2013 Annual Report

HORIZON
Credit Union

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

MUTUAL BANKING CODE of PRACTICE We've signed

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.

More than banking

THANK YOU TO OUR STAFF

Horizon's Board and Management thank and gratefully acknowledge the invaluable contribution of each & every staff member through 2012/13.

Kay Andrews
Margaret Apolloni
Shaun Beswarick
Jessamy Beynon
Maree Bobbin
Melanie Borg
Marie Brewer
Natalie Bywater
Jenny Chadwick
Ann Collie
Mitchell Cooper
Tracy Cooper
Alison Croshaw
Robyn Cross
Nick Dyball
Linda Fryer
Franca Garello
Rochelle Gaul
Belinda Gemmill
Anne Girard
Belinda Glancy
Lynn Gunn

Alanna Haigh
Sally Hanson
Kellie Heffernan
Joanne Hoare
Steve Holloway
Harley Jenkins
Cora Jones
Michelle Jones
Julie Kjestrup
Sharon Lee Knight
Sharon Anne Knight
Michael Kohler
Michelle Lane
Shaun Learmont
Sharon McRae
Jessica Monteith
Kim Morris
Lenore North
Kim Pattison
Christine Perry
Barbara Phillips
Jessica Porter

Annette Pursey
Jodie Russell
Cynthia Smith
Tracey Smith
Jon Stanfield
Debby Stanford
Sandy Stevenson
Emma Tannous
Bill Taylor
Marlene Taylor
Jo-ellen Thompson
Evelyn Toolin
Sue Unwin
Ann Vasakos
Cathy Velletri
Flora Villafranca
Kylie Waite
Joanne Ward
Amanda Welsh
Kerry Wheatley
Kevin Whitford
Scott Wilson

More than banking

CHAIRMAN'S REPORT

On behalf of the Board of Directors it gives me pleasure to present the 2013 Horizon Credit Union Annual Report.

The 2013 financial year continued to present challenges to our credit union and other financial institutions as a result of global economic concerns and the struggle of North America and Europe to recover from recession. Amidst this, the Reserve Bank of Australia announced three reductions in the official cash rate in an effort to stimulate the economic environment.

The impact of the RBA's cash rate decisions resulted in the compression of interest margins with Horizon's Net Interest Margin falling from 2.60% to 2.50% over the financial year.

Notwithstanding these pressures, I am pleased to report that Horizon Credit Union has delivered for its members improved profitability, increases in assets, deposits, loans and capital adequacy while at the same time maintaining a strong focus on member satisfaction.

Financial Performance

The Credit Union grew its Net Profit Before Tax by 6.2% to $929,242 with a resulting Net Profit After Tax of $678,365 representing a 4.9% increase from last year.

Two major contributing factors to the profit results were the continued focus on expense management and the exceptionally low bad debt expense of $1,544 against a loan portfolio of over $215 million.

These results were achieved despite the difficult interest rate environment and represent a fair balance between delivering value to members and satisfying the credit union's regulatory requirements.

Against subdued demand for credit throughout the financial services industry in the first half of the 2013 financial year, Horizon continued to write quality loans. The 8.9% growth in loans culminated in a year-end loan portfolio of $215.6 million.

Achievements

- Implementation of additional Teller Cash Recyclers in Thirroul and Merimbula branches, providing more efficient and personalised member service.
- Continued expansion of our recently opened Ulladulla branch into the community.
- Successful migration of payment and switching services from First Data to Cuscal.
- The appointment of two Board Associates to assist in a smooth governance transition as our longer-serving board directors retire.
- Industry and community accolades were received when, for the second year in a row, Horizon was awarded the *Money* magazine Personal Lender of the Year. Horizon also won the Shoalhaven Business Excellence Award - Property and Finance category.

The Year Ahead

The coming financial year again presents many challenges. There is likely to be ongoing economic uncertainty and rising unemployment as Australia adjusts to the end of the commodities boom. Low interest rate margins will continue to impact on the credit union's profitability.

The implementation of APRA's "Basel III" reforms will impose additional capital and liquidity obligations upon financial institutions. We will also commence preparation for the implementation of the government's proposed deposit levy to fund the Financial Claims Scheme.

I would like to thank our Chief Executive Officer, Jon Stanfield and his Senior Executive team, for their commitment to the credit union and their belief in the importance that Horizon Credit Union plays in the communities in which we operate. Thank you also to our dedicated staff for their hard work over the last 12 months.

To the Board of Directors, thank you for your passion and dedication to achieving a strong financial institution for our members; to being committed to enhancing the financial situation of our members by continually looking to improve our products and services offered, while maintaining competitive rates; and for continuing to develop professionally to meet the ever-changing requirements of the financial industry.

A special thank you to Peter McLeod who retired from the Board last October after 45 years of service. Peter was a dedicated advocate, promoting credit union values and was proud to represent our members as a director.

Most importantly, thank you to our members for your continued trust, support and loyalty. Your credit union is soundly positioned to take on the challenges of the future with the results for year ended 30 June 2013 further strengthening our position.

Joanne Hinge
Chairman

DIRECTORS' REPORT

Your Directors present their report on the credit Union for the financial year ended 30th June 2013.

The Credit Union is a company registered under the Corporations Act 2001.

Information on Directors

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

Name	*Qualifications*	*Experience*	*Responsibilities*
J Hinge	MAMI, MAICD	Director – 2009 to 2013	Chairman Chairman of the Corporate Governance Committee
I Bonella	B.A., M.Appl. Sci., FAMI	Director – 1988 to 2013	Member of the Corporate Governance Committee Chairman of the Remuneration Committee
M Kerr **	MAMI	Director – 2012 to 2013	Member 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, MAICD	Director – 2010 to 2013	Member of the Corporate Governance Committee Member of the Remuneration Committee
M Poulton	FAMI, GAICD	Director – 1987 to 2013	Member of the Audit and Risk Committee
S Scard	FAMI, GAICD	Director – 1977 to 2013	Member of the Corporate Governance Committee
L Wallace	B Bus, MBA, FAMI	Director – 1998 to 2013	Chairman of the Audit and Risk Committee Member of the Remuneration Committee

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

Name	*Qualifications*	*Experience*
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
J Hinge	12	11	1	1	3	3			2	1
I Bonella	12	11			4	4			3	3
M Kerr **	8	7	4	4					1	1
P McLeod *	4	4	1	1			1	1		
G Papac	12	11			4	4			3	3
M Poulton	12	11	5	5						
S Scard	12	12			4	4	1	1		
L Wallace	12	11	5	5	1	1	1	1	3	3

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

* Director P McLeod resigned from the Board effective 26th October 2012
** Director M Kerr was elected onto the Board effective 26th October 2012

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 32 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 $678,365 [2012 $646,915].

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 7.

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

Director

Signed and dated this 23rd August 2013

Grant Thornton Audit Pty Ltd
ACN 130 913 594

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Sydney NSW 1230

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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 2013, 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 2001 in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

Max Perry
Partner – Audit & Assurance

Signed in Sydney 21st day of August 2013

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INDEPENDENT AUDITOR'S 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 Ltd (the "Company"), which comprises the statement of financial position as at 30th June 2013, 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 of the company.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 company'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 company'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 on 21st August 2013, would be in the same terms if given to the directors as at the date 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 company's financial position as at 30 June 2013 and of its performance for the year ended on that date; and

    ii. complying with Australian Accounting Standards and the Corporations Regulations 2001; and

b. the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

Max Perry
Director – Audit & Assurance
Sydney, 26th August 2013

DIRECTORS' DECLARATION

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

1. In the opinion of the directors of Horizon Credit Union Limited:

   a. the financial statements and notes of Horizon Credit Union Limited are in accordance with the Corporations Act 2001, including

      i. giving a true and fair view of its financial position as at 30th June 2013 and of its performance for the financial year ended on that date; and

      ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

   b. there are reasonable grounds to believe that Horizon Credit Union Limited will be able to pay its debts as and when they become due and payable.

2. The financial statements comply with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Director

Dated this 23rd August 2013

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2013

	Note	2013 $	2012 $
Revenue			
Interest revenue	2a	14,825,226	16,008,327
Interest expense	2c	(8,320,775)	(9,586,139)
Net interest income		6,504,451	6,422,188
Fees, commission and other income	2b	2,866,441	2,770,425
		9,370,892	9,192,613
Less			
Non-interest expenses			
Impaired losses on loans receivable from members	2d	8,198	(16,905)
Fee and commission expenses		(604,903)	(625,557)
General administration			
- Employees costs		(3,966,251)	(3,859,999)
- Depreciation and amortisation		(394,909)	(372,979)
- Information technology		(995,118)	(940,817)
- Office occupancy		(595,459)	(517,760)
- Other administration		(540,915)	(528,383)
Other operating expenses		(1,352,293)	(1,454,996)
Total non-interest expenses		(8,441,650)	(8,317,396)
Profit before Income Tax		929,242	875,217
Income Tax Expense	3	(250,877)	(228,302)
Profit after Income Tax		678,365	646,915

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

STATEMENT OF CHANGES IN MEMBER EQUITY

FOR THE YEAR ENDED 30 JUNE 2013

	Capital Reserve Account $	Retained Earnings $	Reserve for Credit Losses $	Other Reserves $	Total $
Total at 1 July 2011	134,312	15,526,469	966,427	280,259	16,907,467
Net Profit for the year	-	646,915	-	-	646,915
Transfers to (from) Reserves	2,236	(88,296)	86,060	-	-
Total at 30 June 2012	136,548	16,085,088	1,052,487	280,259	17,554,382
Net Profit for the year	-	678,365	-	-	678,365
Transfers to (from) Reserves	2,010	34,522	(36,532)	-	-
Total as at 30 June 2013	138,558	16,797,975	1,015,955	280,259	18,232,747

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

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2013

	Note	2013 $	2012 $
ASSETS			
Cash and cash equivalents	4	11,275,358	7,501,808
Liquid investments	5	34,708,265	42,881,812
Receivables	6	528,928	760,044
Prepayments		144,941	129,677
Loans to members	7 & 8	215,620,297	197,944,560
Investments	9	549,532	549,569
Property, plant and equipment	10	2,938,437	2,958,518
Intangible assets	11	43,854	46,042
Taxation assets	12	400,160	416,157
TOTAL ASSETS		266,209,772	253,188,187
LIABILITIES			
Borrowings	13	8,000,000	12,000,000
Deposits from financial institutions	14	4,000,000	3,000,000
Deposits from members	15	232,801,762	216,929,629
Payables	16	2,747,901	3,260,885
Taxation liabilities	17	263,653	273,175
Provisions	18	163,709	170,116
TOTAL LIABILITIES		247,977,025	235,633,805
NET ASSETS		18,232,747	17,554,382
MEMBERS EQUITY			
Capital reserve account	19	138,558	136,548
Reserves	21	1,296,214	1,332,746
Retained earnings	22	16,797,975	16,085,088
TOTAL MEMBERS EQUITY		18,232,747	17,554,382

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

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STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2013

	Note	2013 $	2012 $
OPERATING ACTIVITIES			
Inflows			
Interest received		15,013,475	16,006,004
Fees and commissions		2,710,950	2,552,636
Dividends Received		99,832	118,596
Other income		75,882	57,129
Outflows			
Interest paid		(9,103,192)	(9,916,168)
Suppliers and employees		(7,784,837)	(7,771,703)
Income taxes (paid)/refunded		(258,859)	(289,628)
Net Cash from Revenue Activities	37b	**753,251**	**756,866**
Inflows (outflows) from other operating activities			
(Increase) in Member loans (net movement)		(17,675,422)	(4,425,116)
Increase in Member deposits and shares (net movement)		15,872,133	13,250,909
(Increase)/decrease in receivables from financial institutions (net movement)		8,173,584	(6,722,868)
Net Cash used in Operating Activities		**7,123,546**	**2,859,791**
INVESTING ACTIVITIES			
Inflows			
Proceeds on sale of property, plant and equipment		27,954	16,364
Less: Outflows			
Purchase of intangible assets		(33,816)	(25,774)
Purchase of property, plant and equipment		(344,134)	(460,127)
Net Cash (used in)/from Investing Activities		**(349,996)**	**(469,537)**
FINANCING ACTIVITIES			
Inflows (Outflows)			
Increase in borrowings (net movement)		(3,000,000)	(964,410)
Net Cash (used in)/from Financing Activities		**(3,000,000)**	**(964,410)**
Total Net Cash increase/(decrease)		3,773,550	1,425,844
Cash at Beginning of Year		7,501,808	6,075,964
Cash at End of Year	37a	**11,275,358**	**7,501,808**

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 2013. The report was authorised for issue on 21st August 2013 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 requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. Compliance with Australian Accounting Standards ensures compliance with the International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). Horizon Credit Union Limited is a for-profit entity for the purpose of preparing the financial statements.

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, Floating Rate Notes 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 payable to depositors as at 30th June 2013.

(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 3 to 5 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 2012. There are no new standards applicable for the current financial year.

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 2013 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 10 Consolidated Financial Statements (Issued August 2012)

Nature of Change
Introduces a single 'control model' for all entities, including special purpose entities (SPEs), whereby all of the following conditions must be present:

- Power over investee (whether or not power used in practice).
- Exposure or rights to variable returns from investee.
- Ability to use power over investee to affect the entity's returns from investee.

Application date
Annual reporting periods commencing on or after 1st July 2013

Impact on initial application
When this standard is first adopted for the year ended 30th June 2014, there will be no impact on transactions and balances recognised in the financial statements because the entity does not have any special purpose entities.

AASB 13 Fair Value Measurement (Issued September 2012)

Nature of change
Currently, fair value measurement requirements are included in several Accounting Standards. AASB 13 establishes a single framework for measuring fair value of financial and non-financial items recognised at fair value in the statement of financial position or disclosed in the notes in the financial statements. Additional disclosures will be required for items measured at fair value in the statement of financial position, as well as items merely disclosed at fair value in the notes to the financial statements. Extensive additional disclosure requirements will be required for items measured at fair value that are 'level 3' valuations in the fair value hierarchy that are not financial instruments, eg. Land and building, investment properties etc.

Application data
Annual reporting periods commencing on or after 1st January 2013.

Impact on initial application
When this standard is adopted for the first time for the year ended 30th June 2014, additional disclosures will be required about fair values.

1. STATEMENT OF ACCOUNTING POLICIES (Continued)

s. New or emerging standards not yet mandatory (Continued)

AASB 119 Employee Benefits (Issued September 2012)

Nature of change

The main changes include:

- Elimination of the 'corridor' approach for deferring gains/losses for defined benefit plans
- Actuarial gains/losses on remeasuring the defined benefit plan obligation/asset to be recognised in OCI rather than in profit or loss, and cannot be reclassified in subsequent periods.
- Subtle amendments to timing for recognition of liabilities for termination benefits.
- Employee benefits expected to be settled (as opposed to due to settle under the current standard) within 12 months after the end of the reporting period are short-term benefits, and therefore not discounted when calculating leave liabilities. Annual leave not expected to be used within 12 months of the end of the reporting period will in future be discounted when calculating leave liabilities.

Application date

Annual reporting periods commencing on or after 1st January 2013

Impact on initial application

The credit union currently calculates its liability for annual leave on the basis that it is due to be settled within 12 months of the end of the reporting period because employees are entitled to use this leave at any time. The amendments to AASB 119 require that such liabilities be calculated on the basis of when the leave is expected to be taken, i.e. expected settlement. When this standard is first adopted for 31st December 2013, annual leave liabilities will be recalculated on 1st January 2013. Leave liabilities for any employees with significant balances of leave outstanding who are not expected to take their leave within 12 months will be discounted, which may result in a reduction of the annual leave liabilities recognised on 1st January 2013, and a corresponding increase in retained earnings at that date.

2. STATEMENT OF COMPREHENSIVE INCOME

	Note	2013 $	2012 $

a. Analysis of interest revenue

	Note	2013 $	2012 $
Interest revenue on assets carried at amortised cost			
Cash – deposits at call		247,115	303,314
Receivables from financial institutions		1,509,823	1,924,869
Loans to members		13,068,288	13,780,144
		14,825,226	16,008,327

b. Non-interest revenue

	Note	2013 $	2012 $
Fee and commission revenue			
- Loan fee income – other than loan origination fees		547,470	486,333
- Transaction fee income		692,640	724,402
- ATM income		857,707	853,861
- Insurance commissions		309,801	279,473
- Other commissions		260,465	247,977
Total Fee and commission revenue		2,668,083	2,592,046
Other Income			
Dividends received		99,832	118,596
Bad debts recovered		5,058	5,842
Gain on disposal of assets			
- Property, Plant and Equipment		22,644	2,654
Miscellaneous revenue		70,824	51,287
		2,866,441	2,770,425

c. Interest expense

	Note	2013 $	2012 $
Interest expense on liabilities carried at amortised cost			
Short term borrowings		678,184	511,279
Deposits from financial institutions		19,728	124,832
Deposits from members		7,622,863	8,950,028
		8,320,775	9,586,139

d. Impairment losses on loans and advances

	Note	2013 $	2012 $
(Decrease)/Increase in provision for impairment		(8,198)	16,905
		(8,198)	16,905

e. Individually Significant items of Expenditure (detail)

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.

f. Other prescribed expense disclosures

	Note	2013 $	2012 $
Auditors remuneration (excluding GST)			
- Audit fees		72,290	63,618
- Other services – taxation		4,150	4,075
		76,440	67,693
Bad and doubtful debts expense, net of recoveries and movement of provisions		(8,198)	16,905
Depreciation of			
- Buildings		19,510	18,099
- Plant and equipment		273,832	276,339
- Leasehold improvements		65,562	42,961
Loss on disposal of assets			
- Property plant & equipment		-	2,405
Property leases		503,537	429,407
Net movement in provisions for:			
- Employee entitlements		20,588	35,570
- Redemption of CCI commission		(8,105)	(6,595)
- Director entitlements		(10,938)	1,509
Supervisory levy paid to APRA		11,280	10,641

3. INCOME TAX EXPENSE

	Note	2013 $	2012 $
a. The income tax expense comprises amounts set aside as:			
Current tax expense		250,103	227,869
Deferred tax		-	394
Adjustments from previous years		774	39
Total income tax expense in the statement of comprehensive income		250,877	228,302

	2013 $	2012 $
b. The prima facie tax payable on profit is reconciled to the income tax expense in the accounts as follows:		
Profit	929,242	875,217
Prima facie tax payable on profit before income tax at 30%	278,772	262,565
Add tax effect of expenses not deductible		
- Other non-deductible expenses	1,280	748
- Dividend imputation adjustment	12,836	15,191
- Under provision in previous years	774	39
- Adjustment to deferred tax asset in previous years	-	394
Subtotal	293,662	278,937
Less		
- Imputation credits	(42,785)	(50,635)
Income tax expense attributable to current year profit	250,877	228,302
Franking Credits	4,972,573	4,639,146

4. CASH AND CASH EQUIVALENTS

	2013 $	2012 $
Cash on hand and at bank	4,375,358	4,701,808
Deposits at call	6,900,000	2,800,000
	11,275,358	7,501,808

5. LIQUID INVESTMENTS

	2013 $	2012 $
a. Investments at amortised cost		
Held to maturity		
Negotiable certificates of deposit	22,208,265	23,881,812
Floating rate notes	3,000,000	-
Receivables		
Term deposits	9,500,000	19,000,000
	34,708,265	42,881,812

	2013 $	2012 $
b. Dissection of receivables		
Deposits with banks	3,000,000	16,500,000
Deposits with credit unions	4,500,000	-
Deposits with industry bodies – Cuscal (refer note 33a)	2,000,000	2,500,000
	9,500,000	19,000,000

6. RECEIVABLES

	2013 $	2012 $
Interest receivable on deposits with other financial institutions	284,980	473,229
Sundry debtors and settlement accounts	241,198	278,490
Rental Bond	2,750	8,325
	528,928	760,044

7. LOANS AND ADVANCES

	Note	2013 $	2012 $
a. Amount due comprises:			
Overdrafts and revolving credit		6,836,420	6,810,470
Term loans		208,902,113	191,252,641
		215,738,533	198,063,111
Unamortised loan origination fees		(58,026)	(57,928)
		215,680,507	198,005,183
Unamortised fixed rate loan renegotiation fees		(18,309)	(8,979)
Provision for impaired loans	8	(41,901)	(51,644)
		215,620,297	197,944,560
b. Credit quality - Security held against loans			
Secured by mortgage		201,136,277	182,878,447
Partly secured by goods mortgage		8,282,404	7,480,788
Wholly unsecured and secured by commercial property		6,319,852	7,703,876
		215,738,533	198,063,111

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:

	2013 $	2012 $
Security held as mortgage against real estate is on the basis of:		
- LVR of less than 80%	160,218,081	145,042,563
- LVR of more than 80% but mortgage insured	31,748,570	29,335,791
- LVR of more than 80% and not mortgage insured	9,169,626	8,500,093
Total	201,136,277	182,878,447

(LVR – Loan to valuation ratio)

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

c. Concentration of Loans

	2013 $	2012 $
(i) Individual loans which exceed 10% of member funds in aggregate	-	-
(ii) Loans to members are concentrated in the following areas:		
- Illawarra	95,368,900	90,329,166
- Shoalhaven	55,422,184	48,713,723
- Bega Valley	54,674,143	51,573,700
- Other	10,273,306	7,446,522
	215,738,533	198,063,111
(iii) Loans by Customer type were		
Loans to Natural Persons		
Residential loans and facilities	197,566,190	181,487,214
Personal loans and facilities	11,556,066	10,913,178
Business loans and facilities	6,616,277	5,662,719
	215,738,533	198,063,111

8. PROVISION ON IMPAIRED LOANS

	2013 $	2012 $
a. Total provision comprises		
Collective provisions	41,901	51,644
Individual specific provisions	-	-
	41,901	51,644
b. Movement in provision for impairment		
Balance at the beginning of year	51,644	42,932
Add (deduct):		
Transfers (to) from the statement of comprehensive income	(8,199)	16,905
Bad debts written off provision	(1,544)	(8,193)
Balance at end of year	41,901	51,644

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

8. PROVISION ON IMPAIRED LOANS (Continued)

	Note	2013 $	2012 $
c. Impaired loans written off:			
Amounts written off against the provision for impaired loans		1,544	8,193
Total Bad Debts		1,544	8,193
Bad debts recovered in the period		5,058	5,842
		5,058	5,842

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

	2013 Carrying Value $	2013 Value of Impaired loans $	2013 Provision for impairment $	2012 Carrying Value $	2012 Value of Impaired loans $	2012 Provision for impairment $
Loans to members						
Households	193,107,704	10,444	10,444	176,683,709	12,064	12,064
Personal	9,881,863	27,396	27,243	9,473,155	35,583	34,574
Overdrafts	6,132,689	8,705	4,214	6,243,528	10,414	5,006
Total to natural persons	209,122,256	46,545	41,901	192,400,392	58,061	51,644
Corporate borrowers	6,616,277	-	-	5,662,719	-	-
Total	215,738,533	46,545	41,901	198,063,111	58,061	51,644

It is not practicable to determine the fair value of all collateral as at the balance date due to the variety of assets and conditions.

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

	2013 Carrying Value $	2013 Provision $	2012 Carrying Value $	2012 Provision $
Non impaired up to 30 days	87,024	-	14,253	-
30 to 90 days in arrears	185,203	-	764,568	-
90 to 180 days in arrears	255	102	433,184	172
180 to 270 days in arrears	-	-	-	-
270 to 365 days in arrears	-	-	3,758	3,006
Over 365 days in arrears	37,585	37,585	43,460	43,460
Overlimit facilities over 14 days	8,705	4,214	10,414	5,006
Total	318,772	41,901	1,269,637	51,644

Impaired loans may or may not be secured against residential property, 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 $272,227 past due which are not considered to be impaired.

2013	1 – 3 mths $	3 – 6 mths $	6 – 12 mths $	> 1 yr $	Total $
Mortgage secured	185,197	-	-	-	185,197
Personal loans	-	-	-	-	-
Credit Cards	75,407	-	-	-	75,407
Overdrafts	11,623	-	-	-	11,623
Total	272,227	-	-	-	272,227

2012	1 – 3 mths $	3 – 6 mths $	6 – 12 mths $	> 1 yr $	Total $
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

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	2013 $	2012 $
Available for Sale Investments			
Shares in Cuscal		549,532	549,569
		549,532	549,569

Shares in Cuscal

The shareholding in Cuscal is measured at cost as its fair value could not be measured reliably. This company supplies banking related services to financial institutions.

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	2013 $	2012 $
Fixed Assets			
Land – at deemed cost		600,000	600,000
Subsequent additions – at cost		589,612	589,612
		1,189,612	1,189,612
Buildings – at deemed cost		700,000	700,000
Subsequent additions – at cost		45,701	23,947
Less: Provision for depreciation		(144,896)	(125,385)
		1,790,417	1,788,174
Plant and equipment - at cost		3,136,312	2,998,768
Less: Provision for depreciation		(2,400,620)	(2,288,344)
		735,692	710,424
Capitalised Leasehold Improvements at cost		597,009	579,039
Less: Provision for amortisation		(184,681)	(119,119)
		412,328	459,920
		2,938,437	2,958,518

Movement in the assets balances during the year were:

	2013				2012			
	Property $	Plant & equipment $	Leasehold Improvements $	Total $	Property $	Plant & equipment $	Leasehold Improvements $	Total $
Opening balance	1,788,174	710,424	459,920	2,958,518	1,806,272	742,339	303,293	2,851,904
Purchases in the year	21,754	304,410	17,970	344,134	-	260,539	199,588	460,127
Less								
Disposal of assets	-	(5,310)	-	(5,310)	-	(16,115)	-	(16,115)
Depreciation charge	(19,511)	(273,832)	(65,562)	(358,905)	(18,098)	(276,339)	(42,961)	(337,398)
Balance at the end of the year	1,790,417	735,692	412,328	2,938,437	1,788,174	710,424	459,920	2,958,518

11. INTANGIBLE ASSETS

	2013 $	2012 $
Computer Software	577,995	544,179
Less: Provision for amortisation	(534,141)	(498,137)
	43,854	46,042
Movement in the assets balances during the year were:		
Opening balance	46,042	55,849
Purchases	33,816	25,774
Less:		
Disposal of assets	-	-
Amortisation charge	(36,004)	(35,581)
Balance at the end of the year	43,854	46,042

12. TAXATION ASSETS

Accrual for GST receivable	42,322	47,640
Deferred Tax Asset	357,838	368,517
	400,160	416,157

12. TAXATION ASSETS (Continued)

	Note	2013 $	2012 $
Deferred tax asset comprises:			
Accrued expenses not deductible until incurred		26,294	21,541
Provisions for impairment on loans		12,570	15,493
Provisions for employee benefits		216,641	216,177
Depreciation on fixed assets		84,338	100,140
Effective interest rate		22,901	20,072
Prepayments		(4,906)	(4,906)
		357,838	368,517

13. SHORT TERM BORROWINGS

Bridges TWT fund		8,000,000	12,000,000
		8,000,000	12,000,000

14. DEPOSITS FROM FINANCIAL INSTITUTIONS

Other credit unions		4,000,000	3,000,000
		4,000,000	3,000,000

15. DEPOSITS FROM MEMBERS

Member Deposits			
- at call		112,664,774	89,664,481
- term		120,106,710	127,234,864
Total deposits		232,771,484	216,899,345
Member withdrawable shares		30,278	30,284
		232,801,762	216,929,629

Concentration of Member Deposits

Member deposits at balance date are concentrated in the following areas:

- Illawarra		86,595,130	79,839,190
- Shoalhaven		62,019,356	53,914,638
- Bega Valley		77,507,588	75,774,408
- Other		6,679,688	7,401,393
		232,801,762	216,929,629

16. PAYABLES

Creditors and accruals		802,103	531,293
Directors benefits accrued or payable		20,972	31,910
Employee entitlements		537,454	518,563
Interest Payable on Deposits		1,387,372	2,179,119
		2,747,901	3,260,885

17. TAXATION LIABILITIES

Provision for income tax		21,645	40,306
Provision for deferred income tax		133,403	133,403
Accrual for GST payable		36,794	34,861
Accrual for other tax liabilities		71,811	64,605
		263,653	273,175

Current income tax liability comprises:

Balance – previous year		40,306	92,220
Less: refunded		(41,080)	(92,259)
Over / under statement in prior year		(774)	(39)
Over / under statement in prior year – carried forward		-	-
Liability for income tax in current year		239,424	237,674
Less: Instalments paid in current year		(217,779)	(197,368)
		21,645	40,306

18. PROVISIONS

	2013 $	2012 $
Long service leave	163,709	162,011
Redemption of consumer credit insurance commission	-	8,105
	163,709	170,116

19. CAPITAL RESERVE ACCOUNT

Balance at the beginning of the year	136,548	134,312
Transfer from retained earnings on share redemptions	2,010	2,236
Balance at the end of year	138,558	136,548

Share Redemption

The accounts represent the amount of redeemable Preference Shares redeemed by the credit union since 1st 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	1,052,487	966,427
Transfer (to) from retained earnings	(36,532)	86,060
Balance at the end of year	1,015,955	1,052,487

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	1,015,955	1,052,487
	1,296,214	1,332,746

22. RETAINED EARNINGS

Retained Profits at the beginning of the financial year	16,085,088	15,526,469
Add: operating profit for the year	678,365	646,915
Add: transfer from capital surplus reserve	-	-
Add/(Less): transfer of reserves to reserve for credit losses	36,532	(86,060)
Less: transfer of reserves to capital account on redemption of shares	(2,010)	(2,236)
Retained Profits at the end of the Financial Year	**16,797,975**	**16,085,088**

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 and ensuring that the treasury and finance functions adhere to exposure limits as outlined in the policies. The committee has the ability to make changes to fixed loan and term deposit rates, and to propose changes to variable loan and variable deposit interest rate changes to the Board. 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 27 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:

	2013	2012
VaR as a percentage of capital	0.69%	0.53%

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 30 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	2013	2012
Liquid funds	$38,483,623	$33,883,620
As at 30 June	14.54%	13.42%
Prescribed liquidity	9.00%	9.00%
Average for the year	15.33%	15.37%
Minimum during the year	13.88%	13.22%

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:

	2013			2012		
Loans to	Carrying value $	Commitments $	Max exposure $	Carrying value $	Commitments $	Max exposure $
Mortgage	193,107,704	7,495,805	200,603,509	176,683,709	8,058,046	184,741,755
Personal	9,881,863	247,753	10,129,616	9,473,155	277,226	9,750,381
Credit cards	1,352,577	2,117,374	3,469,951	1,068,418	1,731,117	2,799,535
Overdrafts	4,780,112	4,621,260	9,401,372	5,175,110	4,683,811	9,858,921
Total to natural persons	209,122,256	14,482,192	223,604,448	192,400,392	14,750,200	207,150,592
Corporate borrowers	6,616,277	1,252,993	7,869,270	5,662,719	903,866	6,566,585
Total	215,738,533	15,735,185	231,473,718	198,063,111	15,654,066	213,717,177

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 29.

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 loans as at 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 Credit Union Financial Support Scheme (CUFSS), at least 3.2% of the total assets must be invested in an approved manner 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:

	2013			2012		
Investments with	Carrying value	Past due value	Provision	Carrying value	Past due value	Provision
Cuscal – rated A+	2,397,099	-	-	7,893,262	-	-
Banks – rated AA and above	-	-	-	6,000,000	-	-
Banks – rated below AA	17,396,830	-	-	25,000,000	-	-
Building Societies – rated below AA	2,478,558	-	-	3,988,550	-	-
Credit Unions – rated below AA	8,409,156	-	-	-	-	-
Unrated institutions	4,026,622	-	-	-	-	-
Total	34,708,265	-	-	42,881,812	-	-

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. From 1st January 2013, tier 1 capital also includes the asset revaluation reserve on property.

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. The asset revaluation reserve is now classified under tier 1.

D. CAPITAL MANAGEMENT (Continued)

Capital in the credit union is made up as follows:

	2013	2012
Tier 1		
Share capital	138,558	136,548
Asset revaluation reserve on property	280,259	-
Retained earnings	16,797,975	16,085,088
	17,216,792	16,221,636
Less prescribed deductions	(817,820)	(555,921)
Net tier 1 capital	16,398,972	15,665,715
Tier 2		
Reserve for credit losses	1,015,955	1,052,487
Asset revaluation reserves on property (discounted to 45% for 2012 & prior years)	-	126,116
	1,015,955	1,178,603
Less prescribed deductions	-	(274,766)
Net tier 2 capital	1,015,955	903,837
Total Capital	17,414,927	16,569,552

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.

		2013		2012	
		Carrying Value	Risk Weighted Value	Carrying Value	Risk Weighted Value
Cash	0%	4,190,634	-	3,883,719	-
Deposits in highly rated ADI's	20%	35,958,765	7,191,753	44,352,287	8,870,457
Deposits in less highly rated ADI's	50% - 150%	2,092,581	1,046,291	2,620,842	1,310,421
Deposits in unrated ADI's	20%	4,026,622	805,324		
Standard Loans secured against eligible residential mortgages up to 80% LVR	35%	176,772,890	61,870,512	159,758,460	55,915,461
Standard Loans secured against eligible residential mortgages over 80% LVR	50% - 75%	23,122,591	12,973,740	23,119,988	13,064,889
Investments in equity instruments	150%	-	-	-	-
Other assets	50% - 100%	19,041,324	18,420,927	18,421,093	17,743,745
Total		265,205,407	102,308,547	255,156,389	96,904,973

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

	2013	2012	2011	2010	2009
	Basel III	Basel II	Basel II	Basel II	Basel II
Capital Ratio	14.61%	14.59%	14.50%	14.15%	13.83%

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 12.75%. 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 2013 was $14,428,302 [2012: $13,739,335].

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

a. The following information classifies the financial instruments into measurement classes

	2013 $	2012 $
Financial assets – carried at amortised cost		
Cash and cash equivalents	11,275,358	7,501,808
Receivables	241,198	278,490
Receivables from financial institutions	34,993,245	43,355,041
Loans to members	215,738,533	198,063,111
Total loans and receivables	262,248,334	249,198,450
Available for sale assets	549,532	549,569
	262,797,866	**249,748,019**
Financial Liabilities		
Borrowings	8,009,900	12,032,197
Creditors	802,103	531,293
Deposits from other institutions	4,016,057	3,015,263
Deposits from members	234,132,899	219,031,005
Preference Shares	30,278	30,284
	246,991,237	**234,640,042**

b. Assets measured at fair value

	Note	Balance	Fair value measurement at the end of the reporting period using: Level 1	Level 2	Level 3
Available for sale financial assets	9	549,532	-	-	549,532

The fair value hierarchy has the following levels:

a. quoted prices (unadjusted in active markets for identical assets or liabilities (Level 1);
b. 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
c. 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 Cuscal.

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.

2013	Within 1 month $	1 – 3 months $	3 – 12 months $	1 – 5 years $	After 5 years $	No maturity $	Total $
Assets							
Cash	7,105,300	-	-	-	-	4,190,634	11,295,934
Receivables	241,198	-	-	-	-	-	241,198
Liquid investments	23,151,044	13,910,471	2,132,000	3,535,793	-	-	42,729,308
Loans & advances	1,692,465	3,384,931	14,909,120	71,610,224	281,718,197	-	373,314,937
Total financial assets	32,190,007	17,295,402	17,041,120	75,146,017	281,718,197	4,190,634	427,581,377
Liabilities							
Borrowings	8,026,974	-	-	-	-	-	8,026,974
Creditors	802,103	-	-	-	-	-	802,103
Deposits from financial institutions	4,026,038	-	-	-	-	-	4,026,038
Deposits from members – at call	112,664,774	-	8,733	-	-	30,278	112,703,785
Deposits from members – term	21,595,088	46,155,843	53,717,149	1,366,863	-	-	122,834,943
On statement of financial position	147,114,977	46,155,843	53,725,882	1,366,863	-	30,278	248,393,843
Undrawn commitments	-	-	-	-	-	2,000,000	2,000,000
Total financial liabilities	147,114,977	46,155,843	53,725,882	1,366,863	-	2,030,278	250,393,843

2012	Within 1 month $	1 – 3 months $	3 – 12 months $	1 – 5 years $	After 5 years $	No maturity $	Total $
Assets							
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
Total financial assets	37,421,685	16,438,260	14,348,218	71,543,003	273,641,473	3,883,719	417,276,358
Liabilities							
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
On statement of financial position	128,974,923	69,946,025	39,294,808	1,783,777	-	30,284	240,029,817
Undrawn commitments	-	-	-	-	-	2,000,000	2,000,000
Total financial liabilities	128,974,923	69,946,025	39,294,808	1,783,777	-	2,030,284	242,029,817

26. MATURITY PROFILE OF FINANCIAL ASSETS AND LIABILITIES

The table below represents the above maturity profile summarised at discounted values. The contractual arrangements best represents the estimated minimum amount of repayment on the loans, liquid investments and on the member deposits within 12 months. While the liquid investments and member deposits are presented in the table below on a contractual basis, as part of our normal banking operations, we would expect a large proportion of these balances to roll over. Loan repayments are generally accelerated by members choosing to repay loans earlier. These advance repayments are at the discretion of the members and not able to be reliably estimated.

	2013			2012		
	Within 12 months $	After 12 months $	Total $	Within 12 months $	After 12 months $	Total $
Financial assets						
Cash	11,275,358	-	11,275,358	7,501,808	-	7,501,808
Liquid investments	31,708,265	3,000,000	34,708,265	40,881,812	2,000,000	42,881,812
Loans & advances	14,692,539	201,045,994	215,738,533	13,782,939	184,280,172	198,063,111
Receivables	528,928	-	528,928	760,044	-	760,044
Total financial assets	58,205,090	204,045,994	262,251,084	62,926,603	186,280,172	249,206,775
Financial liabilities						
Borrowings	8,000,000	-	8,000,000	12,000,000	-	12,000,000
Deposits from financial institutions	4,000,000	-	4,000,000	3,000,000	-	3,000,000
Deposits from members – at call	112,673,507	-	112,673,507	89,664,481	-	89,664,481
Deposits from members – term	120,235,704	1,249,645	121,485,349	128,234,454	1,170,534	129,404,988
Creditors	802,103	-	802,103	531,293	-	531,293
Total financial liabilities	245,711,314	1,249,645	248,960,959	233,430,228	1,170,534	234,600,762

27. 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.

2013	Within 1 month $	1 – 3 months $	3 – 12 months $	1 – 5 years $	Non-interest bearing $	Total $
Assets						
Cash and cash equivalents	7,084,724	-	-	-	4,190,634	11,275,358
Receivables	241,198	-	-	-	-	241,198
Liquid investments	16,055,238	13,834,275	2,092,581	3,011,150	-	34,993,244
Loans and advances	171,980,397	1,700,937	11,166,523	30,890,676	-	215,738,533
Available for sale investments	-	-	-	-	549,532	549,532
On statement of financial position	195,361,557	15,535,212	13,259,104	33,901,826	4,740,166	262,797,865
Undrawn commitments	-	-	-	-	15,735,185	15,735,185
Total financial assets	195,361,557	15,535,212	13,259,104	33,901,826	20,475,351	278,533,050
Liabilities						
Borrowings	8,009,900	-	-	-	-	8,009,900
Creditors	-	-	-	-	802,103	802,103
Deposits from financial institutions	4,016,057	-	-	-	-	4,016,057
Deposits from members – at call	112,664,774	-	8,733	-	30,278	112,703,785
Deposits from members – term	21,568,110	45,846,517	52,669,493	1,275,271	-	121,359,391
On statement of financial position	146,258,841	45,846,517	52,678,226	1,275,271	832,381	246,891,236
Undrawn commitments	-	-	-	-	2,000,000	2,000,000
Total financial liabilities	146,258,841	45,846,517	52,678,226	1,275,271	2,832,381	248,891,236

2012	Within 1 month $	1 – 3 months $	3 – 12 months $	1 – 5 years $	Non-interest bearing $	Total $
Assets						
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
On statement of financial position	190,369,292	14,679,843	10,373,038	29,892,558	4,433,288	249,748,019
Undrawn commitments	-	-	-	-	15,654,066	15,654,066
Total financial assets	190,369,292	14,679,843	10,373,038	29,892,558	20,087,354	265,402,085
Liabilities						
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
On statement of financial position	128,357,804	69,393,161	34,983,401	1,194,098	561,577	234,490,041
Undrawn commitments	-	-	-	-	2,000,000	2,000,000
Total financial liabilities	128,357,804	69,393,161	34,983,401	1,194,098	2,561,577	236,490,041

28. 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.

	2013			2012		
	Fair Value	Carrying Amount	Variance	Fair Value	Carrying Amount	Variance
Financial Assets	$	$	$	$	$	$
Cash and cash equivalents	11,275,358	11,275,358	-	7,501,808	7,501,808	-
Receivables *	528,928	528,928	-	760,044	760,044	-
Advances to other financial institutions	34,777,439	34,708,265	69,174	43,179,333	42,881,812	297,521
Loans to members	215,958,648	215,620,297	338,351	198,459,774	197,944,560	515,214
Total financial assets	262,540,373	262,132,848	407,525	249,900,959	249,088,224	812,735
Financial Liabilities						
Borrowings	7,999,661	8,000,000	(339)	11,999,640	12,000,000	(360)
Creditors *	2,747,901	2,747,901	-	3,260,885	3,260,885	-
Deposits from other financial institutions	3,999,739	4,000,000	(261)	3,001,462	3,000,000	1,462
Deposits from members – at call	112,695,052	112,695,052	-	89,694,765	89,694,765	-
Deposits from members – term	120,248,537	120,106,710	141,827	127,547,258	127,234,864	312,394
Total financial liabilities	247,690,890	247,549,663	141,227	235,504,010	235,190,514	313,496

* 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.

29. FINANCIAL COMMITMENTS

	2013 $	2012 $
a. Outstanding Loan commitments		
Loans approved but not funded as at 30 June	3,862,681	4,117,355
b. Loan Redraw Facility		
Facilities available as at 30 June	4,611,273	4,772,331
c. Undrawn Loan Facilities		
Loan facilities available to members for overdrafts and line of credit loans are as follows:		
Total value of facilities approved	14,097,651	13,574,850
Less: Amount advanced	(6,836,420)	(6,810,470)
Net undrawn value	7,261,231	6,764,380

These commitments are contingent on members maintaining credit standards and ongoing repayment terms on amounts drawn.

	2013 $	2012 $
Total financial commitments	15,735,185	15,654,066
d. Computer Software Expense Commitments		
The costs committed under the current Ultradata and TSW contracts are as follows:		
Not later than one year	661,792	398,748
Later than 1 year but not 2 years	269,097	-
Later than 2 years but not 5 years	-	-
	930,889	398,748
e. Lease commitments for operating leases on property occupied by the credit union		
Not later than one year	381,448	365,799
Later than one year but not later than five years	719,965	608,982
	1,101,413	974,781

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.

30. STANDBY BORROWING FACILITIES

The credit union has a borrowing facility with Cuscal of:

2013	Gross $	Current Borrowing $	Net Available $
Overdraft Facility	2,000,000	-	2,000,000
Total standby borrowing facilities	2,000,000	-	2,000,000

2012	Gross $	Current Borrowing $	Net Available $
Overdraft Facility	2,000,000	-	2,000,000
Total standby borrowing facilities	2,000,000	-	2,000,000

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.

31. 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 in an approved manner.

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.

32. 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:

	2013 Directors	2013 Other KMP	2013 Total	2012 Directors	2012 Other KMP	2012 Total
	$	$	$	$	$	$
(a) short-term employee benefits;	127,201	681,127	808,328	126,290	656,375	782,665
(b) post-employment benefits - superannuation contributions	11,448	86,017	97,465	11,224	72,317	83,541
(c) other long-term benefits – net (decrease)/increases in long service leave provision and retirement gifts	(1,236)	(8,098)	(9,334)	1,509	(2,022)	(513)
(d) termination benefits	-	-	-	-	-	-
(e) share-based payment	-	-	-	-	-	-
Total KMP compensation	137,413	759,046	896,459	139,023	726,670	865,693

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.

32. 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:

	2013 Mortgage Secured	2013 Other term loans	2013 Credit Cards	2012 Mortgage Secured	2012 Other term loans	2012 Credit Cards
	$	$	$	$	$	$
Funds available to be drawn	38,726	635	36,845	74,200	1,242	30,173
Balance	1,288,283	8,187	11,155	1,293,920	12,526	2,827
Amounts disbursed or facilities increased in the year	-	-	132,696	200,000	-	111,360
Interest and other revenue earned	70,745	911	663	73,067	1,375	390

	2013	2012
	$	$
Other transactions between related parties include deposits from directors, and other Key Management Persons are:		
Total value of term and savings deposits of KMP	1,093,035	589,596
Total interest paid on deposits to KMP	17,610	18,297

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.

33. 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) operates the computer network used to link Redicards and Visa cards operated through ATMs and POS facilities to the credit union's EDP systems.
(iii) provides treasury and money market facilities to the credit union.

b. Ultradata Australia Pty Limited

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

c. 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.

34. SEGMENTAL REPORTING

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

35. 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.

36. 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 2013 is $33 [2012: $5,026].

37. NOTES TO STATEMENT OF CASH FLOWS

a. Reconciliation of Cash and cash equivalents

Cash includes cash on hand, and deposits at call with other financial institutions and comprises:

	2013 $	2012 $
Cash on hand and at bank	4,375,358	3,883,719
Deposits at call	6,900,000	3,618,089
Total Cash and cash equivalents	11,275,358	7,501,808

b. Reconciliation of cash from operations to accounting profit

The net cash increase/(decrease) from operating activities is reconciled to the operating profit after tax

	2013 $	2012 $
Operating profit after income tax	678,365	646,915
Non cash flows		
Depreciation	358,905	337,398
Amortisation of intangibles	36,004	35,581
Loss on sale of assets	-	2,405
Profit on sale of assets	(22,644)	(2,654)
Add changes in assets and liabilities		
Increase in provision for loans	-	8,712
Increase in employee entitlements	20,589	35,570
Increase in accrued expenses	259,872	111,312
Increase in unamortised fixed rate loan renegotiation fees	9,330	-
Increase in GST and other tax liabilities	9,139	-
Increase in effective rate adjustments	98	24,729
Decrease in interest receivable	188,249	-
Decrease in deferred tax	10,679	-
Decrease in taxes receivable	5,318	-
Decrease in prepayments	-	22,968
Decrease in sundry debtors and other receivables	42,867	-
Less changes in assets and liabilities		
Decrease in other provisions	(8,105)	(14,811)
Decrease in provision for loans	(9,743)	-
Decrease in unamortised fixed rate loan renegotiation fees	-	(1,431)
Decrease in GST and other tax liabilities	-	(16,156)
Decrease in provision for income tax	(18,661)	(51,914)
Decrease in interest payable	(791,747)	(328,598)
Increase in interest receivable	-	(2,323)
Increase in prepayments	(15,264)	-
Increase in sundry debtors and other receivables	-	(39,410)
Increase in deferred tax	-	(9,412)
Increase in taxes receivable	-	(2,015)
Net cash from operating activities	753,251	756,866

38. 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.

administration

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branches

Albion Park	Shopping Village, Terry Street	✆ 4257 2244
Bega	186 Carp Street	✆ 6499 1400
Bermagui	2 Wallaga Street	✆ 6493 3144
Merimbula	Shop 1/20 Market Street	✆ 6495 1073
Moruya	81-83 Campbell Street	✆ 4474 2963
Nowra	Shop 1, 24 Berry Street	✆ 4428 9700
Thirroul	277a Lawrence Hargrave Dr	✆ 4268 1877
Ulladulla	Woolworths Complex	✆ 4454 2099
Wollongong	27 Stewart Street	✆ 4224 7700