Income tax expense attributable to current year profit		<u>228,302</u>	<u>282,670</u>
Franking Credits		<u>4,639,146</u>	<u>4,338,466</u>
<b>4. CASH AND CASH EQUIVALENTS</b>			
Cash on hand and at bank		4,701,808	4,475,964
Deposits at call		2,800,000	1,600,000
		<u>7,501,808</u>	<u>6,075,964</u>
<b>5. LIQUID INVESTMENTS</b>			
<b>a. Investments at amortised cost</b>			
<b>Held to maturity</b>			
Negotiable certificates of deposit		23,881,812	27,158,944
<b>Receivables</b>			
Term deposits		19,000,000	9,000,000
		<u>42,881,812</u>	<u>36,158,944</u>
<b>b. Dissection of receivables</b>			
Deposits with banks		16,500,000	4,000,000
Deposits with building societies		-	2,500,000
Deposits with industry bodies – Cuscal (refer note 32a)		2,500,000	2,500,000
		<u>19,000,000</u>	<u>9,000,000</u>
<b>6. RECEIVABLES</b>			
Interest receivable on deposits with other financial institutions		473,229	470,906
Sundry debtors and settlement accounts		278,490	244,655
Rental Bond		8,325	2,750
		<u>760,044</u>	<u>718,311</u>

7. LOANS AND ADVANCES	Note	2012 \$	2011 \$
<b>a. Amount due comprises:</b>			
Overdrafts and revolving credit		6,810,470	7,175,400
Term loans		191,252,641	186,462,595
		<u>198,063,111</u>	<u>193,637,995</u>
Unamortised loan origination fees		(57,928)	(33,199)
		<u>198,005,183</u>	<u>193,604,796</u>
Unamortised fixed rate loan renegotiation fees		(8,979)	(10,410)
Provision for impaired loans	8	(51,644)	(42,932)
		<u><u>197,944,560</u></u>	<u><u>193,551,454</u></u>
<b>b. Security Dissection</b>			
Secured by mortgage		182,878,447	179,355,560
Partly secured by goods mortgage		7,480,788	7,705,036
Wholly unsecured and secured by commercial property		7,703,876	6,577,399
		<u><u>198,063,111</u></u>	<u><u>193,637,995</u></u>
<p>It is not practical to value all collateral as at the balance date due to the variety of assets and conditions. A breakdown of the quality of the residential mortgage security on a portfolio basis as follows:</p> <p>Security held as mortgage against real estate is on the basis of:</p>			
- LVR of less than 80%		145,042,563	145,180,954
- LVR of more than 80% but mortgage insured		29,335,791	25,169,914
- LVR of more than 80% and not mortgage insured		8,500,093	9,004,692
Total		<u><u>182,878,447</u></u>	<u><u>179,355,560</u></u>
<i>(LVR – Loan to valuation ratio)</i>			
<p>Where the loan value is less than 80% there is a 20% margin to cover the costs of any sale, or potential value reduction.</p>			
<b>c. Concentration of Loans</b>			
(i) Individual loans which exceed 10% of member funds in aggregate		-	-
(ii) Loans to members are concentrated in the following areas:			
- Illawarra		90,329,166	90,265,926
- Shoalhaven		48,713,723	48,541,158
- Bega Valley		51,573,700	47,391,655
- Other		7,446,522	7,439,256
		<u><u>198,063,111</u></u>	<u><u>193,637,995</u></u>
(iii) Loans by Customer type were			
<b>Loans to Natural Persons</b>			
Residential loans and facilities		181,487,214	176,929,202
Personal loans and facilities		10,913,178	10,680,427
Business loans and facilities		5,662,719	6,028,366
		<u><u>198,063,111</u></u>	<u><u>193,637,995</u></u>

## 8. PROVISION ON IMPAIRED LOANS

<b>a. Total provision comprises</b>			
Collective provisions		51,644	42,932
Individual specific provisions		-	-
		<u><u>51,644</u></u>	<u><u>42,932</u></u>
<b>b. Movement in provision for impairment</b>			
Balance at the beginning of year		42,932	118,648
Add (deduct):			
Transfers from (to) the statement of comprehensive income		16,905	(1,188)
Bad debts written off provision		(8,193)	(74,528)
<b>Balance at end of year</b>		<u><u>51,644</u></u>	<u><u>42,932</u></u>

Details of credit risk management are set out in Note 23.

8. PROVISION ON IMPAIRED LOANS (Continued)	Note	2012 \$	2011 \$
<b>c. Impaired loans written off:</b>			
Amounts written off against the provision for impaired loans		8,193	74,528
<b>Total Bad Debts</b>		8,193	74,528
Bad debts recovered in the period		5,842	4,852
		5,842	4,852

**d. Analysis of loans that are impaired or potentially impaired by class**

In the note below:

- Carrying value is the amount shown on the statement of financial position
- Value of impaired loans is the 'on statement of financial position' loan balances that 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

	Carrying Value \$	2012 Value of Impaired loans \$	Provision for impairment \$	Carrying Value \$	2011 Value of Impaired loans \$	Provision for impairment \$
Loans to members						
Households	176,683,709	12,064	12,064	171,671,512	-	-
Personal	9,473,155	35,583	34,574	9,387,134	52,354	34,093
Overdrafts	6,243,528	10,414	5,006	6,550,983	17,291	8,839
Total to natural persons	192,400,392	58,061	51,644	187,609,629	69,645	42,932
Corporate borrowers	5,662,719	-	-	6,028,366	-	-
Total	198,063,111	58,061	51,644	193,637,995	69,645	42,932

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**

	2012		2011	
	Carrying Value \$	Provision \$	Carrying Value \$	Provision \$
Non impaired up to 30 days	14,253	-	21,729	-
30 to 90 days in arrears	764,568	-	612,357	-
90 to 180 days in arrears	433,184	172	8,014	3,206
180 to 270 days in arrears	-	-	8,252	4,951
270 to 365 days in arrears	3,758	3,006	9,500	7,600
Over 365 days in arrears	43,460	43,460	30,927	18,336
Overlimit facilities over 14 days	10,414	5,006	17,291	8,839
Total	1,269,637	51,644	708,070	42,932

The impaired loans are generally not secured against residential property. Some of the remaining impaired loans may be secured by bill of sale over motor vehicles or other assets of varying value. 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.

## 8. PROVISION ON IMPAIRED LOANS (Continued)

### f. Loans with repayments past due but not regarded as impaired

There are loans with a value of \$1,195,584 past due which are not considered to be impaired as the value of related security over residential property is in excess of the loan due.

	1 – 3 mths \$	3 – 6 mths \$	6 – 12 mths \$	> 1 yr \$	Total \$
<b>2012</b>					
Mortgage secured	762,830	432,754	-	-	1,195,584
Personal loans	-	-	-	-	-
Credit Cards	1,739	-	-	-	1,739
Overdrafts	14,253	-	-	-	14,253
Total	778,822	432,754	-	-	1,211,576
<b>2011</b>					
Mortgage secured	610,902	-	-	-	610,902
Personal loans	699	-	-	-	699
Credit Cards	17,134	-	-	-	17,134
Overdrafts	5,351	-	-	-	5,351
Total	634,086	-	-	-	634,086

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

Period of impairment	% of balance
Up to 90 days	0
91 days to 181 days	40
182 days to 270 days	60
271 days to 365 days	80
Over 365 days	100

## 9. INVESTMENTS

	Note	2012 \$	2011 \$
<b>Available for Sale Investments</b>			
Shares in Cuscal		549,569	549,569
		<u>549,569</u>	<u>549,569</u>

### Shares in Cuscal

The shareholding in Cuscal is measured at cost as its fair value could not be measured reliably. This company supplies services to organisations. These shares are held to enable the credit union to receive essential banking services – refer to Note 32(a). The shares are able to be traded.

The financial reports of Cuscal record net tangible asset backing of these shares exceeding their cost value. Based on the net assets of Cuscal, 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.

The credit union is not intending to dispose of these shares.

10. PROPERTY, PLANT AND EQUIPMENT	Note	2012 \$	2011 \$
<b>Fixed Assets</b>			
Land – at deemed cost		600,000	600,000
Subsequent additions – at cost		589,612	589,612
		<u>1,189,612</u>	<u>1,189,612</u>
Buildings – at deemed cost		700,000	700,000
Subsequent additions – at cost		23,947	23,947
Less: Provision for depreciation		(125,385)	(107,287)
		<u>1,788,174</u>	<u>1,806,272</u>
<b>Plant and equipment - at cost</b>			
		2,998,768	2,985,812
Less: Provision for depreciation		(2,288,344)	(2,243,473)
		<u>710,424</u>	<u>742,339</u>
<b>Capitalised Leasehold Improvements at cost</b>			
		579,039	389,456
Less: Provision for amortisation		(119,119)	(86,163)
		<u>459,920</u>	<u>303,293</u>
		<u>2,958,518</u>	<u>2,851,904</u>

Movement in the assets balances during the year were:

	2012				2011			
	Property	Plant & equipment	Leasehold Improvements	Total	Property	Plant & equipment	Leasehold Improvements	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Opening balance	1,806,272	742,339	303,293	2,851,904	1,824,371	597,423	336,205	2,757,999
Purchases in the year	-	260,539	199,588	460,127	-	450,990	5,859	456,849
Less:								
Disposal of assets	-	(16,115)	-	(16,115)	-	(15,219)	-	(15,219)
Depreciation charge	(18,098)	(276,339)	(42,961)	(337,398)	(18,099)	(290,855)	(38,771)	(347,725)
<b>Balance at the end of the year</b>	<b>1,788,174</b>	<b>710,424</b>	<b>459,920</b>	<b>2,958,518</b>	<b>1,806,272</b>	<b>742,339</b>	<b>303,293</b>	<b>2,851,904</b>

11. INTANGIBLE ASSETS	2012 \$	2011 \$
<b>Computer Software</b>	544,179	518,405
Less: Provision for amortisation	(498,137)	(462,556)
	<u>46,042</u>	<u>55,849</u>
<b>Movement in the assets balances during the year were:</b>		
Opening balance	55,849	217,324
Purchases	25,774	58,811
Less:		
Disposal of assets	-	(12,187)
Amortisation charge	(35,581)	(208,099)
Balance at the end of the year	<u>46,042</u>	<u>55,849</u>
<b>12. TAXATION ASSETS</b>		
Accrual for GST receivable	47,640	45,625
Deferred Tax Asset	368,517	359,105
	<u>416,157</u>	<u>404,730</u>

12. TAXATION ASSETS (Continued)	Note	2012 \$	2011 \$
<b>Deferred tax asset comprises:</b>			
Accrued expenses not deductible until incurred		21,541	24,936
Provisions for impairment on loans		15,493	12,880
Provisions for employee benefits		216,177	209,487
Depreciation on fixed assets		100,140	103,673
Effective interest rate		20,072	13,083
Prepayments		(4,906)	(4,954)
		<u>368,517</u>	<u>359,105</u>
<b>13. SHORT TERM BORROWINGS</b>			
Cuscal		-	464,410
Bridges TWT Fund		12,000,000	13,000,000
		<u>12,000,000</u>	<u>13,464,410</u>
<b>14. DEPOSITS FROM FINANCIAL INSTITUTIONS</b>			
Other Credit Unions		3,000,000	2,500,000
		<u>3,000,000</u>	<u>2,500,000</u>
<b>15. DEPOSITS FROM MEMBERS</b>			
Member Deposits			
- at call		89,664,481	84,526,526
- term		127,234,864	119,121,764
<b>Total deposits</b>		<u>216,899,345</u>	<u>203,648,290</u>
Member withdrawable shares		30,284	30,430
		<u>216,929,629</u>	<u>203,678,720</u>
<b>Concentration of Member Deposits</b>			
Member deposits at balance date are concentrated in the following areas:			
- Illawarra		79,839,190	73,669,907
- Shoalhaven		53,914,638	52,228,373
- Bega Valley		75,774,408	70,977,500
- Other		7,401,393	6,802,940
		<u>216,929,629</u>	<u>203,678,720</u>
<b>16. PAYABLES</b>			
Creditors and accruals		531,293	421,490
Directors benefits accrued or payable		31,910	30,401
Employee entitlements		518,563	493,479
Interest Payable on Deposits		2,179,119	2,507,717
		<u>3,260,885</u>	<u>3,453,087</u>
<b>17. TAXATION LIABILITIES</b>			
Provision for income tax		40,306	92,220
Provision for deferred income tax		133,403	133,403
Accrual for GST payable		34,861	32,857
Accrual for other tax liabilities		64,605	82,765
		<u>273,175</u>	<u>341,245</u>
<b>Current income tax liability comprises:</b>			
Balance – previous year		92,220	61,125
Less: refunded		(92,259)	(82,877)
Over / under statement in prior year		<u>(39)</u>	<u>(21,752)</u>
Over / under statement in prior year – carried forward		-	-
Liability for income tax in current year		237,674	228,736
Add: Instalments paid in current year		(197,368)	(136,516)
		<u>40,306</u>	<u>92,220</u>

18. PROVISIONS	2012 \$	2011 \$
Long service leave	162,011	151,525
Redemption of consumer credit insurance commission	8,105	14,700
Card Fraud	-	8,216
	<u>170,116</u>	<u>174,441</u>

## 19. CAPITAL RESERVE ACCOUNT

Balance at the beginning of the year	134,312	132,216
Transfer from retained earnings on share redemptions	2,236	2,096
Balance at the end of year	<u>136,548</u>	<u>134,312</u>

### Share Redemption

The accounts represent 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.

## 20. GENERAL RESERVE FOR CREDIT LOSSES

Balance at the beginning of the year	966,427	972,813
Transfer from (to) retained earnings	86,060	(6,386)
Balance at the end of year	<u>1,052,487</u>	<u>966,427</u>

### General Reserve for credit losses

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

## 21. RESERVES

Asset Revaluation Reserve	280,259	280,259
Reserve for Credit Losses	1,052,487	966,427
	<u>1,332,746</u>	<u>1,246,686</u>

## 22. RETAINED EARNINGS

Retained Profits at the beginning of the financial year	15,526,469	14,645,769
Add: operating profit for the year	646,915	753,386
Add: transfer from capital surplus reserve	-	123,024
Less: transfer of reserves to reserve for credit losses	(86,060)	6,386
Less: transfer of reserves to capital account on redemption of shares	(2,236)	(2,096)
<b>Retained Profits at the end of the Financial Year</b>	<u><b>16,085,088</b></u>	<u><b>15,526,469</b></u>

## 23. 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 Audit & Risk committee which is integral to the management of risk. The following diagram gives an overview of the structure.



The diagram shows the risk management structure. The main elements of risk governance are as follows:

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

**Audit & Risk Committee:** This is a key body in the control of risk as well as assessment of the controls that are in place to mitigate risks. It is comprised of three directors with the Chief Executive Officer and other members of the Senior Management Team attending meetings as required. The committee does not form a view on the acceptability of risks but instead reviews risks and controls that are used to mitigate those risks. This includes the identification, assessment and reporting of risks. The committee considers and confirms that the significant risks and controls are to be assessed within the internal audit plan. The Audit & Risk committee receives the internal audit reports on assessment and compliance with the controls, and provides feedback to the board for their consideration.

The committee carries out a regular review of all operational areas to ensure that operational risks are being properly controlled and reported. It also ensures that contingency plans are in place to achieve business continuity in the event of serious disruptions to business operations.

The committee monitors compliance with the framework laid out in the policy on a quarterly basis and reports in turn to the board, where actual exposures to risks are measured against prescribed limits.

**Asset & Liability Committee (ALCO):** This committee meets monthly and has responsibility for managing interest rate risk exposures, proposing loan and deposit interest rate changes to the Board and ensuring that the treasury and finance functions adhere to exposure limits as outlined in the policies. The scrutiny of market risk reports is intended to prevent any exposure breaches prior to review by the Board.

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

- Market Risk
- Liquidity Management
- Credit Risk
- Operational Risk

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

### A. MARKET RISK

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, foreign exchange rates or other prices and volatilities will have an adverse effect on the credit union's financial condition 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 ALCO Committee, which reports directly to the board.

## 23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### INTEREST RATE RISK

Interest rate risk is the risk of variability of the fair value of future cash flows arising from financial instruments due to the changes in interest rates. The credit union does not trade in financial instruments.

#### Interest rate risk in the statement of financial position

The credit union is exposed to interest rate risk in its statement of financial position due to mismatches between the repricing dates of assets and liabilities. The interest rate risk on the statement of financial position is measured and reported to the ALCO and board on a quarterly basis.

The most common interest rate 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 table set out at note 26 displays the period that each asset and liability will reprice as at the balance date. This risk is not currently considered significant enough to warrant the use of derivatives to mitigate the exposure.

#### Method of managing risk

The credit union manages interest rate risk by the use of interest rate sensitivity analysis. The detail and assumptions used are set out below.

#### Value at Risk (VaR)

The credit union's exposure to market risk is measured and monitored using the VaR methodology of estimating potential losses as a percentage of capital. VaR is a technique which estimates the potential losses that could occur on risk positions taken due to movements in market rates and prices over a specified time period to a given level of confidence. VaR, as set out in the table below, has been calculated using historical simulations, using movements in market rates and prices, a 99% confidence level and taking into account historical correlations between different market and rates.

The VaR as a percentage of capital on the non-trading book was as follows:

	2012	2011
VaR as a percentage of capital	0.53%	0.61%

The credit union is therefore confident within a 99% confidence level that, given the risks as at the balance date, it will not incur a one day loss on its non-trading book of more than the amount calculated above, based on the VaR model used.

Although the use of VaR models calculates the interest rate sensitivity on the banking book, this is not reflected in the Pillar 1 capital requirement.

The credit union's exposure to banking book interest rate risk is not expected to change materially in the next year and as such existing capital requirements are considered to be an accurate measurement of capital needed to mitigate interest rate risk.

## B. LIQUIDITY RISK

Liquidity risk is the risk that the credit union may encounter difficulties raising funds to meet commitments associated with financial instruments, e.g. borrowing repayments or member withdrawal demands. It is the policy of the board of directors that the credit union maintains adequate cash reserves and committed credit facilities so as to meet 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 body 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 policy is to hold between 14 – 19% of funds as liquid assets to maintain adequate funds for meeting member withdrawal requests and loan funding. The ratio is checked daily. Should the liquidity ratio move outside this range, management and board are to address the matter by implementing the necessary steps set out in the policy, such as reviewing current deposit rates offered for example. 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 the specific note 25. The ratio of liquid funds over the past year is set out below:

## 23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### B. LIQUIDITY RISK (Continued)

Reported to APRA	2012	2011
Liquid funds	\$33,883,620	\$42,234,907
As at 30 June	13.42%	16.89%
Prescribed liquidity	9.00%	9.00%
Average for the year	15.37%	16.89%
Minimum during the year	13.22%	15.28%

### 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 and investment assets.

#### CREDIT RISK – LOANS

The analysis of the credit union's loans by class, is as follows:

	2012			2011		
	Carrying value \$	Commitments \$	Max exposure \$	Carrying value \$	Commitments \$	Max exposure \$
Loans to						
Mortgage	176,683,709	8,058,046	184,741,755	171,671,512	16,618,017	188,289,529
Personal	9,473,155	277,226	9,750,381	9,387,134	1,181,288	10,568,422
Credit cards	1,068,418	1,731,117	2,799,535	903,785	1,286,002	2,189,787
Overdrafts	5,175,110	4,683,811	9,858,921	5,647,198	5,030,616	10,677,814
Total to natural persons	192,400,392	14,750,200	207,150,592	187,609,629	24,115,923	211,725,552
Corporate borrowers	5,662,719	903,866	6,566,585	6,028,366	1,585,471	7,613,837
Total	198,063,111	15,654,066	213,717,177	193,637,995	25,701,394	219,339,389

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; line of credit facilities; overdraft facilities; credit cards limits). The details are shown in note 28.

All loans and facilities are within Australia. A geographic distribution between the three main areas of Illawarra, Shoalhaven & Bega Valley regions is provided in note 7cii.

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 and capable of meeting loan repayments.

The credit union has established policies over the:

- Credit assessment and approval of loans and facilities covering acceptable risk assessment and security requirements;
- Limits of acceptable exposure over the value to individual borrowers, non mortgage secured loans, commercial lending and concentrations to geographic and industry groups considered at high risk of default;
- Reassessing and review of the credit exposures on loans and facilities;
- Establishing appropriate provisions to recognise the impairment of loans and facilities;
- Debt recovery procedures;
- Review of compliance with the above policies.

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

## 23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Past due and impaired

A financial asset is past due when the counterparty has failed to make a payment when contractually due. As an example, a member enters into a lending agreement with the credit union that requires interest and a portion of the principal to be paid every month. On the first day of the next month, if the agreed repayment amount has not been paid, the loan is past due. Past due does not mean that the 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 loans 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 7 days. For loans where repayments are doubtful, external consultants are engaged to conduct recovery action once a loan is over 90 days in arrears. The exposures to losses arise predominantly in personal loans and facilities not secured by registered mortgages over real estate.

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

In addition to specific provisions against individually significant financial assets, the credit union makes collective assessments for each financial asset portfolio segmented by similar risk characteristics.

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 the loans to members. Past due value is the 'on statement of financial position' loan balances which are past due by 90 days or more.

Details are as set out in Note 8.

### Bad debts

Amounts are written off when collection of the loan or advance is considered to be remote. All write offs are on a case by case basis, taking account of the exposure at the date of the write off.

On secured loans, the write off takes place on ultimate realisation of collateral value, or from claims on any lenders mortgage insurance.

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

### Collateral securing loans

A sizeable portfolio of the loan book is secured on residential property in Australia. Therefore, the credit union is exposed to risks should the property market be subject to a decline.

The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken. Note 7b 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.

### Concentration risk – industry

There is no concentration of credit risk with respect to loans and receivables as the credit union has a large number of customers dispersed in areas of employment.

The credit union's foundation had a concentration of retail lending and deposits from members who comprised employees and families of local councils. The community basis for which the credit union now relies upon membership means this small concentration is considered acceptable on the basis that the credit union was originally 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 the loans. The details of the geographical concentrations are set out in Note 7c.

## 23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### 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 in Cuscal and other financial institutions. The credit policy is that investments are only made to institutions that are credit worthy. Directors have established policies that limit the credit union's exposure to any individual or associated group to 50% of capital or as otherwise prescribed in APS221. Total Exposure to counterparties that are non rated or with a credit rating of less than A-, or not covered in their entirety by the government deposit guarantee, shall be limited to 25% of capital or as otherwise prescribed in APS221.

The risk of losses from the liquid investments undertaken is reduced by the nature and quality of the independent rating of the investment body and the limits to concentration on one credit union.

Under the liquidity support scheme at least 3.2% of the total assets must be invested in Cuscal, in order for the scheme to have adequate resources to meet its obligations if needed.

#### External Credit Assessment for Institution Investments

The credit union uses the ratings of reputable ratings agencies to assess the credit quality of all investment exposure, where applicable, using the credit quality assessment scale in APRA prudential guidance AGN 112. The credit quality assessment scale within this standard has been complied with.

The exposure values associated with each credit quality step are as follows:

Investments with	2012			2011		
	Carrying value	Past due value	Provision	Carrying value	Past due value	Provision
Cuscal – rated A+	7,893,262	-	-	7,658,944	-	-
Banks – rated AA and above	6,000,000	-	-	4,000,000	-	-
Banks – rated below AA	25,000,000	-	-	22,000,000	-	-
Building Societies – rated below AA	3,988,550	-	-	2,500,000	-	-
Unrated institutions	-	-	-	-	-	-
<b>Total</b>	<b>42,881,812</b>	<b>-</b>	<b>-</b>	<b>36,158,944</b>	<b>-</b>	<b>-</b>

### D. CAPITAL MANAGEMENT

The capital levels are prescribed by Australian Prudential Regulation Authority (APRA). Under the APRA prudential standards, capital is determined in three components being credit, market and operational risk. The market risk component is not required as the credit union is not engaged in a trading book for financial instruments.

#### Capital resources

##### Tier 1 Capital

The vast majority of Tier 1 capital comprises retained profits and realised reserves.

##### 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 a general reserve for credit losses and an asset revaluation reserve.

## 23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### D. CAPITAL MANAGEMENT (Continued)

Capital in the credit union is made up as follows:

	2012	2011
<b>Tier 1</b>		
Share capital	136,548	134,312
Capital reserve	-	-
Retained earnings	16,085,088	15,526,469
	<u>16,221,636</u>	<u>15,660,781</u>
Less prescribed deductions	(555,921)	(556,316)
<b>Net tier 1 capital</b>	<u>15,665,715</u>	<u>15,104,465</u>
<b>Tier 2</b>		
Reserve for credit losses	1,052,487	966,427
Asset revaluation reserves on property	126,116	126,116
	<u>1,178,603</u>	<u>1,092,543</u>
Less prescribed deductions	(274,766)	(274,766)
<b>Net tier 2 capital</b>	<u>903,837</u>	<u>817,777</u>
<b>Total Capital</b>	<u><u>16,569,552</u></u>	<u><u>15,922,242</u></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.

		2012		2011	
		Carrying Value	Risk Weighted Value	Carrying Value	Risk Weighted Value
Cash	0%	3,883,719	-	4,475,964	-
Deposits in highly rated ADI's	20%	44,352,287	8,870,457	38,229,850	7,645,970
Deposits in less highly rated ADI's	50% - 150%	2,620,842	1,310,421	-	-
Standard Loans secured against eligible residential mortgages up to 80% LVR	35%	159,758,460	55,915,461	158,900,172	55,615,060
Standard Loans secured against eligible residential mortgages over 80% LVR	50% - 75%	23,119,988	13,064,889	20,455,388	11,420,320
Investments in equity instruments	150%	-	-	-	-
Other assets	100%	17,066,395	17,743,745	16,106,822	16,791,009
<b>Total</b>		<u><b>250,801,691</b></u>	<u><b>96,904,973</b></u>	<u><b>238,168,196</b></u>	<u><b>91,472,359</b></u>

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

	2012	2011	2010	2009	2008
Capital Ratio	14.59%	14.50%	14.15%	13.83%	14.81%

The level of 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 that require reporting to the board and the regulator if the capital ratio falls below 12.5%. Additionally, a 5 year projection of the capital levels is prepared annually to address how strategic decisions or trends may impact on the capital level.

#### Pillar 2 Capital on Operational Risk

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

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

Based on this approach, the credit union's operational risk capital requirement as at 30th June 2012 was \$13,739,335 [2011: \$13,547,632].

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

## 23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### 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 forecast capital resource model is updated and the impact upon the overall capital position of the credit union is reassessed.

## 24. CATEGORIES OF FINANCIAL INSTRUMENTS

	2012 \$	2011 \$
<b>a. The following information classifies the financial instruments into measurement classes</b>		
<b>Financial assets – carried at amortised cost</b>		
Cash and cash equivalents	7,501,808	6,075,964
Receivables	278,490	244,655
Receivables from financial institutions	43,355,041	36,629,850
Loans to members	198,063,111	193,637,995
Total loans and receivables	249,198,450	236,588,464
Available for sale assets	549,569	549,569
	<b>249,748,019</b>	<b>237,138,033</b>
<b>Financial Liabilities</b>		
Borrowings	12,032,197	13,522,803
Creditors	531,293	421,490
Deposits from other institutions	3,015,263	2,523,818
Deposits from members	219,031,005	206,073,797
Preference Shares	30,284	30,430
	<b>234,640,042</b>	<b>222,572,338</b>

### b. Assets measured at fair value

Fair value measurement at the end of the reporting period using:

	Note	Balance	Level 1	Level 2	Level 3
Available for sale financial assets	9	549,569	-	-	549,569

The fair value hierarchy has the following levels:

- quoted prices (unadjusted in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3)

The level 3 investments are held at cost and relate to the shares in the trade association body Cuscal Limited.

## 25. MATURITY PROFILE OF FINANCIAL ASSETS AND LIABILITIES

Monetary assets and liabilities have differing maturity profiles depending on the contractual term, and in the case of loans, the repayment amount and frequency. The table below shows the period in which different monetary assets and liabilities held will mature and be eligible for renegotiation or withdrawal. In the case of loans, the table shows the period over which the principal outstanding will be repaid based on the remaining period to the repayment date assuming contractual repayments are maintained. For term loans the below dissection is based upon contractual conditions of each loan being strictly complied with and is subject to change in the event that current repayment conditions are varied.

2012	Within 1 month \$	1 – 3 months \$	3 – 12 months \$	1 – 5 years \$	After 5 years	No maturity \$	Total \$
<b>Assets</b>							
Cash	3,634,104	-	-	-	-	3,883,719	7,517,823
Receivables	278,490	-	-	-	-	-	278,490
Liquid investments	31,876,460	13,172,998	-	2,264,362	-	-	47,313,820
Loans & advances	1,632,631	3,265,262	14,348,218	69,278,641	273,641,473	-	362,166,225
<b>Total financial assets</b>	<b>37,421,685</b>	<b>16,438,260</b>	<b>14,348,218</b>	<b>71,543,003</b>	<b>273,641,473</b>	<b>3,883,719</b>	<b>417,276,358</b>
<b>Liabilities</b>							
Borrowings	8,533,930	3,515,031	-	-	-	-	12,048,961
Creditors	531,293	-	-	-	-	-	531,293
Deposits from financial institutions	3,018,934	-	-	-	-	-	3,018,934
Deposits from members – at call	89,664,481	-	8,995	-	-	30,284	89,703,760
Deposits from members – term	27,226,285	66,430,994	39,285,813	1,783,777	-	-	134,726,869
<b>On statement of financial position</b>	<b>128,974,923</b>	<b>69,946,025</b>	<b>39,294,808</b>	<b>1,783,777</b>	<b>-</b>	<b>30,284</b>	<b>240,029,817</b>
Undrawn commitments	-	-	-	-	-	2,000,000	2,000,000
<b>Total financial liabilities</b>	<b>128,974,923</b>	<b>69,946,025</b>	<b>39,294,808</b>	<b>1,783,777</b>	<b>-</b>	<b>2,030,284</b>	<b>242,029,817</b>
<b>2011</b>							
	Within 1 month \$	1 – 3 months \$	3 – 12 months \$	1 – 5 years \$	After 5 years	No maturity \$	Total \$
<b>Assets</b>							
Cash	1,606,210	-	-	-	-	4,475,964	6,082,174
Receivables	244,655	-	-	-	-	-	244,655
Liquid investments	18,803,272	11,618,362	5,447,865	2,969,462	-	-	38,838,961
Loans & Advances	1,768,141	3,536,282	15,073,337	72,746,440	287,395,643	-	380,519,843
<b>Total financial assets</b>	<b>22,422,278</b>	<b>15,154,644</b>	<b>20,521,202</b>	<b>75,715,902</b>	<b>287,395,643</b>	<b>4,475,964</b>	<b>425,685,633</b>
<b>Liabilities</b>							
Borrowings	7,535,191	6,060,559	-	-	-	-	13,595,750
Creditors	421,490	-	-	-	-	-	421,490
Deposits from financial institutions	2,026,808	507,105	-	-	-	-	2,533,913
Deposits from members – at call	84,526,526	-	9,695	-	-	30,430	84,566,651
Deposits from members – term	28,446,096	41,028,972	50,621,802	4,618,639	-	-	124,715,509
<b>On statement of financial position</b>	<b>122,956,111</b>	<b>47,596,636</b>	<b>50,631,497</b>	<b>4,618,639</b>	<b>-</b>	<b>30,430</b>	<b>225,833,313</b>
Undrawn commitments	-	-	-	-	-	1,535,590	1,535,590
<b>Total financial liabilities</b>	<b>122,956,111</b>	<b>47,596,636</b>	<b>50,631,497</b>	<b>4,618,639</b>	<b>-</b>	<b>1,566,020</b>	<b>227,368,903</b>

## 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.

2012	Within 1 month \$	1 – 3 months \$	3 – 12 months \$	1 – 5 years \$	Non-interest bearing \$	Total \$
<b>Assets</b>						
Cash and cash equivalents	3,618,089	-	-	-	3,883,719	7,501,808
Receivables	278,490	-	-	-	-	278,490
Liquid investments	28,177,528	13,084,571	-	2,092,942	-	43,355,041
Loans and advances	158,295,185	1,595,272	10,373,038	27,799,616	-	198,063,111
Available for sale investments	-	-	-	-	549,569	549,569
<b>On statement of financial position</b>	<b>190,369,292</b>	<b>14,679,843</b>	<b>10,373,038</b>	<b>29,892,558</b>	<b>4,433,288</b>	<b>249,748,019</b>
Undrawn commitments	-	-	-	-	15,654,066	15,654,066
<b>Total financial assets</b>	<b>190,369,292</b>	<b>14,679,843</b>	<b>10,373,038</b>	<b>29,892,558</b>	<b>20,087,354</b>	<b>265,402,085</b>
<b>Liabilities</b>						
Borrowings	8,531,741	3,500,455	-	-	-	12,032,196
Creditors	-	-	-	-	531,293	531,293
Deposits from financial institutions	3,015,263	-	-	-	-	3,015,263
Deposits from members – at call	89,664,481	-	8,995	-	30,284	89,703,760
Deposits from members – term	27,146,319	65,892,706	34,974,406	1,194,098	-	129,207,529
<b>On statement of financial position</b>	<b>128,357,804</b>	<b>69,393,161</b>	<b>34,983,401</b>	<b>1,194,098</b>	<b>561,577</b>	<b>234,490,041</b>
Undrawn commitments	-	-	-	-	2,000,000	2,000,000
<b>Total financial liabilities</b>	<b>128,357,804</b>	<b>69,393,161</b>	<b>34,983,401</b>	<b>1,194,098</b>	<b>2,561,577</b>	<b>236,490,041</b>
<b>2011</b>						
	Within 1 month \$	1 – 3 months \$	3 – 12 months \$	1 – 5 years \$	Non-interest bearing \$	Total \$
<b>Assets</b>						
Cash and cash equivalents	1,600,000	-	-	-	4,475,964	6,075,964
Receivables	244,655	-	-	-	-	244,655
Liquid investments	17,162,227	11,533,064	5,314,178	2,620,381	-	36,629,850
Loans and advances	160,789,870	2,296,039	9,629,295	20,922,791	-	193,637,995
Available for sale investments	-	-	-	-	549,569	549,569
<b>On statement of financial position</b>	<b>179,796,752</b>	<b>13,829,103</b>	<b>14,943,473</b>	<b>23,543,172</b>	<b>5,025,533</b>	<b>237,138,033</b>
Undrawn commitments	-	-	-	-	25,701,395	25,701,395
<b>Total financial assets</b>	<b>179,796,752</b>	<b>13,829,103</b>	<b>14,943,473</b>	<b>23,643,172</b>	<b>30,726,928</b>	<b>262,839,428</b>
<b>Liabilities</b>						
Borrowings	7,519,775	6,003,028	-	-	-	13,522,803
Creditors	-	-	-	-	421,490	421,490
Deposits from financial institutions	2,020,850	502,967	-	-	-	2,523,817
Deposits from members – at call	84,526,526	-	9,695	-	30,430	84,566,651
Deposits from members – term	30,587,192	40,678,724	48,553,069	3,734,403	-	123,553,388
<b>On statement of financial position</b>	<b>124,654,343</b>	<b>47,184,719</b>	<b>48,562,764</b>	<b>3,734,403</b>	<b>451,920</b>	<b>224,588,149</b>
Undrawn commitments	-	-	-	-	1,535,590	1,535,590
<b>Total financial liabilities</b>	<b>124,654,343</b>	<b>47,184,719</b>	<b>48,562,764</b>	<b>3,734,403</b>	<b>1,987,510</b>	<b>225,123,739</b>

## 27. NET 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 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. **Disclosure of fair value is not required when the carrying amount is a reasonable approximation of fair value.**

The calculation reflects the interest rate applicable for the remaining term to maturity not the rate applicable to original term.

	Fair Value	2012 Carrying Amount	Variance	Fair Value	2011 Carrying Amount	Variance
	\$	\$	\$	\$	\$	\$
<b>Financial Assets</b>						
Cash and cash equivalents	7,501,808	7,501,808	-	6,075,964	6,075,964	-
Receivables *	760,044	760,044	-	718,311	718,311	-
Advances to other financial institutions	43,179,333	42,881,812	297,521	37,710,717	36,158,944	1,551,773
Loans to members	198,459,774	197,944,560	515,214	192,904,127	193,551,454	(647,327)
<b>Total financial assets</b>	<b>249,900,959</b>	<b>249,088,224</b>	<b>812,735</b>	<b>237,409,119</b>	<b>236,504,673</b>	<b>904,446</b>
<b>Financial Liabilities</b>						
Borrowings	11,999,640	12,000,000	(360)	12,999,158	13,000,000	(842)
Creditors *	3,260,885	3,260,885	-	3,453,087	3,453,087	-
Deposits from other financial institutions	3,001,462	3,000,000	1,462	2,500,368	2,500,000	368
Deposits from members – at call	89,694,765	89,694,765	-	84,556,956	84,556,956	-
Deposits from members – term	127,547,258	127,234,864	312,394	119,241,514	119,121,764	119,750
<b>Total financial liabilities</b>	<b>235,504,010</b>	<b>235,190,514</b>	<b>313,496</b>	<b>222,751,083</b>	<b>222,631,807</b>	<b>119,276</b>

\* For these assets and liabilities the carrying value approximates fair value.

Assets where the net fair value is lower than the book value have not been written down in the accounts of the credit union on the basis that they are to be held to maturity, or in the case of loans, all amounts due are expected to be recovered in full.

The net 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 net fair value as they are short term in nature or are receivable on demand.

### Loans, Advances

The carrying value of loans and advances is net of unearned income and both general 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 net fair value. The net fair value for fixed rate loans is calculated by utilising discounted cash flow models (i.e. the net present value of the portfolio future principal and interest cash flows), based on the period to maturity of the loans. The discount rates applied were based on the current applicable rate offered for the average remaining term of the portfolio.

The net fair value of impaired loans was calculated by discounting expected cash flows using a rate, which includes a premium for the uncertainty of the flows.

### Deposits From Members

The fair value of call and variable rate deposits, and fixed rate deposits repricing within 12 months, is the amount shown in the statement of financial position. Discounted cash flows were used to calculate the net fair value of other term deposits, based upon the deposit type and the rate applicable to its related period of maturity.

### Short Term Borrowings

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

## 28. FINANCIAL COMMITMENTS

	2012 \$	2011 \$
<b>a. Outstanding Loan commitments</b>		
Loans approved but not funded as at 30 June	4,117,355	3,566,581
<b>b. Loan Redraw Facility</b>		
Facilities available as at 30 June	4,772,331	15,241,961
<b>c. Undrawn Loan Facilities</b>		
Loan facilities available to members for overdrafts and line of credit loans are as follows:		
Total value of facilities approved	13,574,850	14,068,253
Less: Amount advanced	(6,810,470)	(7,175,400)
<b>Net undrawn value</b>	<b>6,764,380</b>	<b>6,892,853</b>
These commitments are contingent on members maintaining credit standards and ongoing repayment terms on amounts drawn.		
<b>Total financial commitments</b>	<b>15,654,066</b>	<b>25,701,395</b>
<b>d. Computer Software Expense Commitments</b>		
The costs committed under the current Ultradata and TSW contracts are as follows:		
Not later than one year	398,748	479,017
Later than 1 year but not 2 years	-	323,597
Later than 2 years but not 5 years	-	-
	<b>398,748</b>	<b>802,614</b>
<b>e. Lease commitments for operating leases on property occupied by the credit union</b>		
Not later than one year	365,799	325,687
Later than one year but not later than five years	608,982	359,800
	<b>974,781</b>	<b>685,487</b>

The operating leases are in respect of property used for providing branch and ATM services to members. There are no contingent rentals applicable to leases taken out. The terms of the leases are between 2 and 5 years, and options for renewal are usually obtained for a further 3 years.

There are no restrictions imposed on the credit union so as to limit the ability to undertake further leases, borrow funds or issue dividends.

## 29. STANDBY BORROWING FACILITIES

The credit union has a borrowing facility with Cuscal of:

	Gross \$	2012 Current Borrowing \$	Net Available \$
Overdraft Facility	2,000,000	-	2,000,000
<b>Total standby borrowing facilities</b>	<b>2,000,000</b>	<b>-</b>	<b>2,000,000</b>
	Gross \$	2011 Current Borrowing \$	Net Available \$
Overdraft Facility	2,000,000	464,410	1,535,590
<b>Total standby borrowing facilities</b>	<b>2,000,000</b>	<b>464,410</b>	<b>1,535,590</b>

Withdrawal of the loan facility is 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 facility agreement requires that the credit union maintain liquid investments with Cuscal to the value of 120% of the overdraft facility.

## 30. CONTINGENT LIABILITIES

### Liquidity Support Scheme

The credit union is a member of the Credit Union Financial Support Scheme Limited (CUFSS) a company established to provide financial support to members in the event of a liquidity or capital problem. As a member, the credit union is committed to maintaining 3.2% of the total assets as deposits with Cuscal.

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 outstanding under this arrangement.

### Guarantees

The credit union has provided a guarantee to Cuscal for drawings made by members up to a limit of \$18,000, to enable Cuscal to settle the funds transferred by way of direct debit with other financial institutions. The guarantees are cancellable by either the credit union or Cuscal. The credit union has arrangement with the members 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 entity. *Control* is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

**Key management persons** comprise the directors and the senior managers who are responsible for the day to day financial and operational management of the credit union.

The aggregate compensation of KMP during the year comprising amounts paid or payable or provided for, was as follows:

	Directors	2012 Other KMP	Total	Directors	2011 Other KMP	Total
	\$	\$	\$	\$	\$	\$
(a) short-term employee benefits;	126,290	656,375	782,665	110,899	644,869	755,768
(b) post-employment benefits - superannuation contributions	11,224	72,317	83,541	18,200	64,650	82,851
(c) other long-term benefits – net (decrease)/increases in long service leave provision and retirement gifts	1,509	(2,022)	(513)	(431)	7,308	6,876
(d) termination benefits	-	-	-	-	-	-
(e) share-based payment	-	-	-	-	-	-
<b>Total KMP compensation</b>	<b>139,023</b>	<b>726,670</b>	<b>865,693</b>	<b>128,668</b>	<b>716,827</b>	<b>845,495</b>

In the above table, remuneration shown as short term benefits means (where applicable) **wages, salaries, directors fees, paid annual and sick leave, profit-sharing and bonuses, value of fringe benefits received**, but excludes out of pocket expense reimbursements.

All remuneration to directors was approved by the members at the previous Annual General Meeting of the credit union.

## 31. DISCLOSURES ON DIRECTORS and other KEY MANAGEMENT PERSONNEL (Continued)

### b. Loans to Directors and other Key Management Persons

The credit union's policy for lending to directors and management is that all loans are approved and deposits accepted on the same terms and conditions that applied to members for each class of loan and deposit.

There are no loans that are impaired in relation to the loans balances of directors or other KMP.

There are no benefits or concessional terms and conditions applicable to the close family members of the KMP. There are no loans that are impaired in relation to the loan balances with close family relatives of directors and other KMP.

The details of transactions during the year are as follows:

	Mortgage Secured	2012 Other term loans	Credit Cards	Mortgage Secured	2011 Other term loans	Credit Cards
	\$	\$	\$	\$	\$	\$
Funds available to be drawn	74,200	1,242	30,173	147,426	2,285	32,007
Balance	1,293,920	12,526	2,827	1,732,114	26,319	5,993
Amounts disbursed or facilities increased in the year	200,000	-	111,360	40,740	10,325	164,046
Interest and other revenue earned	73,067	1,375	390	83,559	1,810	542

	2012	2011
	\$	\$
Other transactions between related parties include deposits from directors, and other Key Management Persons are:		
Total value of term and savings deposits of KMP	589,596	690,554
Total interest paid on deposits to KMP	18,297	14,391

The credit union's policy for receiving deposits from KMP is that all transactions are accepted on the same terms and conditions that apply to members.

### c. Transactions with Other Related Parties

Other transactions between related parties include deposits from director related entities or close family members of directors and other KMP. The credit union's policy for receiving deposits from related parties is that all transactions are approved and deposits accepted on the same terms and conditions that applied to members for each type of deposit.

There are no benefits paid or payable to the close family members of the KMP.

There are no service contracts to which key management persons or their close family members are an interested party.

## 32. ECONOMIC DEPENDENCY

The credit union has an economic dependency on the following suppliers of services.

### a. Cuscal Limited

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

- (i) provides the license rights to Visa Card in Australia and settlement with Bankers for ATM, Visa card and cheque transactions, as well as the production of Visa and Redicards for use by members;
- (ii) provides treasury and money market facilities to the credit union. The credit union has invested with Cuscal 3.2% of it's assets to comply with the Liquidity Support Scheme requirements.

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

This entity operates the computer network used to link Redicards and Visa cards operated through ATMs and EFTPOS facilities to the credit union's systems.

**c. Ultradata Australia Pty Limited**

This entity provides and maintains the core banking software utilised by the credit union.

**d. The System Works Guaranteed Pty Limited (TSWG)**

This company provides IT facilities management services to the credit union. The credit union has a management contract with TSWG to supply computer support staff and services to meet the day-to-day needs of the credit union and ensure compliance with the relevant Prudential Standards.

### **33. SEGMENTAL REPORTING**

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

### **34. SUPERANNUATION LIABILITIES**

The credit union contributes primarily to the NGS Super Plan for the purpose of Superannuation Guarantee payments and payment of other superannuation benefits on behalf of employees. An independent Corporate Trustee administers the plan. With the introduction of Super Choice, employees are now able to direct their superannuation contributions to the fund of their choice.

The credit union has no interest in any of these superannuation plans (other than as a contributor) and is not liable for the performance nor the obligations of the plans.

### **35. 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 amount of securitised loans under management as at 30 June 2012 is \$5,026 [2011: \$372,731].

## 36. NOTES TO STATEMENT OF CASH FLOWS

	2012 \$	2011 \$
<b>a. Reconciliation of Cash and cash equivalents</b>		
Cash includes cash on hand, and deposits at call with other financial institutions and comprises:		
Cash on hand and at bank	3,883,719	4,475,964
Deposits at call	3,618,089	1,600,000
<b>Total Cash and cash equivalents</b>	<u>7,501,808</u>	<u>6,075,964</u>
<b>b. Reconciliation of cash from operations to accounting profit</b>		
The net cash increase/(decrease) from operating activities is reconciled to the operating profit after tax		
Operating profit after income tax	<b>646,915</b>	<b>753,386</b>
<b>Non cash flows</b>		
Depreciation	337,398	347,725
Amortisation of intangibles	35,581	208,099
Loss on sale of assets	2,405	805
Profit on sale of assets	(2,654)	(5,412)
<b>Add changes in assets and liabilities</b>		
Increase in provision for loans	8,712	-
Increase in employee entitlements	35,570	31,122
Increase in accrued expenses	111,312	-
Increase in GST and other tax liabilities	-	7,132
Increase in effective rate adjustments	24,729	26,563
Increase in provision for income tax	-	31,095
Increase in interest payable	-	550,183
Decrease in deferred tax	-	32,181
Decrease in taxes receivable	-	16,756
Decrease in prepayments	22,968	-
<b>Less changes in assets and liabilities</b>		
Decrease in other provisions	(14,811)	(107,776)
Decrease in provision for loans	-	(75,716)
Decrease in accrued expenses	-	(35,003)
Decrease in unamortised fixed rate loan renegotiation fees	(1,431)	(41,085)
Decrease in GST and other tax liabilities	(16,156)	-
Decrease in provision for income tax	(51,914)	-
Decrease in interest payable	(328,598)	-
Increase in interest receivable	(2,323)	(47,200)
Increase in prepayments	-	(1,031)
Increase in sundry debtors and other receivables	(39,410)	(61,442)
Increase in deferred tax	(9,412)	-
Increase in taxes receivable	(2,015)	-
<b>Net cash from operating activities</b>	<u><b>756,866</b></u>	<u><b>1,630,382</b></u>

## 37. CORPORATE INFORMATION

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

The address of the registered office and main place of business is 27 Stewart Street, Wollongong NSW.

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.