community alliance credit union limited

2012 ANNUAL REPORT

ABN 14 087 650 771

Annual Financial Report

30 June 2012

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Directors' Report

For the year ended 30 June 2012

The Directors present their report together with the financial report of Community Alliance Credit Union Limited ("the Credit Union"), for the year ended 30 June 2012 and the Auditor's report thereon.

1. Directors

The names and details of the Directors of the Credit Union in office at any time during or since the end of the financial year are:

Ms Mary Youssif B Com, MStudAccy, FCPA, ACIS, MAMI

Ms Youssif joined the Board in 1990 and chaired the Audit and Risk Management Committee from 1994 to 1997. She has been Chair of the Board since 2008 and is the Chair of the Fit & Proper Assessment Committee, Remuneration Committee and a member of the Governance Committee.

Mr John Thomas Swan MAMI

Mr Swan joined the Board in 1977 and held the position of Deputy Chair from 1981 to 1995. He is a member of the Governance Committee, Remuneration Committee and Chair of the NSW Credit Union Employers Association.

Ms Cristina Thompson RN, BA, MBA, MAMI

Ms Thompson joined the Board in 2002 and chaired the Governance Committee from 2009 to 2010. Ms Thompson resigned from the board in November 2011.

Mr Anthony Abela FIPA, FAMI, GAICD

Mr Abela joined the Board in 2008. He has been a member of the Audit and Risk Management Committee since 2008, and during 2010 assumed Chair of the Audit & Risk Management Committee.

Mr Grant Fulton M Comm (Land Econ), FCPA, GAICD, ACIS, MAMI

Mr Fulton joined the Board in 2008. He was a member of the Audit and Risk Management Committee from 2008 to 2010. Mr Fulton is a current member of the Governance Committee and Remuneration Committee.

Mr Roger Downs B Comm, LLB, Dip Mgt, MAMI

Mr Downs joined the Board in 2010. He is the Chair of the Governance Committee and a member of the Remuneration Committee.

Mr Christopher Grange BA MComm (Finance), MAMI

Mr Grange joined the Board in 2010. He is a member of the Audit and Risk Management Committee.

Mr Graham Holby FAMI

Mr Holby joined the Board in November 2011. He is a member of the Audit and Risk Management Committee.

Interests in the share of the Credit Union

As at the date of this report, all Directors held one $2 Member share in Community Alliance Credit Union Limited.

2. Company Secretary

Mr Bob Kotic was appointed to the position of Chief Executive Officer and Company Secretary in April 2012. Mr Kotic is a senior business management and finance executive with more than 35 years experience at CEO, COO and CFO levels across three industries - financial services, higher education and manufacturing.

Mr Kotic's previous roles include Vice President (Administration) at the National University of Singapore and Deputy Vice Chancellor and Chief Operating Officer of the University of Sydney. He was CEO of Lumley Life Ltd and AMPAC Ltd, a joint venture between AMP and Westpac. He also held Chief Financial Officer positions with companies including ING Australia Group Limited and Zurich Australia Group Limited.

Mr Kotic is a FCPA and holds a Master of Economics (Finance) from Macquarie University and a Bachelor of Business Studies (Accounting) from the NSW Institute of Technology (UTS).

3. Directors' Meetings

The number of Directors' meetings (including meetings of committees of Directors) and number of meetings attended by each of the Directors of the Credit Union during the financial year were:

No. of Meetings attended	Board meetings		Audit and Risk Management Committee		Governance Committee		Fit & Proper Committee*		Remuneration Committee	
	E	A	E	A	E	A	E	A	E	A
M Youssif	11	10	-	-	6	6	1	1	3	3
C Thompson	4	4	2	2	-	-	-	-	-	-
J T Swan	11	7	-	1	6	5	-	-	3	3
A Abela	10	10	5	5	-	-	-	-	-	-
G Fulton	10	9	1	1	6	5	-	-	3	2
R Downs	11	10	-	-	6	6	-	-	3	3
C Grange	8	8	4	4	-	-	-	-	-	-
G Holby	7	7	3	3	-	-	-	-	-	-

*Fit & Proper Committee meetings were conducted with one Director and two suitably qualified independent external nominees.

** Mr J T Swan and Mr G Fulton joined the ARMC for the July 2011 meeting to fill a vacancy due to leave of absence.

E – Eligible to attend A - Attended

4. Principal Activities

The principal activities of the Credit Union during the course of the year were the provision of financial products, services and associated activities to members.

There has been no significant change in the nature of these activities during the year ended 30 June 2012.

5. Corporate Governance Statement

This statement outlines the main corporate governance practices in place throughout the financial year.

5.1 Board of Directors and its Committees

Role of the Board

The Board's primary role is the protection and enhancement of long-term member value.

To fulfil this role, the Board is responsible for the overall corporate governance of the Credit Union, including its strategic direction, approving and monitoring capital expenditure, setting remuneration, appointing and removing Directors and creating succession policies for Board and senior executives, establishing and monitoring the achievement of management's goals and ensuring the integrity of risk management, internal control, legal compliance and management information systems. It is also responsible for approving and monitoring financial and other reporting. The Board has delegated responsibility for operation and administration of the Credit Union to the Chief Executive Officer and Executive Management.

5.1 Board of Directors and its Committees (continued)

Board processes

To assist in the execution of its responsibilities, the Board has established a number of committees including the Governance Committee, Audit and Risk Management Committee, Fit & Proper Committee and Remuneration Committee. These committees have written mandates and operating procedures, which are reviewed on a regular basis.

The Board has also established a framework for the management of the Credit Union including a system of internal control, a business risk management process and the establishment of appropriate ethical standards.

The Board currently holds eleven scheduled Board meetings each year, plus strategy meetings and any extraordinary meetings at such other times as may be necessary to address any specific significant matters that may arise.

The agenda for meetings is prepared in conjunction with the Chair and Chief Executive Officer. Standing items include the corporate performance report, credit quality report, operational reports, strategic planning reports and reports from designated committees and governance and compliance issues. Submissions are circulated in advance. Executives are regularly involved in Board discussions and Directors have other opportunities for contact with a wider group of the Credit Union's employees and meetings are appropriately minuted.

Director education

Directors acknowledge the responsibilities placed upon them when agreeing to become Board members. To enable them to further their education and improve the skills needed to properly carry out the functions of a Director, emphasis is placed on attendance of at least one training course each financial year. The Chair is obligated to support Directors in the selection of, and arrangements for, attending appropriate courses. Directors also have the opportunity to visit the Credit Union's facilities and meet with management to gain a better understanding of Credit Union operations.

Composition of the Board

The composition of the Board is determined in accordance with the following principles and guidelines:

- In accordance with the Constitution of the Credit Union, the Board currently comprises seven members, elected by the Credit Union membership, with the Chair elected by the Board of Directors;
- Casual Board vacancies are filled by the Board having regard to appropriate qualifications and expertise and subject to election by members when the vacant position is due for re-election, confirmed at the next Annual General Meeting and then subject to election every three years thereafter;
- The names of the Directors of the Credit Union are set out at the commencement of the Directors' Report. All Directors are members of the Australasian Mutuals Institute;
- All members of the Board are independent non-executive Directors;
- An independent non-executive Director is appointed as Chair; and
- Guidelines have been established to ensure optimum Board performance and the Constitution of the Credit Union provides for Directors to be appointed for a three year term. Directors, being eligible, may stand for re-election and where the number of candidates standing exceeds the available positions, a postal vote of members determines the successful candidates.

5.2 Committee structure

Governance Committee

The Governance Committee's powers are limited to those delegated to it by the Board from time to time. During the course of the reporting period members of the Governance Committee were Mr R Downs, Ms M Youssif, Mr J Swan and Mr G Fulton. The Board invites the Chief Executive Officer to attend all Governance Committee meetings in an advisory & secretarial capacity, unless attendance would be inappropriate because of reasons such as a conflict of interest.

The role of the Governance Committee is to:

- Provide the initial point of focus regarding important Board Governance issues that arise from time to time;
- Undertake activities in relation to the identification and nomination of replacement Directors;
- Assess Board skills and the Directors' "expertise" mix and number;
- Review the Board succession plan, Board membership and Management succession plan to ensure that key roles are identified and covered at all times;
- Undertake action to evaluate Board performance;
- Undertake action to evaluate Director performance. The Committee coordinates the process and the Chair of the Board conducts individual Director interviews;
- Undertake action to implement the Credit Union's Fit & Proper Policy;
- Report regularly to the Board;
- Review the Constitution periodically;
- Review the Delegations policy annually;
- Review the Board Budget annually; and
- Review Board training requirements.

Audit and Risk Management Committee

Pursuant to the Australian Prudential Regulation Authority ("APRA") and Corporations Act legislative requirements, the Credit Union has constituted an Audit and Risk Management Committee.

The primary objective of the Audit and Risk Management Committee is to assist the Board in fulfilling its responsibilities in regard to the accounting, compliance, reporting and risk management practices of the Credit Union.

The Audit and Risk Management Committee consists of a minimum of three nominated Directors. During the course of the reporting period the members of the Audit and Risk Management Committee were Mr A Abela, Mr C Grange, Ms C Thompson and Mr G Holby.

The Board invites the Chief Executive Officer and the Executive Management to attend all Audit and Risk Management Committee meetings in an advisory and secretarial capacity, unless their attendance would be inappropriate because of reasons such as conflict of interest. In addition, KPMG provides both co-sourced internal audit and external audit functions and attends the Audit and Risk Management Committee meetings. The Audit and Risk Management Committee has regular opportunities to meet with the External Auditor and Internal Auditor in the absence of management representatives.

The role of the Audit and Risk Management Committee is to:

- Minimise accounting policy risk by reviewing all draft annual financial reports prior to approval by the Board;

5.2 Committee structure (continued)

- Monitor compliance with statutory requirements for financial reporting;
- Be responsible for approving the program of internal audit visits to be conducted each financial year and for the scope of the work to be performed;
- Liaise with the External Auditor and review the adequacy of the scope and quality of the annual statutory audit in consultation with the Chief Executive Officer;
- Annually review Business Continuity Management;
- Initiate special projects and investigations on matters within its Charter, keeping the Board fully informed on progress and outcomes;
- Review and monitor the continuing independence of the Credit Union's appointed External Auditors;
- Review selected risk management policies;
- Review other policies as delegated by the Board; and
- Assess the fitness and propriety of External Auditors.

Remuneration Committee

In accordance with the APRA Standard CPS 510, the Credit Union has constituted a Remuneration Committee to implement the Credit Union's objectives and policies in relation to remuneration arrangements.

The Committee consists of a minimum of three nominated Directors. Members of the Committee are appointed for an initial term of one year, or as determined by the Board. Members may be reappointed to the Committee. During the course of the reporting period the members of the Remuneration Committee were Ms M Youssif (Chair), Mr G Fulton, Mr J Swan and Mr R Downs.

The role of the Remuneration Committee is to:

- Make annual recommendations to the Board, consistent with the Remuneration Policy, on the remuneration of the Chief Executive Officer, those directly reporting to the CEO, other persons whose activities may in the Committee's opinion affect the financial soundness of the Credit Union and any person specified by APRA including risk and control personnel of the Credit Union and other persons covered by the policy;
- Review annually the Remuneration Committee Charter including an evaluation of the Committee's performance and the extent to which the Committee has met the requirements of this Charter;
- Conduct regular reviews of, and make recommendations to the Board, on the remuneration policy.

Fit and Proper Assessment Committee

The Board has a Fit and Proper Assessment Committee. It is a standing committee formed to assist the Board in the selection, review and assessment of the fitness and propriety of candidates, including current Directors, who nominate for election as a Director.

- The Committee was formed in 2006 to comply with the requirements of APRA's Prudential Standard CPS 520.
- The Committee consists of the Chair of the Board, except where he/she is a candidate for election in that year, and two suitably qualified independent external nominees.
- All current Directors were assessed in accordance with the Board's policy.

5.3 Board remuneration

Directors are remunerated by fees determined by the Board within the aggregate amount approved by members at the Annual General Meeting.

5.3 Board remuneration (continued)

The aggregate amount of Directors' fees (including superannuation) for the year ended 30 June 2012 was $205,662 (2011: $161,223). The amount of Directors' fees excluding superannuation was $188,681 (2011: $147,911) which is in accordance with the resolution made at the 2011 Annual General Meeting.

5.4 Internal control framework

The Board acknowledges that it is responsible for the overall internal control framework but recognises that no cost effective internal control system will preclude all errors and irregularities. The Board has instituted the following internal control framework:

- Written procedures, policies and guidelines;
- Financial reporting – monthly actual results are reported against budgets approved by the Directors and revised forecasts are prepared throughout the year on a quarterly cycle;
- Quality and integrity of personnel – written confirmation of compliance with policies, legislation and prudential standards is obtained from all operating units. Formal appraisals are conducted at least annually;
- Approval levels – the Board delegates responsibility for management of the Credit Union to the Chief Executive Officer and Executive Management. Loan approval limits, cheque signatory authority and capital expenditure authority is delegated to nominated officers. The Board reviews these authority levels on an annual basis;
- Functional specialty reporting – key areas subject to regular reporting to the Board are categorised into four streams, — Operations and Member Services, Lending Services, Compliance and Risk Management, and Corporate Services (including Finance and Human Resources). The Board reviews each of these areas monthly and the risk management policies underlying these areas are reviewed annually; and
- Investment appraisal – guidelines for capital expenditure include annual budgets, detailed appraisal and review procedures and levels of authority.

Internal Audit

The Internal Auditors assist the Board in ensuring compliance with internal controls and risk management programs. The Audit and Risk Management Committee is responsible for approving the program of internal audit visits to be conducted each financial year and for the scope of the work to be performed. KPMG, the appointed External Auditor, also performs certain co-sourced internal audit procedures for the Credit Union. It is considered that the undertaking of this additional role does not impair the independence of the external audit process. KPMG undertake detailed internal audits in line with the Credit Union's risk management policies and systems as approved by the Audit and Risk Management Committee. The internal audit process is further enhanced by the utilisation of expert advice in areas such as lending and specific legislation. The Audit and Risk Management Committee is responsible for recommending to the Board the appointment and dismissal of the Internal Auditor. A detailed review of internal audit including a tendering process was performed in June 2011, with ongoing assessments conducted on an annual basis.

Monitoring of the Board's performance

As part of its approach to corporate governance, the Board of the Credit Union undertook a Board performance self-assessment in September 2011.

The process used a confidential customised questionnaire which was analysed. A report was presented to Directors which highlighted the self-assessed strengths and weaknesses in the Board's performance and suggestions for improvement.

Compliance – the role and review of Credit Union policy

The Board recognises the importance and the dynamic nature of its policies and has implemented a program of progressive review ensuring all policies are reviewed at least annually and more frequently if required.

5.4 Internal control framework (continued)

This will ensure a relevant and up to date policy manual is available to assist staff in the day to day interpretation of, and compliance with, Board requirements. When deemed appropriate external consultants are used to monitor the Credit Union's compliance with specific legislation.

5.5 Ethical standards

The Credit Union requires each Director to comply with the Credit Union's Code of Ethics for Directors. Each Director is required to acknowledge in writing that they have read and considered the Code of Ethics for the Directors of the Credit Union. Each employee is required to acknowledge that they have read and considered the Staff Code of Conduct.

All Directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Credit Union. Every employee has a nominated supervisor to whom they may refer any issues arising from their employment. The Code of Ethics for Directors is reviewed annually by the Board and the Staff Code of Conduct is reviewed annually by Management and processes are in place to promote and communicate these policies.

The Board has set a requisite standard of conduct at all levels of the Credit Union in relation to compliance with, but not limited to:

- the Corporations Act 2001;
- the Australian Prudential Regulation Authority;
- the Australian Accounting Standards Board;
- the Consumer Credit Code;
- the National Consumer Credit Protection Act
- the Credit Union Code of Practice;
- the Credit Union Core Values & Code of Ethics;
- the EFT Code of Conduct;
- the Financial Sector Reform (FSR) Act;
- the Competition and Consumer Act 2010;
- Work Health Safety Act 2011;
- Income Tax Assessment Acts 1936 & 1997;
- The Privacy Act 1988;
- A New Tax System (Goods and Services Tax) Legislation 1999;
- Anti-Money Laundering and Counter-Terrorism Financing Act 2006; and
- Mutual Banking Code of Practice.

The following three key principles apply to the Board and all employees of the Credit Union. They will:

- act with honesty and integrity;
- act lawfully and within the spirit of the law; and
- act within the spirit of justice and equity.

Conflict of interest

In accordance with the Corporations Act 2001 and the Credit Union's policy, Directors are required to disclose any conflicts of interest and to abstain from participating in any discussion or voting on matters in which they have a material personal interest. In addition, the Board has developed procedures to be followed by a Director who believes he/she may have a conflict of interest.

5.6 Communication with members

The Board aims to ensure that members are informed of all major developments affecting the Credit Union's state of affairs. Information is communicated to members as follows:

- Annual Reports are available to all members who request them. The Board ensures that the Annual Report includes relevant information about the operations of the Credit Union during the year including changes in the state of affairs of the Credit Union and details of future developments, in addition to the other disclosures required by the Corporations Act 2001;
- All documents that are released publicly are made available on the Credit Union's internet web site www.cu.com.au;
- Proposed changes to the Constitution of the Credit Union are submitted to a vote of members; and
- The Financial Services Reform Act requires that disclosure documents, including the conditions of use statement, are provided when new memberships are opened.

The Board encourages full participation by members at the Annual General Meeting to ensure a high level of accountability and identification with the Credit Union's strategy and goals. Important issues are presented to the members as resolutions.

The members are requested to vote on the appointment and aggregate remuneration of Directors. A copy of the Constitution is available to any member who requests it.

6. Operating and financial review

The Credit Union's operating performance for the year ended June 2012 has decreased from the 2011 performance, however still strong compared with past years which were a period of consolidation following the Global Financial Crisis. Interest margin during 2012 has been maintained, increasing slightly on last year and in line with industry levels. Bad & Doubtful debt costs have increased considerably to $537,000 (2011: $144,000), however $400,000 of this relates to one member loan whose property value has dropped significantly. The Credit Union recorded an operating profit before tax of $1,855,000 (2011: $2,506,000) which was a strong result.

The Credit Union's total asset growth has increased by $14,240,000 or 3% during the year. Member loans increased 5.3% or $19,223,000 during the year to $384,182,000 (2011: $364,959,000). Member deposits increased by 2.9% or $12,621,000 to $448,120,000 (2011:$435,499,000).

Net interest margin increased 1.3% or $172,000 to $12,969,000 (2011:$12,797,000).

Operating expenses, excluding impairment losses, increased $39,000 or 0.3% to $15,471,000 (2011:$15,432,000).

7. State of affairs

In the opinion of Directors there were no significant changes in the state of affairs of the Credit Union that occurred during the financial year under review.

8. Environmental regulations

The Credit Union's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation. However, the Board believes that the Credit Union has adequate systems in place for the management of its environmental responsibilities and is not aware of any breach of environmental requirements as they apply to the Credit Union.

9. Events subsequent to reporting date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material or unusual nature likely, in the opinion of the Directors of the Credit

9. Events subsequent to reporting date (continued)

Union, to affect significantly the operations of the Credit Union, the results of those operations, or the state of affairs of the Credit Union in future financial years.

10. Likely developments

Details of the likely developments in the operations of the Credit Union in subsequent financial years are disclosed in the Chair's and Chief Executive's Report.

11. Directors' interests

During the financial year ended 30 June 2012, no Director of the Credit Union has received, or become entitled to receive, a benefit (other than benefits disclosed in Note 29 of the Financial Statements) by reason of a contract made by the Credit Union or a related corporation with a Director or firm of which a Director is associated.

12. Insurance premiums

Since the end of the previous financial year the Credit Union has paid insurance premiums in respect of Directors' and Officers' liability and legal expense insurance contracts for current and former Directors and officers.

The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the Directors' and Officers' liability and legal expense insurance contracts, as such disclosure is prohibited under the terms of the contract.

13. Non-audit services

During the year KPMG, the Credit Union's External Auditor, has performed certain other services in addition to their statutory duties.

The Board has considered the non-audit services provided during the year by the auditor and in accordance with advice provided by the Audit and Risk Management Committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001.

Details of the amounts paid to the auditor of the Credit Union, KPMG, and its related practices for audit and non-audit services provided during the year are set out in Note 31.

14. Lead auditor's independence declaration under section 307C of the Corporations Act 2001

The lead auditor's independence declaration is set out on page 13 and forms part of the Directors' Report for the financial year ended 30 June 2012.

15. Rounding off

The Credit Union is a type of company referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the Board of Directors.

M. Youssif

Chair of the Board

A. Abela

Chair of the Audit and Risk Management Committee

Dated at Wollongong 26th September 2012

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Community Alliance Credit Union Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2012 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

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

KPMG

KPMG

Richard Drinnan
Partner

Wollongong

Dated this 26th day of September 2012

Statement of Financial Position

As at 30 June 2012

	Note	2012 $'000	2011 $'000
ASSETS			
Cash and cash equivalents	16	**3,516**	14,078
Other financial assets	13	**10,869**	3,408
Loans and receivables	14	**468,172**	449,327
Property, plant and equipment	10	**5,890**	7,248
Investment property	12	**2,230**	2,200
Net deferred tax assets	9	**233**	-
Intangible assets	11	**421**	486
Other assets	17	**1,103**	1,447
Total Assets		**492,434**	478,194
LIABILITIES			
Deposits	21	**448,120**	435,499
Payables	24	**6,429**	5,060
Derivative liabilities	24	**-**	47
Income tax payable	9	**70**	325
Net deferred tax liabilities	9	**-**	81
Provisions	23	**1,188**	1,272
Total Liabilities		**455,807**	442,284
Net Assets		**36,627**	35,910
EQUITY			
Reserves	20	**3,650**	3,732
Retained profits	18	**32,977**	32,178
Total equity attributable to members of the Credit Union		**36,627**	35,910

The statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 21 to 68.

Statement of Comprehensive Income

For the year ended 30 June 2012

	Note	2012 $'000	2011 $'000
Interest revenue	6	**32,021**	30,998
Interest expense	6	**(19,052)**	(18,201)
Net interest income		**12,969**	12,797
Other income	7	**4,928**	5,285
Net income		**17,897**	18,082
Net impairment loss on loans and receivables	8	**(537)**	(144)
Net impairment loss on Plant and equipment	8	**(34)**	-
Personnel expenses		**(7,161)**	(6,870)
Depreciation and amortisation expenses	8	**(907)**	(825)
Data and transaction processing expenses		**(1,376)**	(1,424)
Information technology expenses		**(1,182)**	(1,177)
Property expenses		**(1,314)**	(1,389)
Marketing expenses		**(729)**	(717)
Office expenses		**(963)**	(1,172)
Loss on disposal of assets		**(56)**	(14)
Other corporate expenses		**(1,783)**	(1,844)
Total operating expenses		**(16,042)**	(15,576)
Profit before income tax		**1,855**	2,506
Income tax expense	9	**(466)**	(646)
Profit for the year		**1,389**	1,860

Statement of Comprehensive Income (continued)

For the year ended 30 June 2012

	Note	2012 $'000	2011 $'000
Profit for the year		**1,389**	1,860
Other comprehensive income			
Gain/(loss) on revaluation of land and buildings	20	**(634)**	-
Effective portion of changes in fair value of cash flow hedge	20	**34**	279
Net change in value of available-for-sale financial assets	20	**(72)**	447
Other comprehensive income for the year, net of income tax		**(672)**	726
Total comprehensive income for the year		**717**	2,586

The statement of comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages 21 to 68.

Statement of Changes in Equity

For the year ended 30 June 2012

	Note	General reserve for credit losses $'000	Derivatives fair value reserve $'000	Available-for-sale reserve $'000	Redeemed share capital reserve $'000	Revaluation reserve $'000	Retained earnings $'000	Total $'000
Balance as at 1 July 2010		789	(313)	720	210	1,653	30,265	33,324
Total comprehensive income for the year								
Profit after tax		-	-	-	-	-	1,860	1,860
Total other comprehensive income	18,19,20	-	279	447	-	-	-	726
Total comprehensive income for the year			279	447	-	-	1,860	2,586
Transfers between reserves	18,20	(59)	-	-	-	-	59	-
Total transfers		(59)	-	-	-	-	59	-
Transactions with members, recorded directly in equity								
Shares from closed memberships transferred from retained earnings	18,19,20	-	-	-	6	-	(6)	-
Total transactions with members		-	-	-	6	-	(6)	-
Balance as at 30 June 2011	18,19,20	730	(34)	1,167	216	1,653	32,178	35,910

Amounts are stated net of tax

The statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 21 to 68.

Statement of Changes in Equity (continued)

For the year ended 30 June 2012

	Note	General reserve for credit losses $'000	Derivatives fair value reserve $'000	Available-for-sale reserve $'000	Redeemed share capital reserve $'000	Revaluation reserve $'000	Retained earnings $'000	Total $'000
Balance as at 1 July 2011		730	(34)	1,167	216	1,653	32,178	35,910
Total comprehensive income for the year								
Profit after tax							1,389	1,389
Total other comprehensive income	18,19,20	-	34	(72)	-	(634)	-	(672)
Total comprehensive income for the year		-	34	(72)	-	(634)	1,389	717
Transfers between reserves	18,20	586	-	-	-	-	(586)	-
Total transfers		586	-	-	-	-	(586)	-
Transactions with members, recorded directly in equity								
Shares from closed memberships transferred from retained earnings	18,19,20	-	-	-	4	-	(4)	-
Total transactions with members		-	-	-	4	-	(4)	-
Balance as at 30 June 2012	18,19,20	1,316	-	1,095	220	1,019	32,977	36,627

Amounts are stated net of tax

The statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 21 to 68.

Statement of Cash Flows

For the year ended 30 June 2012

	Note	2012 $'000	2011 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		**32,324**	31,135
Dividends received		**351**	392
Other cash receipts in the course of operations		**4,156**	4,877
Interest paid		**(19,103)**	(17,762)
Cash paid to suppliers and employees		**(13,177)**	(15,275)
Tax (paid)		**(778)**	(568)
Net loans disbursed		**(19,399)**	(27,669)
Net increase in deposits		**12,621**	31,196
Net cash (used in) / from operating activities	16	**(3,005)**	6,326
CASH FLOWS FROM INVESTING ACTIVITIES			
Net movement in deposits with ADI's and held to maturity investments		**(7,992)**	(4,063)
Capital distributions on available for sale investment		**477**	913
Proceeds from sale of property, plant and equipment		**702**	-
Payments for property, plant and equipment, and intangibles		**(743)**	(740)
Net cash (used in) investing activities		**(7,556)**	(3,890)
CASH FLOWS FROM FINANCING ACTIVITIES			
Finance lease principal repayments		**(1)**	-
Net cash (used in) financing activities		**(1)**	-
Net (decrease) /increase in cash held		**(10,562)**	2,436
Cash and cash equivalents at the beginning of the year		**14,078**	11,642
Cash and cash equivalents at the end of the year	16	**3,516**	14,078

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 21 to 68.

Notes to the Financial Statements

For the year ended 30 June 2012

NOTE CONTENTS

Notes to the Financial Statements

For the year ended 30 June 2012

1. Reporting entity

Community Alliance Credit Union Limited ("the Credit Union") is a company limited by shares, incorporated and domiciled in Australia.

The address of the Credit Union's registered office is 38-40 Young St, Wollongong. The Credit Union operates predominantly in retail banking within NSW.

The Credit Union is a for-profit entity and is primarily involved in loans and deposits to members.

2. Basis of preparation

Statement of compliance

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The financial statements comply with International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board (IASB).

The financial statements were authorised for issue by the Directors on 26th September 2012.

Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following items in the statement of financial position which are measured at fair value:

- Derivative financial instruments;
- Available-for-sale financial assets;
- Land and buildings; and
- Investment property.

The methods used to measure fair values are discussed further in Notes 3, 4 and 5.

Functional and presentation currency

The financial statements are presented in Australian dollars, which is the Credit Union's functional currency. The Credit Union is a type of company referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, all financial information presented in Australian dollars has been rounded off to the nearest thousand unless otherwise stated.

Use of estimates and judgements

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. In particular, information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Notes 3(f) , 8, 15 and 25 – impairment;
- Notes 3(a) and 5 – valuation of financial instruments;
- Notes 3(b), 5 and 10 – valuation of land and buildings; and
- Notes 3(d), 5 and 12 – valuation of investment property.

Notes to the Financial Statements

For the year ended 30 June 2012

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

a) Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise cash and cash equivalents, available for sale investments, loans and receivables, including loans to members and other authorised deposit taking institutions (ADI's), deposits from members and payables.

Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Credit Union becomes party to the contractual provisions of the instrument. Financial assets and liabilities are recognised on the date that they originate or the trade date at which the Credit Union becomes a party to the contractual provisions of the instrument.

Financial assets are derecognised if the Credit Union's contractual rights to the cash flows from the financial assets expire, or if the Credit Union transfers the financial asset to another party without retaining substantially all the risks and rewards attached to the asset.

Financial liabilities are derecognised if the Credit Union's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Credit Union's cash management are included as a component of cash and cash equivalents for the purpose of the Statement of Cash Flows.

Available for sale investments

The Credit Union's investment in equity securities are classified as available for sale financial assets.

Available for sale investments are initially recognised at trade date and measured at fair value plus transaction costs. Gains and losses arising from subsequent changes in fair value are recognised directly through other comprehensive income and presented within the available for sale revaluation reserve. When the asset is derecognised or impaired the cumulative gain or loss in equity is transferred to profit or loss.

Investment securities available for sale consist of securities that are not actively traded and are intended to be held for an indefinite period of time. Such securities are available for sale and may be sold should the need arise, including liquidity needs or impacts of changes in interest rates.

Unlisted equity investments are those investments in equity securities that do not have a quoted market price in an active market, and the Credit Union does not intend to sell immediately or in the near term. When no market value is readily available, fair value cannot be reliably measured. The Credit Union has two unlisted equity investments. CUSCAL Limited shares are held for operational reasons and are not held for capital gain or the purposes of trading.

Notes to the Financial Statements

For the year ended 30 June 2012

3. Significant accounting policies (continued)

a) Financial instruments (continued)

There is no active market for these shares and they are only traded between other mutual ADI's and therefore measured at cost less any impairment losses. Vale Cash Management Fund is an equity investment consisting of fixed interest securities. The value of the equity is determined based on the fair values of fixed interest securities at balance date.

Held-to-maturity financial assets

If the Credit Union has the positive intent and ability to hold debt securities to maturity then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortised cost using the effective interest rate method, less any impairment losses.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market and the Credit Union does not intend to sell immediately or in the near term. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment losses. Loans and receivables comprise loans to members, trade and other receivables.

Deposits

Deposits, being member savings and term investments, are measured at amortised cost and are recognised as the aggregate amount of money owing to depositors. The amount of interest accrued at balance date is shown as part of payables.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

Derivative financial instruments

During the year the Credit Union held derivative financial instruments to hedge its interest rate risk exposures.

On initial designation of the derivative as a hedging instrument, the Credit Union formally documents the relationship between the hedging instrument and the hedged item, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Credit Union makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80 – 125 percent in terms of hedged items.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Notes to the Financial Statements

For the year ended 30 June 2012

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Financial instruments (continued)

Cash flow hedges

The effective portion of changes in the fair value of a derivative hedging instrument designated as a cash flow hedge are recognised in other comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in other comprehensive income and equity remains there until the forecast transaction occurs when it is then transferred to profit or loss.

b) Property, plant and equipment

i. Plant and equipment

Recognition and measurement

Items of plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of plant and equipment have different useful lives, they are accounted for as separate items (major components) of plant and equipment.

Gains and losses on disposal of an item of plant and equipment are determined by comparing the proceeds from disposal with the carrying amounts of plant and equipment and are recognised in profit or loss.

Subsequent costs

The cost of replacing part of an item of plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Credit Union and its cost can be measured reliably. The costs of the day-to-day servicing of plant and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is based on the cost of the asset less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

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

- Plant and equipment — 4 - 7 years
- Leased plant and equipment — 4 - 5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Notes to the Financial Statements

For the year ended 30 June 2012

3. Significant accounting policies (continued)

b) Property, plant and equipment (continued)

ii. Land and buildings

The category of land and buildings is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any increase in fair value is recorded in other comprehensive income and accumulated in equity under the Asset Revaluation Reserve. Any decrease in fair value is recognised in other comprehensive income to the extent of any credit balance in the Asset Revaluation Reserve, otherwise the decrease is recognised in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

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

- Buildings 40 years

c) Intangible assets

Computer Software

Where computer software costs are not integrally related to associated hardware, the Credit Union recognises them as an intangible asset where they are clearly identifiable, can be reliably measured and it is probable they will lead to future economic benefits that the Credit Union controls. The Credit Union carries capitalised computer software assets at cost less accumulated amortisation and any impairment losses.

Amortisation is calculated over the cost of the asset less its residual value. Amortisation is recognised in the profit and loss on a straight-line basis over the estimated useful life of the software from the date that it is available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. All other software assets are being amortised on a straight line basis over their useful life, usually for a period of 4 years.

Subsequent expenditure on capitalised software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred. Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

d) Investment property

Investment property is property held either to earn rental income or for capital appreciation or both, but not for sale in the ordinary course of business. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in profit or loss. The methods used to measure fair values are discussed further in note 5.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit and loss.

e) Leased assets

Leases in terms of which the Credit Union assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments.

Notes to the Financial Statements

For the year ended 30 June 2012

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Leased assets (continued)

Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the statement of financial position.

f) Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

Loans and receivables impairment

All loan assets are subject to recurring review and assessed for possible impairment. The Credit Union considers evidence of impairment at both specific and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets (carried at amortised cost) with a similar risk profile.

In assessing collective impairment the Credit Union's provision for loan losses is based on an incurred loss model, which recognises a provision where there is objective evidence of impairment at each balance date, even where the impairment event cannot be attributed to individual exposures.

Objective evidence that the financial assets may be impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Credit Union on terms that the Credit Union would not otherwise consider, indications that a borrower has or will enter bankruptcy, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or economic conditions that correlate with defaults by borrowers.

The loss model adopted by the Credit Union considers historical trends of the probability of default, timing of recoveries and the amount of loss incurred. The Credit Union also gives consideration to whether the current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

All impairment losses (bad debts) are written off in the period in which they are identified. If a provision for impairment has been recognised in relation to a loan, write-offs for bad debts are made against the provision. If no provision for impairment has previously been recognised, write-offs for bad debts are recognised as expenses in the profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Impairment (continued)

Available-for-sale

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit and loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to the application of the effective interest method are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Non-financial assets

The carrying amounts of the Credit Union's non-financial assets, other than investment property and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the assets recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit (CGU) is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets, the CGU.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised.

g) Employee benefits

Defined contribution superannuation funds

A defined contribution plan is a post-employment benefit plan under which the Credit Union pays contributions into a separate entity and will have no legal or constructive obligations to pay further amounts.

Obligations for contributions to defined contribution superannuation funds are recognised as a personnel expense in profit or loss in the periods during which services are rendered by employees.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Employee benefits (continued)

Short-term benefits

Liabilities for employee benefits for wages, salaries and annual leave represent present obligations resulting from employees' services provided to reporting date and are calculated at undiscounted amounts based on remuneration, wage and salary rates that the Credit Union expects to pay as at reporting date, including related on-costs such as workers compensation, superannuation and payroll tax. Non-accumulating non-monetary benefits, such as motors vehicles and subsidised goods and services, are expensed based on the net marginal cost to the Credit Union as the benefits are taken by the employees. The Credit Union supports a profit share scheme that is calculated as 5% of normalised profit after income tax. The scheme is distributed to employees on a quarterly basis.

Long service leave

The liability for employee benefits for long service leave represents the present value of the estimated future cash outflows to be made by the Credit Union resulting from employees' services provided in the current and prior financial reporting periods, as at balance date.

The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history, and is discounted using the rates attaching to national government bonds at reporting date which most closely match the terms of maturity of the related liabilities. The unwinding of the discount is treated as long service leave expense.

Termination benefits

Termination benefits are recognised as an expense when the Credit Union is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the Credit Union has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

h) Provisions

A provision is recognised if, as a result of a past event, the Credit Union has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

Make good provision

A make good provision is recognised in respect of the branches that the Credit Union leases under operating leases. It is the present value of the cash outflows the Credit Union expects to incur to make good the site upon finalisation of the operating lease.

i) Revenue recognition

Except as described below, revenue is recognised to the extent that it is probable that the economic benefits will flow to the Credit Union and the revenue can be reliably measured. The principal sources of revenue are interest income, commission income and fee income. Revenues are recognised at fair

3. Significant accounting policies (continued)

i) Revenue recognition (continued)

value of the consideration received net of the amount of any Goods and Services Tax ("GST") payable to the Australian Taxation Office ("ATO").

Interest income

Interest income arising from loans and receivables and available-for-sale investments is recognised in the profit or loss using the effective interest rate method. Other interest income is recognised in the profit or loss when earned.

Commission and fee income

When the Credit Union acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the Credit Union. Commission and fee income is recognised in the profit or loss when the relevant service is provided (except for loan origination fees as described below).

Loan origination income

Revenue received in relation to the origination of loans is deferred and recognised in the Statement of Comprehensive Income, as an increase in loan interest income, on a yield basis over the expected life of the loan. The balance outstanding of the deferred origination income is recognised in the Statement of Financial Position as a decrease in the value of loans outstanding. In the case of revenue received in relation to the origination of mortgage loans, the revenue is recognised in the profit and loss when the loan is originated, as this income relates to valuation and legal expenses incurred by the Credit Union as a result of loan origination.

Dividends

Dividend revenue from equity investments is recognised in profit or loss when received.

Rental income

Rental income from investment property leases is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income over the term of the lease.

Other revenue

Other revenue is recognised when the service is provided, or when the fee in respect of the service provided is receivable.

j) Expenses

Interest expense

Interest expense arising from member deposits, interest bearing liabilities, unwinding of discounts on make good or other provisions, is recognised in the profit or loss using the effective interest rate method.

Loan origination expenses

Expenses incurred directly in the origination of loans are deferred and recognised in the profit or loss as a reduction to loan interest income, on a yield basis over the expected life of the relevant loans.

3. Significant accounting policies (continued)

j) Expenses (continued)

The balance outstanding of the deferred origination expenses is recognised in the Statement of Financial Position as an increase in the value of loans outstanding.

Operating lease payments

Payments made under operating leases are recognised in the profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in the profit or loss as an integral part of the lease expense and spread over the lease term.

k) Finance lease payments

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

l) Finance income and finance costs

Finance income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets through profit or loss, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Credit Union's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss. Borrowing costs are recognised in profit or loss using the effective interest method.

m) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, or in other comprehensive income.

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities are to be realised simultaneously.

Notes to the Financial Statements

For the year ended 30 June 2012

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m) Income tax (continued)

A deferred tax asset is recognised to the extent that it is probable that future taxable income will be available against which temporary differences can be utilised. Deferred tax assets arising from carried forward tax losses are reviewed annually to ensure that the right to carry forward those losses still exists. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

n) Goods and services tax

Financial services are deemed to be exempt from GST in the hands of the consumer. However, the Credit Union industry is only entitled to claim a reduced input tax credit (RITC) on the costs of a specified list of services used to make "Financial Supplies".

Revenues, expenses and assets are recognised net of the amount of GST, except as discussed in the paragraph above, where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as an asset or liability in the Statement of Financial Position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

o) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2012, and have not been applied in preparing these financial statements. Those standards with the most significant potential impact on the financial statements are outlined below:-

AASB 9 Financial Instruments, which becomes mandatory for the Credit Union's 2014 financial report, and could change the classification and measurement of financial assets. The Credit Union does not plan to adopt this standard early and the extent of the impact has not been determined.

AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9, which becomes mandatory for the Credit Union's 2016 financial report, and retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets; amortised and fair value. The Credit Union does not plan to adopt this standard early and the extent of the impact has not been determined.

AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income, which becomes mandatory for the Credit Union's 2013 financial report, makes a number of changes to the presentation of other comprehensive income. The Credit Union does not plan to adopt this standard early and the amendments are not expected to have any significant impact on the financial report.

Notes to the Financial Statements

For the year ended 30 June 2012

4. Financial risk management

a) Introduction and overview

The Credit Union has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk; and
- operational risk.

This note presents information about the Credit Union's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has established the Audit and Risk Management Committee, which is responsible for developing and monitoring risk management policies. The committee reports regularly to the Board of Directors on its activities. Other management committees that contribute to oversight of risk management include the Operational Risk Management Committee, Credit Quality Committee and the Pricing, Assets and Liabilities Management Committee (ALCO) and Project Management Committee. All these committees regularly report to the Board of Directors on their activities.

Risk management policies are established to identify and analyse the risks faced by the Credit Union, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and Credit Union activities. The Credit Union, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit and Risk Management Committee oversees how management monitors compliance with the Credit Union's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Credit Union. The Audit and Risk Management Committee is assisted in its oversight role by Compliance and Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Management Committee and the Board.

b) Credit risk

Credit risk is the risk of financial loss to the Credit Union if a member or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Credit Union's loans and advances to members and other banks and investment securities.

Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to its Lending Services Division and the Credit Quality Committee.

Credit risk is the potential for loss arising from a borrower or counterparty failing to meet their financial contractual obligations. This risk is inherent in the Credit Union's lending activities as well as transactions involving derivatives. Credit risk is managed principally through embedded controls upon individual lending groups such as branches, call centres and business development. Lending is carried

Notes to the Financial Statements

For the year ended 30 June 2012

4. Financial risk management (continued)

b) Credit risk (continued)

out within the parameters of lending policies (covering approvals, documentation and management), which have been developed having regard to statistical data and historical risk experience.

To maintain the quality of the lending portfolio, prudential standards and lending policies have been established.

Credit processes are typically structured so that loan origination, approval, document preparation, settlement and account monitoring and control are segregated to different individuals or areas. Credit must be evaluated against established credit policies and be structured, particularly in terms of security, to be prudent for the risk incurred.

The Lending Services Division assesses credit beyond the lending authorities of lending groups and/or outside normal policies and guidelines. This division also assesses specific provision requirements where loan default has occurred and also controls the Collections Unit, which manages impaired assets less than 90 days in arrears with the aim of achieving the optimum result from such assets. Impaired assets in arrears greater than 90 days are managed by a third party Credit Manager with the expertise to achieve optimum results from such assets. Impaired assets in excess of 90 days in arrears, but where there exists an open line of contact with the member, may be retained and managed by the Lending Services Division prior to being referred externally. The Credit Quality Committee regularly reviews credit quality, arrears, collective and specific provisions and reports to the Board of Directors.

The Risk and Compliance team regularly tests internal controls and adherence to credit policies and procedures.

The Credit Union applies standard credit risk assessment criteria to all extensions of credit, from credit scoring systems for basic retail products to complete credit assessment for commercial and business loans.

The quantification of credit risk is performed by analytical tools and models, which provide estimates of the probability of default. The output from this analysis provides support for the Collective Provision for Doubtful Debts.

Lending Services regularly reports to the Board of Directors on arrears, portfolio analysis, all approvals above $1.5 million, and all staff loans.

Settlement Risk

Settlement risk is the risk of loss due to the failure of any counterparty to honour its contractual obligations. The Credit Union's operations may give rise to this risk at the time of settlement of transactions, but this risk is mitigated for certain types of transactions by conducting settlements through a settlement/clearing agent to ensure that a transaction is settled only when both parties have fulfilled their contractual settlement obligations.

Loans and receivables

The Credit Union offers fixed and variable rate mortgage loans, commercial loans, personal loans and revolving credit facilities to members being primarily householders, including some small business and corporate clients. Credit risk arises from the possibility that the borrower will not adhere to the repayment terms of the loan contract.

Notes to the Financial Statements

For the year ended 30 June 2012

4. Financial risk management (continued)

b) Credit risk (continued)

Counterparty risk for investments in financial instruments and derivatives is limited to Australian licensed banks and CUSCAL Limited which have a Standard and Poors investment grade rating. The Credit Union has invested in a number of unrated Building Societies, Credit Unions and Mutual Banks, however all unrated counterparties are regulated by APRA.

Available-for-sale investments

Available-for-sale investments relate to investments in the Credit Union industry's major aggregator CUSCAL Limited and the Vale Cash Management fund. CUSCAL Limited has a long term Standard and Poors rating of A+, whilst Vale no longer has a Standard and Poors rating. Counterparty risk for investments in financial instruments is limited by restricting investment to entities which have a Standard and Poors investment grade rating at the time of the investment.

Impairment losses

The Credit Union establishes an allowance for impairment losses that represents its estimate of incurred losses in its loans and receivables portfolio and other financial assets. A component of this allowance is a specific provision component attributable to individually significant exposures, and a collective provision established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans and receivables and other financial assets subject to individual impairment.

Impaired loans and receivables

Impaired loans and receivables are those that the Credit Union has determined it is probable they will be unable to collect the entire principal and interest due according to the contractual terms of the loan agreement.

As at balance date there was one loan identified as individually impaired, $2,502,627 (2011: $20,000).

Past due but not impaired loans

This relates to loans and receivables where contractual interest or principal payments are past due but the Credit Union believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Credit Union. A loan is considered to be past due when a contractual payment falls overdue by one or more days. When a loan is classified as past due, the entire loan balance is disclosed in the past due analysis.

Loans with renegotiated terms

Loans with renegotiated terms are those loans that have been restructured due to deterioration in the borrower's financial position and where the Credit Union has made concessions that it would not otherwise consider.

During the financial year loan balances totalling $6,123,208 were renegotiated (2011: $4,538,661).

Write-off policy

The Credit Union writes-off a loan balance when Lending Services determines that the loan is uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire balance.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Liquidity risk

Collateral

The Credit Union holds collateral against loans and advances to members in the form of interests over property, other registered securities over assets and guarantees. Mortgage insurance contracts are entered into in order to manage the credit risk around the residential loan mortgage portfolio. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral is not held over loans and advances to other ADI's and available-for-sale investments.

Management of liquidity risk

Liquidity risk is the risk that the Credit Union will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Credit Union's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its obligations when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Credit Union's reputation.

Liquidity standards set by the Directors ensure that in addition to meeting the minimum requirements set by the Australian Prudential Regulation Authority, further liquid funds are available as required. It is a continuing objective of the Credit Union to maintain a stable funding base. The Credit Union's liquidity position is monitored on a daily basis. The Credit Union has an overdraft facility plus borrowing lines in place to adequately manage liquidity.

The Credit Union's Pricing, Asset and Liability Management Committee ("PALM") assists with the oversight of asset and liability management – including liquidity risk management. The Credit Union's liquidity policies are approved by the Board after endorsement by PALM and the Audit and Risk Management Committee. Liquidity policies address liquidity management including the observance of trigger levels, stress testing and cash flow forecasting. Stress testing is performed over at least the next 12 months in advance and involves various scenarios including ones that are significantly worse than those that have been observed in the past.

d) Market risk

Market risk is the risk that changes in market prices, such as interest rates and equity prices, will affect the Credit Union's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Other Market Price Risk

The Credit Union does not have direct exposure to changes in equity prices. The Credit Union has an investment with CUSCAL Limited for operational reasons. There is no price risk posed by this investment as it is carried at cost and not re-valued due to the nature of the investment. This investment does not impact interest rate risk. The Credit Union has an investment in the Vale Cash Management Trust that is carried at fair value. The trust contains fixed interest securities and the value of the securities are influenced by interest credit spreads relating to interest rates.   Fair value movements are carried through an equity reserve and interest distributions are recognised in profit and loss.

During the current financial year this strategy has included the use of interest rate swaps, which are a form of derivative financial instrument.

Notes to the Financial Statements

For the year ended 30 June 2012

4. Financial risk management (continued)

d) Market risk (continued)

Under interest rate swaps, the Credit Union agrees with other parties to exchange, at specified intervals, the difference between fixed rate and variable rate interest amounts calculated by reference to an agreed notional principal amount.

The Credit Union enters into derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Audit and Risk Management Committee. Generally the Credit Union seeks to apply hedge accounting in order to manage volatility in profit or loss.

e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Credit Union's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Credit Union's operations.

The Credit Union's objective is to manage the operational risk so as to balance the avoidance of financial losses and damage to the Credit Union's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Credit Union standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;

f) Capital management

- ethical and business standards; and
- risk mitigation, including insurance where this is effective.

Compliance with the Credit Union standards is supported by a programme of periodic reviews undertaken by Compliance and Internal Audit. The results of Compliance and Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit and Risk Management Committee and senior management of the Credit Union.

Notes to the Financial Statements

For the year ended 30 June 2012

4. Financial risk management (continued)

Regulatory capital

APRA sets a prudential capital requirement (PCR) for each ADI that sets capital requirements in excess of the minimum capital requirement of eight percent. A key input into the PCR setting process is the Credit Union's Internal Capital Adequacy Assessment Process (ICAAP). The PCR remains confidential between each ADI and APRA in accordance with accepted practice. In addition, APRA stipulates that at least 50% of required capital is in Tier One, and a maximum of 50% in Tier Two. The Credit Union calculates capital requirements by analysing various major risks faced by the Credit Union and ensuring appropriate levels of capital are maintained to cover those risks. Major risks considered include credit risk, interest rate risk, liquidity risk, operational risk, reputational risk and economic risk.

The Credit Union's regulatory capital is analysed in two tiers:-

- Tier 1 capital, which includes retained profits, share capital reserve, derivatives fair value reserve and 40% of the available-for-sale fair value reserve after deductions for certain capitalised expenses, intangible assets, 50% of investments in other ADI's and net tax assets.
- Tier 2 capital, which includes collective impairment allowances, 50% of investments in other ADI's and 45% of asset revaluation reserve.

The Credit Union's policy is to maintain adequate capital to protect the interests of members, cover risk and support future growth. The Credit Union has complied with all externally imposed capital requirements throughout the period.

The Credit Union's regulatory capital position at 30 June was as follows:-

	2012 $'000	**2011 $'000**
Regulatory capital	**33,110**	32,517
Risk weighted assets	**223,869**	227,387
Regulatory capital expressed as a percentage of total risk weighted assets	**14.79%**	14.30%

5. Determination of fair values

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

Cash and cash equivalents

The carrying amount approximates fair value because of their short term to maturity or the fact that they are receivable on demand.

Available-for-sale investments

For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows or the underlying net asset base of the investment.

Notes to the Financial Statements

For the year ended 30 June 2012

5. DETERMINATION OF FAIR VALUES (CONTINUED)

Derivatives

The fair value of interest rate swaps is based on the mid rate of market quoted rates. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Credit Union and counterparty when appropriate.

Loans and receivables

The fair values of loans and receivables, excluding impaired loans, are estimated using discounted cash flow analysis, based on current incremental lending rates for similar types of lending arrangements. The nominal interest rates used have been applied to all interest payments received for loans repricing in a given period. The methodology used to determine the net fair value of the known future cash flows is in accordance with generally accepted discounted cash flow analysis. 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 cash flows.

Deposits

The carrying amount approximates fair value as they are short term in nature.

Payables

The carrying amount approximates fair value as they are short term in nature.

Interest bearing liabilities

This includes interest payable for which the carrying amount is considered to be a reasonable estimate of the net fair value. For liabilities which are long term, net fair values have been estimated using the rates currently offered for similar liabilities with remaining maturities.

Land, Buildings and Investment property

An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Credit Union's land, buildings and investment property every three years. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

In the absence of the current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows then is applied to the net annual cash flows to arrive at the property valuation. Valuations reflect, where appropriate: the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, and the market's general perception of their creditworthiness; the allocation of maintenance and insurance responsibilities between the Credit Union and the lessee; and the remaining economic life of the property. When rent reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices, and when appropriate counter-notices, have been served validly and within the appropriate time.

Notes to the Financial Statements

For the year ended 30 June 2012

	2012 $'000	2011 $'000
6. NET INTEREST REVENUE		
Interest revenue		
Loans - members	**26,517**	25,365
- deposits with other ADI's	**5,504**	5,633
Total interest revenue	**32,021**	30,998
Interest expense		
Deposits	**19,045**	18,195
Borrowings	**7**	6
Total interest expense	**19,052**	18,201
Net interest revenue	**12,969**	12,797

7. OTHER INCOME

	2012 $'000	2011 $'000
Fees and commission revenue		
- loan fee income	**123**	155
- other fee income	**1,726**	2,058
- commission income	**1,619**	2,218
Bad debts recovered	**242**	151
Income from property		
- ATM licence income	**7**	-
- rental income from freehold land and buildings	**202**	196
- rental income from investment property	**117**	113
Dividends on available for sale equity securities	**352**	392
Gain on sale of assets	**465**	2
Bonus payments	**75**	-
Total other income	**4,928**	5,285

Notes to the Financial Statements

For the year ended 30 June 2012

	Note	2012 $'000	2011 $'000
8. EXPENSES			
Impairment loss on financial assets			
Loans and receivables impairment losses			
- increase in provision	15	**488**	78
- bad debts written off		**49**	66
Total loans and receivables impairment losses		**537**	144
Impairment loss on Property, Plant & Equipment			
Plant and Equipment	10	**34**	-
Total plant and equipment impairment losses		**34**	-
Depreciation and amortisation			
Buildings	10	**143**	144
Plant and equipment	10	**387**	376
Leasehold improvements	10	**137**	97
Intangible software	11	**235**	208
Branch make good		**5**	-
		907	825
9. TAXATION			
(a) Income tax expense			
Current tax expense			
- current year		**523**	483
- adjustments for prior periods		**-**	(2)
		523	481
Deferred tax expense			
- origination and reversal of temporary differences		**(78)**	298
- change in unrecognised temporary differences (all in equity)		**21**	(133)
- tax losses for which no deferred tax asset was recognised		**-**	-
Total income tax expense in the statement of comprehensive income		**466**	646

Notes to the Financial Statements

For the year ended 30 June 2012

9. Taxation (continued)

(b) Current tax assets / (liabilities)

The current tax liability for the Credit Union of $70,000 (2011: $325,000) represents the amount of income tax payable in respect of current and prior periods that arise from the payment of tax in deficit of the amounts due to the relevant tax authority.

	2012 $'000	2011 $'000
(c) Numerical reconciliation between tax expense and pre-tax net profit /(loss)		
Profit / (Loss) before tax	**1,855**	2,506
Income tax using the company's domestic tax rate of 30% (2011: 30%)	**557**	752
Increase in income tax expense due to:		
- imputation gross up on dividends received	**45**	50
- other assessable income	**5**	-
- non deductible expenses	**10**	14
Decrease in income tax expense due to:		
- other deductible expenses	**-**	(1)
- current year losses for which no DTA was recognised (not utilised)	**-**	-
- franking credits on dividends received	**(151)**	(168)
Under provided in prior years	**-**	(1)
Income tax expense on pre-tax net profit	**466**	646
(d) Deferred tax recognised directly in equity		
- derivatives	**(14)**	(119)
- land and building	**272**	-
Total income tax recognised directly in equity	**258**	(119)
(e) Deferred tax assets/(liabilities)		
Deferred tax assets and liabilities are attributable to the following:		
Provisions and accrued employee entitlements	**560**	477
Accrued expenses	**49**	36
Income in advance	**36**	70
Sundry items	**59**	62
Derivatives	**-**	14
Total deferred tax assets	**704**	659

Notes to the Financial Statements

For the year ended 30 June 2012

9. TAXATION (CONTINUED)

(e) Deferred tax assets/(liabilities) (continued)

	2012 $'000	2011 $'000
Property, plant and equipment	**(357)**	(634)
Investment property	**(107)**	(103)
Sundry items	**(7)**	(3)
Total deferred tax liabilities	**(471)**	(740)
Net deferred tax assets / (liabilities)	**233**	(81)

The deferred income tax assets will only be realised if:

i. the Credit Union derives future assessable income of a nature and an amount sufficient to enable the benefit to be raised in accordance with the Income Tax Assessment Act 1997; and

ii. the Credit Union continues to comply with the conditions for deductibility imposed by the law, and no changes in tax legislation adversely affect the Credit Union in realising the benefit.

(f) Unrecognised deferred tax assets/(liabilities)

Deferred tax assets have not been recognised in respect of the following items:

	2012 $'000	2011 $'000
Capital losses	**11**	11
Unrealised capital losses	**540**	519
	551	530

Tax losses, capital losses and unrealised capital losses do not expire under the current tax legislation. The deferred tax assets with respect to tax losses have not been not recognised because it is not probable that future taxable income would be available against which the company can utilise the benefits therefrom. The deferred tax assets with respect to capital losses and unrealised capital losses has not been recognised because it is not probable that future taxable gains will be available against which the company can utilise the benefits therefrom.

Notes to the Financial Statements

For the year ended 30 June 2012

10. Property, plant and equipment

	2012 $'000	2011 $'000
Freehold land		
Fair value	**1,400**	1,580
	1,400	1,580
Buildings on freehold land		
Fair value	**3,045**	4,059
Provision for depreciation	**-**	(144)
	3,045	3,915
Leasehold improvements		
At cost	**1,016**	866
Provision for depreciation	**(735)**	(609)
	281	257
Total land and buildings	**4,726**	5,752
Plant and equipment		
At cost	**4,163**	5,331
Provision for depreciation	**(2,965)**	(3,844)
Provision for impairment	**(34)**	-
	1,164	1,487
Work in progress		
At cost	**-**	9
	-	9
Total plant and equipment	**1,164**	1,496
Total property, plant and equipment		
At cost	**5,179**	6,206
Provision for depreciation	**(3,700)**	(4,597)
Provision for impairment	**(34)**	-
Fair value	**4,445**	5,639
	5,890	7,248

Notes to the Financial Statements

For the year ended 30 June 2012

10. Property, plant and equipment (continued)

Reconciliations

Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:

	Note	2012 $'000	2011 $'000
Freehold land			
Carrying amount at the beginning of the year		**1,580**	1,580
Re-valuation		**(180)**	-
Carrying amount at the end of the year		**1,400**	1,580
Buildings on freehold land			
Carrying amount at the beginning of the year		**3,915**	4,038
Re-valuation		**(727)**	-
Additions		**-**	21
Depreciation	8	**(143)**	(144)
Carrying amount at the end of the year		**3,045**	3,915
Leasehold improvements			
Carrying amount at the beginning of the year		**257**	221
Additions		**70**	2
Transfer from work in progress		**97**	131
Depreciation	8	**(137)**	(97)
Disposals		**(6)**	-
Carrying amount at the end of the year		**281**	257

Reconciliations

	Note	2012 $'000	2011 $'000
Plant and equipment			
Carrying amount at the beginning of the year		**1,487**	1,505
Additions		**303**	368
Transfer from work in progress		**47**	9
Depreciation	8	**(387)**	(376)
Impairment loss	8	**(34)**	-
Disposals		**(252)**	(19)
Carrying amount at the end of the year		**1,164**	1,487

Notes to the Financial Statements

For the year ended 30 June 2012

10. Property, plant and equipment (continued)

	Note	2012 $'000	2011 $'000
Work in progress			
Carrying amount at the beginning of the year		**9**	11
Additions		**135**	149
Transfer to intangibles work in progress	11	**-**	(11)
Transfer to plant and equipment		**(47)**	(9)
Transfer to leasehold improvements		**(97)**	(131)
Carrying amount at the end of the year		**-**	9

An independent valuation was carried out on 30 June 2012 by Opteon on the basis of the open market value of the property concerned in existing use, which resulted in a valuation of $4,445,000 for land and buildings. The valuation is in accordance with the Credit Union's policy of obtaining an independent valuation of land and buildings every three years. Following the change in accounting policy during 2009 to the revaluation method, the valuation has been brought to account. The carrying value of the Young St property prior to the re-valuation was $5,350,340.

11. Intangible assets

	2012 $'000	2011 $'000
Computer software		
At cost	**5,536**	5,405
Provision for amortisation	**(5,140)**	(4,948)
	396	457
Work in progress		
At cost	**25**	29
	25	29
Total intangible assets		
At cost	**5,561**	5,434
Provision for depreciation	**(5,140)**	(4,948)
	421	486

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Notes to the Financial Statements

For the year ended 30 June 2012

11. Intangible assets (continued)

Reconciliation of the carrying amount of intangible assets is set out below:

	Note	2012 $'000	2011 $'000
Computer software			
Carrying amount at the beginning of the year		**457**	452
Additions		**188**	129
Transfer from work in progress		**21**	88
Amortisation	8	**(235)**	(208)
Disposals		**(35)**	(4)
Carrying amount at the end of the year		**396**	457
Work in progress			
Carrying amount at the beginning of the year		**29**	25
Additions		**17**	81
Transfer from plant and equipment work in progress	10	**-**	11
Transfer to computer software		**(21)**	(88)
Carrying amount at the end of the year		**25**	29

12. Investment property

		2012 $'000	2011 $'000
Fair value		**2,230**	2,200
		2,230	2,200
Reconciliation			
Carrying amount at the beginning of the year		**2,200**	2,200
Additions		**30**	-
Carrying amount at the end of the year		**2,230**	2,200

Investment property is comprised of the Chippendale property only. The tenant has exercised a 3 year option that expires December 2014. An independent valuation of this property by Mark Casemore, Certified Practising Valuer, AAPI was carried out in May 2012 on the basis of the open market value of the property concerned in the existing use, which resulted in a valuation of between $2,100,000 and $2,350,000 for the Chippendale property. The valuation is in accordance with the Credit Union's policy of obtaining an independent valuation of land and buildings every three years.

Notes to the Financial Statements

For the year ended 30 June 2012

	Note	2012 $'000	2011 $'000
13. OTHER FINANCIAL ASSETS			
Available-for-sale:			
- Unlisted equity securities, at fair value	25	**1,224**	1,772
Unlisted equity securities, at cost	25	**1,636**	1,636
Total available for sale financial assets		**2,860**	3,408
Held-to-maturity:			
Floating rate notes, at fair value	25	**8,009**	-
Total other financial assets		**10,869**	3,408

Held-to-maturity investments with a carrying amount including accrued interest of $8,083,603 (2011: nil) have interest rates of 4.92% to 5.88% and mature in 2 to 5 years.

	Note	2012 $'000	2011 $'000
14. LOANS AND RECEIVABLES			
Loans to:			
- members	25	**383,279**	364,457
- key management personnel and their related entities	25	**903**	502
- other Authorised Deposit Taking Institutions (ADI's)	25	**84,865**	84,872
		469,047	449,831
Provision for impairment	15,25	**(677)**	(317)
Net deferred loan income and expenses	25	**(198)**	(187)
Net loans and receivables		**468,172**	449,327
Maturity analysis			
Current		**109,980**	111,540
Non-current		**359,067**	338,291
		469,047	449,831

Notes to the Financial Statements

For the year ended 30 June 2012

	Note	2012 $'000	2011 $'000

15. Provision for Impairment

Loans and receivables

	Note	2012 $'000	2011 $'000
Specific provision for credit losses			
Opening balance		**8**	350
Bad debts previously provided for and written off during the year		**(8)**	(350)
Bad and doubtful debts provided for during the year	8	**400**	8
Closing balance	25	**400**	8
Collective provision for credit losses			
Opening balance		**309**	364
Bad debts previously provided for and written off during the year		**(120)**	(125)
Bad and doubtful debts provided for during the year	8	**88**	70
Closing balance	25	**277**	309
Total provision for impairment	14	**677**	317

The specific provision relates to doubtful loans that have been individually identified and provided for. The collective provision for credit losses is intended to cover losses inherent in the existing overall credit portfolio which are not yet specifically identifiable.

The Credit Union holds a general reserve for credit losses as an additional allowance for bad debts to comply with prudential requirements. Refer to Note 20 for details on this reserve.

16a. Cash and Cash Equivalents

	Note	2012 $'000	2011 $'000
Cash at bank and on hand		**3,516**	5,635
Deposits at call		**-**	8,443
	25	**3,516**	14,078

16b. Reconciliation of Cash Flows from Operating Activities

(i) Reconciliation of cash

For the purposes of the statement of cash flows, cash includes cash on hand and at bank and short term deposits at call, net of outstanding overdrafts. Cash as at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the balance sheets as follows:

		2012 $'000	2011 $'000
Cash and cash equivalents		**3,516**	14,078

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Notes to the Financial Statements

For the year ended 30 June 2012

16b. Reconciliation of Cash Flows from Operating Activities (continued)

	Note	2012 $'000	2011 $'000
(ii) Reconciliation of cash flows from operating activities			
Profit for the year attributable to members of the Credit Union		**1,389**	1,860
Adjustments for:			
Charge for bad and doubtful debts and impairment losses	8	**537**	144
Depreciation and amortisation	8	**907**	825
Net (gain)/ loss on disposal of plant and equipment		**(374)**	14
Finance lease charges		**1**	-
Operating profit before changes in assets and liabilities		**2,460**	2,843
Changes in assets and liabilities			
Net loans (funded)		**(19,396)**	(27,669)
Net increase in deposits		**12,621**	31,196
Decrease in interest receivable		**302**	136
Decrease / (Increase) in other receivable		**45**	(14)
Decrease in deferred tax asset		**211**	141
(Increase) in prepayments		**(3)**	(90)
(Decrease) /Increase in interest payable		**(53)**	439
Increase / (Decrease) in sundry creditors and accruals		**1,416**	(650)
(Decrease) / Increase in provision for employee entitlements		**(101)**	56
(Decrease) in current tax liabilities		**(255)**	(86)
Increase in make good provision		**17**	-
(Decrease) / Increase in deferred tax liability		**(269)**	24
Net cash flows (used in) /from operating activities		**(3,005)**	6,326

(iii) Cash flows presented on a net basis

Cash flows arising from loan advances and repayments, member deposits and withdrawals and from sales and purchases of investment securities have been presented on a net basis in the statement of cash flows.

Notes to the Financial Statements

For the year ended 30 June 2012

	Note	2012 $'000	2011 $'000
17. OTHER ASSETS			
Prepayments		**377**	374
Interest receivable		**585**	887
Other		**141**	186
		1,103	1,447
18. RETAINED PROFITS			
Retained profits at beginning of the year		**32,178**	30,265
Net profit for the year attributable to members of the Credit Union		**1,389**	1,860
Value of redemption of withdrawable shares	19,20	**(4)**	(6)
Transfer from / (to) general reserve for credit losses	19,20	**(586)**	59
Retained profits at the end of the year		**32,977**	32,178

Notes to the Financial Statements

For the year ended 30 June 2012

19. Other comprehensive income

	Note	Derivatives fair value reserve	Available-for-sale reserve	Redeemed share capital reserve	Revaluation reserve	Retained earnings	Total
		$'000	$'000	$'000	$'000	$'000	$'000
30 June 2012							
Revaluation of property, plant and Equipment, net of tax	20	-	-	-	(634)	-	(634)
Net change in value of available-for-sale financial assets	20	-	(72)	-	-	-	(72)
Shares closed from memberships transferred from retained earnings	18,20	-	-	4	-	(4)	-
Effective portion of changes in FV of cash flow hedges, net of tax	20	34	-	-	-	-	34
Total other comprehensive income	18,20	34	(72)	4	(634)	(4)	(672)

	Note	Derivatives fair value reserve	Available-for-sale reserve	Redeemed share capital reserve	Revaluation reserve	Retained earnings	Total
		$'000	$'000	$'000	$'000	$'000	$'000
30 June 2011							
Net change in value of available-for-sale financial assets	20	-	447	-	-	-	447
Shares closed from memberships transferred from retained earnings	18,20	-	-	6	-	(6)	-
Effective portion of changes in FV of cash flow hedges, net of tax	20	279	-	-	-	-	279
Total other comprehensive income	18,20	279	447	6	-	(6)	726

Notes to the Financial Statements

For the year ended 30 June 2012

20. Reserves

	Note	2012 $'000	2011 $'000
Available-for-sale fair value reserve		**1,095**	1,167
Derivative fair value reserve		**-**	(34)
General reserve for credit losses		**1,316**	730
Redeemed share capital reserve		**220**	216
Asset revaluation reserve		**1,019**	1,653
		3,650	3,732

Available for sale revaluation reserve

The available for sale reserve includes the revaluation increments and decrements relating to available for sale investments, net of applicable income tax.

Derivative fair value reserve

The derivative fair value reserve includes the cumulative net change in the fair value of the effective portion of cash flow hedging instruments, net of applicable income tax.

General reserve for credit losses

The general reserve for credit losses contains an additional allowance for bad debts. The general reserve for credit losses together with the amounts calculated as a specific and collective provision must be adequate to comply with prudential requirements.

Redeemed share capital reserve

The share capital reserve represents the value of member shares redeemed. As member shares are redeemable preference shares, the Corporations Act 2001 requires that any redemptions are to be made from retained profits.

Asset revaluation reserve

The revaluation reserve represents the revaluation of the Young St property in accordance with the revaluation method under AASB 116, net of capital gains tax.

Movements during the year

Derivative fair value reserve

	Note	2012 $'000	2011 $'000
Balance at the beginning of the year		**(34)**	(313)
Fair value adjustments (net of tax)	19	**34**	279
Balance at the end of the year		**-**	(34)

General reserve for credit losses

	Note	2012 $'000	2011 $'000
Balance at the beginning of the year		**730**	789
Transfer (to) / from retained profits	18,19	**586**	(59)
Balance at the end of the year		**1,316**	730

Notes to the Financial Statements

For the year ended 30 June 2012

20. Reserves (continued)

	Note	2012 $'000	2011 $'000
Redeemed share capital reserve			
Balance at the beginning of the year		**216**	210
Preference shares redeemed during the year	18,19	**4**	6
Balance at the end of the year		**220**	216
Asset revaluation reserve			
Balance at the beginning of the year		**1,653**	1,653
Movements (net of tax)	19	**(634)**	-
Balance at the end of the year		**1,019**	1,653
Available-for-Sale fair value reserve			
Balance at the beginning of the year		**1,167**	720
Movements (net of tax)	19	**(72)**	447
Balance at the end of the year		**1,095**	1,167

21. Deposits

	Note	2012 $'000	2011 $'000
Withdrawable shares		**66**	67
Call deposits		**202,382**	203,297
Term deposits		**245,672**	232,135
	25	**448,120**	435,499

22. Employee benefits

	Note	2012 $'000	2011 $'000
Liability for long service leave		**665**	717
Liability for annual leave		**468**	517
Total employee benefits	23	**1,133**	1,234

Included in employee benefits is a non-current amount of $194,000 (2011:$138,000)

The present values of employee entitlements not expected to be settled within twelve months of the reporting date have been calculated using the following weighted averages:

	2012	2011
Assumed rate of increase in wages and salary rates	**3.50%**	4.00%
Discount rate	**2.89%**	4.72%

Notes to the Financial Statements

For the year ended 30 June 2012

22. Employee benefits (continued)

(b) Defined contribution superannuation fund

The Credit Union contributes to the NGS Super Plan for superannuation guarantee payments on behalf of employees. The amount recognised in the statement of comprehensive income for the financial year ended 30 June 2012 was $529,593 (2011: $490,065).

23. Provisions

	Note	2012 $'000	2011 $'000
Employee benefits	22	**1,133**	1,234
Make good costs		**55**	38
		1,188	1,272

24. Payables

	Note	2012 $'000	2011 $'000
Derivatives			
Derivatives used for hedging	25	**-**	47
Other payables			
Sundry creditors		**2,272**	882
Accrued interest payable		**3,786**	3,839
Accrued expenses		**371**	339
Total other payables	25	**6,429**	5,060
		6,429	5,107

Notes to the Financial Statements

For the year ended 30 June 2012

25. Financial instruments

(a) Credit risk

Exposure to credit risk

The Credit Union's maximum exposure to credit risk at balance date in relation to each class of recognised financial asset, is the carrying amount of those assets as indicated in the balance sheet. The maximum credit risk exposure does not take into account the value of any collateral or other security held, in the event other entities/parties fail to perform their obligations under the financial instruments in question. The Credit Union's maximum exposure to credit risk at the reporting date was:

		Loans and receivables to members		Loans and receivables to other ADI's		Available for sale investments		Held to maturity investments		Cash and cash equivalents	
		2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
	Note	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Carrying amount	13,14	**383,307**	364,455	**84,865**	84,872	**2,860**	3,408	**8,009**	-	**3,516**	14,078
Individually impaired											
Gross amount		**2,502**	20	**-**	-	**-**	-	**-**	**-**	**-**	**-**
Provision for impairment	14,15	**(400)**	(8)	**-**	-	**-**	-	-	-	-	-
Carrying amount		**2,102**	12	**-**	-	**-**	-	-	-	-	-
Past due but not impaired											
Days in arrears:											
< 8 days		**6,721**	5,846	**-**	-	**-**	-	**-**	**-**	**-**	**-**
> 8 days to 1 month		**2,671**	1,994	**-**	-	**-**	-	**-**	**-**	**-**	**-**
> 1 to 2 months		**899**	5,020	**-**	-	**-**	-	**-**	**-**	**-**	**-**
> 2 to 3 months		**226**	11	**-**	-	**-**	-	**-**	**-**	**-**	**-**
> 3 months		**465**	434	**-**	-	**-**	-	**-**	**-**	**-**	**-**
Carrying amount		**10,982**	13,305	**-**	-	**-**	-	-	-	-	-

Notes to the Financial Statements

For the year ended 30 June 2012

25. FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (continued)

	Note	Loans and receivables to members		Loans and receivables to other ADI's		Available for sale investments		Held to maturity investments		Cash and cash equivalents	
		2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
		$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Neither past due nor impaired											
Secured by mortgage		**350,184**	327,486	**-**	-	**-**	-	**-**	-	**-**	-
Investment grade		**-**	-	**78,865**	77,372	**1,636**	1,636	**8,009**	-	**2,515**	8,550
Unrated		**-**	-	**6,000**	7,500	**1,224**	1,772	**-**	-	**-**	-
Other		**20,514**	24,148	**-**	-	**-**	-	**-**	-	**1,001**	5,528
Net deferred income and expense	14	**(198)**	(187)	**-**	-	**-**	-	**-**	-	**-**	-
Carrying amount		**370,500**	351,447	**84,865**	84,872	**2,860**	3,408	**8,009**	-	**3,516**	14,078
Provision for Collective Impairment	15	**(277)**	(309)	**-**	-	**-**	-	**-**	-	**-**	-
Total adjusted carrying amount		**383,307**	364,455	**84,865**	84,872	**2,860**	3,408	**8,009**	-	**3,516**	14,078
Includes loans with renegotiated terms		**6,123**	4,539	**-**	-	**-**	-	-	-	-	-

There are no members who individually have loans that represent 10% or more of the Credit Union's net assets.

Notes to the Financial Statements

For the year ended 30 June 2012

25. Financial instruments (continued)

(a) Credit risk (continued)

		2012 $'000	2011 $'000
The Credit Union's maximum exposure to credit risk at reporting date by type of loans and receivables was;			
Overdrafts		**3,297**	3,666
Residential loans		**344,028**	318,119
Personal Loans		**17,733**	21,073
Commercial purpose loans		**19,124**	22,101
Deposits with ADI's		**92,879**	84,872
		477,061	449,831

Commercial purpose loans and residential loans are secured by mortgage property.

The Credit Union's maximum exposure to credit risk for loans to members at the reporting date by geographic regions was:

		2012 $'000	2011 $'000
Illawarra and South Coast NSW		**285,175**	273,454
Sydney and Hunter region NSW		**99,007**	91,505
	14	**384,182**	364,959

An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below:

	Loans and receivables – members		Loans and receivables – other ADI's	
	2012 $'000	**2011 $'000**	**2012 $'000**	**2011 $'000**
Against individually impaired				
- Property	**2,250**	-	**-**	-
Against past due but not impaired				
- Property	**25,409**	25,625	**-**	-
- Other	**-**	181	**-**	-
Against neither past due nor impaired				
- Property	**759,571**	834,293	**-**	-
- Other	**1,407**	5,514	**-**	-
Total value of collateral held	**788,637**	865,613	**-**	-
Average Loan to Valuation ratio	**46.08%**	42.16%		

Notes to the Financial Statements

For the year ended 30 June 2012

25. Financial instruments (continued)

(a) Credit risk (continued)

The Credit Union obtained the following non-financial assets by taking possession of collateral held as security.

	2012 $'000	2011 $'000
Nature of non financial assets – Property	**748**	-
	748	-

Where assets are not readily convertible into cash, the Credit Union's policy for disposing of assets is:

1. Upon the Credit Union taking legal possession of the property a new valuation is obtained and specific comment obtained from the valuer as to the property's condition together with details of necessary repair (and likely cost) to ensure a fair market price is achieved at auction.
2. Where the new valuation confirms that the total debt may not be repaid from the sale of the property and the debt is subject to lenders mortgage insurance, the mortgage insurers are advised and a copy of the valuation report included with the advice.
3. Methods to obtain a buyer for any real property recovered as a result of mortgagee action may include auction, tender or listing with any recognised registered real estate agent. Unless special circumstances warrant, the approach taken is to proceed to sale by auction in the first instance.
4. Every attempt is made to ensure a fair market price is obtained for any such property and the Chief Executive Officer must approve agreement to a sale price below that of the valuation obtained following possession.

Derivative financial instruments

In relation to derivative financial instruments, credit risk arises from the potential failure of counterparties to meet their obligations under the contract or arrangement.

The Credit Union's maximum credit risk exposure in relation to interest rate swap contracts, which is limited to the net fair value of the swap agreement at balance date is nil (2011: $47,000), as there are no interest rate swaps at balance date.

Transactions involving derivatives were with one counterparty, CUSCAL Limited, with whom the Credit Union had signed a netting agreement and who have a sound credit rating.

Notes to the Financial Statements

For the year ended 30 June 2012

25. Financial instruments (continued)

(b) Liquidity risk

Exposure to liquidity risk

Liquidity risk can arise from excessive withdrawals, excessive demand for loan funding, concentration of large deposits held by a small number of members as well as maturity disparities between assets and liabilities.

The Credit Union has a liquidity management strategy that ensures that enough high quality liquid assets (HQLA) are always available for the Credit Union's cash flow and liquidity requirements. The Credit Union also has other liquid assets over and above HQLA prudential requirements and is included in total liquidity calculations.

Liquidity standards which are set and approved by the Board of Directors ensure that at a minimum the APRA standards are sufficiently met. Liquidity management is monitored on a daily basis.

Details of the Credit Union's ratio of net liquid assets to deposits from members at the reporting date and during the report period were as follows:

	2012 %	2011 %
HQLA at 30 June	**15.97**	16.90
HQLA average for the period	**16.38**	16.78
HQLA maximum for the period	**17.94**	18.67
HQLA minimum for the period	**15.37**	14.88
Total liquidity at 30 June	**20.15**	21.14

Notes to the Financial Statements

For the year ended 30 June 2012

25. Financial instruments (continued)

(b) Liquidity risk (continued)

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

In thousands AUD	**Note**	**Carrying amount**	**Gross nominal inflow/ (outflow)**	**Less than 1 month**	**1-3 months**	**3 months to 1 year**	**1-5 years**	**More than 5 years**
		$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
30 June 2012								
Non-derivative liabilities								
Deposits	21	**448,120**	**(453,930)**	**(256,662)**	**(98,312)**	**(91,194)**	**(7,762)**	**-**
Payables	24	**6,429**	**(6,429)**	**(3,635)**	**(1,392)**	**(1,292)**	**(110)**	**-**
		454,549	**(460,359)**	**(260,297)**	**(99,704)**	**(92,486)**	**(7,872)**	**-**
Unrecognised finance commitments								
- approved but undrawn loans and credit limits		**9,637**	**(9,637)**	**(7,116)**	**(1,081)**	**(1,440)**	**-**	**-**
		464,186	**(469,996)**	**(267,413)**	**(100,785)**	**(93,926)**	**(7,872)**	**-**
30 June 2011								
Non-derivative liabilities								
Deposits	21	435,499	(445,287)	(243,571)	(77,526)	(120,307)	(3,883)	-
Payables	24	5,060	(5,060)	(2,768)	(881)	(1,367)	(44)	-
		440,559	(450,347)	(246,339)	(78,407)	(121,674)	(3,927)	-
Unrecognised finance commitments								
- approved but undrawn loans and credit limits		13,837	(13,837)	(7,628)	(4,118)	(2,091)	-	-
		454,396	(464,184)	(253,967)	(82,525)	(123,765)	(3,927)	-

Notes to the Financial Statements

For the year ended 30 June 2012

25. Financial instruments (continued)

(b) Liquidity risk (continued)

The following table indicates the periods in which the cash flows associated with derivatives that are cash flow hedges are expected to occur

In thousands AUD	Note	Carrying amount $'000	Expected cash flow $'000	Less than 1 month $'000	1-3 months $'000	3 months to 1 year $'000	1-5 years $'000	More than 5 years $'000
30 June 2012								
Interest rate swaps								
Net cash flows	24	-	-	-	-	-	-	-
		-	-	-	-	-	-	-
Unrecognised finance commitments								
- bank overdraft		-	-	-	-	-	-	-
		-	-	-	-	-	-	-
30 June 2011								
Interest rate swaps								
Net cash flows	24	(47)	(48)	-	(24)	(24)	-	-
		(47)	(48)	-	(24)	(24)	-	-
Unrecognised finance commitments								
- bank overdraft		-	-	-	-	-	-	-
		-	-	-	-	-	-	-

Notes to the Financial Statements

For the year ended 30 June 2012

25. FINANCIAL INSTRUMENTS (CONTINUED)

(c) Market risk

Interest rate risk

The principal tool to measure and control interest rate risk exposure within the Credit Union's interest earning assets and liabilities is Value at Risk (VaR). The VaR is the estimated loss that will arise over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used is based upon a 99 percent confidence level and assumes a 20 day holding period. The VaR model used is based mainly on historical simulation, taking account of market data from the previous year. The Credit Union positions some of its low rate call savings deposits from the 1 month repricing point to various repricing points to more accurately match repricing of fixed rate exposures. The Credit Union is of the view that these assumptions more realistically reflect the true nature of low rate on-call savings deposits.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

- a 20 day holding period assumes it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period.
- a 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed the VaR.
- the use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.
- the VaR measure is dependent upon the Credit Union's position and the volatility of market interest rates. The VaR of an unchanged position reduces if the market interest rate volatility declines and vice versa.

A summary of the VaR position of the Credit Union at 30 June is as follows:

	2012 $'000	2011 $'000
Interest rate risk – Value at Risk	**358**	**227**

At the reporting date the interest rate profile of the Credit Union's interest bearing financial instruments was:

Fixed rate instruments		
Financial assets	**152,565**	167,879
Financial liabilities	**(245,672)**	(232,135)
	(93,107)	(64,256)
Variable rate instruments		
Financial assets	**231,618**	197,081
Financial liabilities	**(203,057)**	(203,047)
	28,561	(5,966)

community alliance
credit union limited

Notes to the Financial Statements

For the year ended 30 June 2012

25. Financial instruments (continued)

(c) Market risk (continued)

Sensitivity analysis

The management of interest rate risk is supplemented by monitoring sensitivity of the Credit Union's financial assets and liabilities to interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 200 basis point parallel rise or fall in the yield curve and a 1 basis point parallel shift down in the yield curve.

The Credit Union does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Credit Union does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

The Credit Union would expect to gain $1,491 (2011: $1,481) for a 0.01% parallel shift down in the yield curve.

A 200 basis point parallel shift in the yield curve in either direction would result in a loss of 0.90% of capital (2011: 0.92%).

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	Note	30 June 2012 Carrying amount $'000	30 June 2012 Fair value $'000	30 June 2011 Carrying amount $'000	30 June 2011 Fair value $'000
Assets carried at fair value					
Available-for-sale financial assets	13	**1,224**	**1,224**	1,772	1,772
		1,224	**1,224**	1,772	1,772
Assets carried at amortised cost					
Loans and receivables	14	**468,172**	**530,030**	449,327	473,555
Held-to-maturity financial investments	13	**8,009**	**8,164**	-	-
Cash and cash equivalents	16	**3,516**	**3,516**	14,078	14,078
CUSCAL Shares	13	**1,636**	**1,636**	1,636	1,636
		481,333	**543,346**	465,041	489,269
Liabilities carried at fair value					
Interest rate swaps used for hedging	24	**-**	**-**	(47)	(47)
		-	**-**	(47)	(47)
Liabilities carried at amortised cost					
Deposits	21	**(448,120)**	**(423,725)**	(435,499)	(409,528)
Payables	24	**(6,429)**	**(6,429)**	(5,060)	(5,060)
		(454,549)	**(430,154)**	(440,559)	(414,588)

25. Financial instruments (continued)

(c) Market risk (continued)

Hedging

Interest rate swaps, denominated in Australian Dollars, have been entered into to achieve an appropriate mix of fixed and floating rate exposure within the Credit Union's Market Risk policy. The Credit Union has no remaining swaps at 30th June (2011: $3,000,000). The Credit Union classifies interest rate swaps as cash flow hedges. The net fair value of the Credit Union's swaps as at 30 June 2012 was nil (2011: $47,000 negative).

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as process) or indirectly (i.e., derived from process)

Level 3: inputs for the asset or liability that are not based on an observable market data (unobservable inputs)

30 June 2012

	Note	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Available-for-sale financial assets	13	-	1,224	-	1,224
Derivative financial liability	24	-	-	-	-
		-	1,224	-	1,224

30 June 2011	Note	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Available-for-sale financial assets	13	-	1,772	-	1,772
Derivative financial liability	24	-	(47)	-	(47)
		-	1,725	-	1,725

Notes to the Financial Statements

For the year ended 30 June 2012

26. Operating leases

The Credit Union leases out its investment property at Chippendale under an operating lease expiring within three years on the 31st December 2014. The Credit Union leases out portions of its administration building under operating leases expiring within five years on the 4th April 2017 and 31st July 2012. All leases have options for renewal. Lease revenue comprises a base amount plus an incremental contingent rental. Contingent rentals are based on either movements in consumer price index or a fixed rate. The future minimum lease payments receivable by the Credit Union under non-cancellable leases are as follows:

	2012 $'000	2011 $'000
Less than one year	**229**	266
Between one and five years	**542**	12
	771	278

During the year ended 30 June 2012, $319,000 was recognised as rental income (2011: $309,000), including $117,000 recognised as investment property income in the Statement of Comprehensive Income (2011: $113,000). Repairs and maintenance expense, recognised in property expenses was as follows:

Income-generating property	**12**	5
	12	5

27. Commitments

(a) Capital expenditure commitments

Capital expenditure commitments not taken up in the financial statements		
- payable less than one year	**-**	158

(b) Lease expenditure commitments

Operating leases (non-cancellable)		
- payable less than one year	**681**	835
- payable between one and five years	**1,203**	2,065
	1,884	2,900

The Credit Union leases retail branches to provide financial services to its members. The leases typically run for a period of 5 years, with an option to renew after that date. Lease rentals are generally indexed annually for inflation. During the financial year ended 30 June 2012, $821,000 was recognised as an expense in the Statement of Comprehensive Income in respect of operating leases (2011: $895,000).

Notes to the Financial Statements

For the year ended 30 June 2012

27. Commitments (continued)

(c) Credit related commitments

Binding commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

	2012 $'000	2011 $'000
Approved but undrawn loans and credit limits	**9,876**	13,837

28. Contingent liabilities

In the normal course of business the Credit Union enters into various types of contracts that give rise to contingent or future obligations. These contracts generally relate to the financing needs of customers. The Credit Union uses the same credit policies and assessment criteria in making commitments and conditional obligations for off-balance sheet risks as it does for on-balance sheet loan assets. The Credit Union holds collateral supporting these commitments where it is deemed necessary.

Letters of credit and financial guarantees written are conditional commitments issued by the Credit Union to guarantee the performance of a member to a third party.

Performance bonds	**152**	173

29. Related parties

The following were key management personnel of the Credit Union at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

Directors	**Executives and Senior Management**
Ms M Youssif	Mr B Kotic (Chief Executive Officer) (appointed 17th April 2012)
Mr A Abela	Mr E Thomas (Executive Manager Operations) (appointed 20th February 2012)
Ms C Thompson (resigned 4th November 2011)	Ms D Donovan (Senior HR Manager) (appointed 28th December 2011)
Mr G Holby (appointed 4th November 2011)	Ms D Stretton (Senior Manager Sales & Distribution)
Mr J Swan	Mr P Stewart (Senior Manager Finance) (appointed 28th December 2011)
Mr G Fulton	Mr M Halloran (Chief Executive Officer) (resigned 2nd May 2012)
Mr C Grange	Mr G Parrish (Executive Manager Corporate Services) (resigned 23rd December 2011)
Mr R Downs	Mr J Vohradsky (Executive Manager Operations) (resigned 20th February 2012)

Transactions with Key Management Personnel

In addition to their salaries, the Credit Union also provides non-cash benefits to key management personnel and contributes to superannuation funds on their behalf.

Notes to the Financial Statements

For the year ended 30 June 2012

29. Related parties (continued)

Key management personnel compensation

The aggregate key management personnel compensation related to executives and Directors is included in 'personnel expense' or 'other expenses' (see income statement) and is as follows:

	2012 $	2011 $
Short term employee benefits	**1,350,733**	941,661
Other long-term benefits	**2,508**	25,987
Post employment benefits	**100,603**	83,308
Termination benefits	**74,712**	-
Total	**1,528,556**	1,050,956

Apart from the details disclosed in this note, no Director has entered into a material contract with the Credit Union since the end of the previous financial year and there were no material contracts involving Directors' interests existing at year-end.

Loans to key management personnel and their related parties

Details regarding the aggregate of loans made, guaranteed or secured by the Credit Union to key management personnel and their related parties are as follows:

	2012 $	2011 $
Loans to key management personnel	**902,912**	502,782

All loans to key management personnel are made on an arms length basis, on the same terms and conditions as the general public, except for the interest rate. Loans to executives are made in accordance with the Community Alliance Credit Union Enterprise Agreement 2010 which allows for a reduction of 100 basis points on standard variable loans for the first $150,000 of the principal outstanding. All loans to Directors are at the same interest rates charged to the general public. All loans are secured by residential mortgage, and no amounts have been written down or recorded as allowances, as the balances are considered fully collectable.

New loans totalling $323,347 (2011: $481,139) were made to key management personnel during the year. The recipient of this loan during the year was Ms D Stretton (2011: Mr C Grange and Ms D Stretton). During the year Mr C Grange, Mr G Parrish, Ms D Stretton, Mr J Swan, Mr J Vohradsky and Mr P Stewart (2011: Mr C Grange, Mr G Parrish, Ms D Stretton, Mr J Swan and Mr J Vohradsky) repaid $66,101 (2011:$192,479) of the balance outstanding on their loan. Interest received on the loans to key management personnel totalled $48,461 (2011:$26,073).

	2012 $	2011 $
Loans to key management personnel related parties	**-**	-

There are currently no loans to key management personnel related parties outstanding.

Notes to the Financial Statements

For the year ended 30 June 2012

29. Related Parties (continued)

Key management personnel related parties

Mr Roger Downs, a director of the Credit Union, is the Chairman of Partners of Kells the Lawyers. The Credit Union has used the legal services of Kells the Lawyers. The total dollar value of these services provided for the year was $2,585 (2011: $6,220). This arrangement is on terms that are no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arm's length basis. Mr Downs does not receive any benefit in connection with this agreement. There were no amounts owing to Kells the Lawyers at the end of the year.

30. Events Subsequent to Balance Date

There have been no events subsequent to balance date which would have a material effect on the Credit Union's financial statements as at 30 June 2012.

31. Auditor's Remuneration

	2012 $	2011 $
Audit services		
- audit of the financial report	**80,176**	76,358
- other regulatory audit services	**19,574**	18,642
	99,750	95,000
Other services		
- internal audit	**39,137**	67,700
- other assurance services	**850**	-
- taxation services	**10,445**	10,350
	50,432	78,050
	150,182	173,050

community alliance
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Directors' Declaration

For the year ended 30 June 2012

1. In the opinion of the Directors of Community Alliance Credit Union Limited ("the Credit Union"):

   a) the financial statements and notes set out on pages 14 to 68 are in accordance with the Corporations Act 2001, including:

      (i) giving a true and fair view of the Credit Union's financial position as at 30 June 2012 and of its performance for the financial year ended on that date; and

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

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

2. The Directors draw attention to note 2 to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors:

M .Youssif
Chair of the Board

A. Abela
Director

Dated at Wollongong 26th September 2012

Independent auditor's report to the members of Community Alliance Credit Union Limited

Report on the financial report

We have audited the accompanying financial report of Community Alliance Credit Union Limited (the Company), which comprises the statement of financial position as at 30 June 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, notes 1 to 31 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 2, the directors also state, in accordance with Australian 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. These Auditing 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 misstatement.

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

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Company's financial position and of its performance.

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

KPMG

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

(a) the financial report of the Community Alliance 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 2012 and of its performance for the year ended on that date; and

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

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2.

KPMG

KPMG

Richard Drinnan
Partner

Wollongong

Dated this 26th day of September 2012

ILLAWARRA Credit Union

CATALYST MONEY FOR THE THINKERS

Shoalhaven Community Credit Union

Western City Credit Union

Illawarra Credit Union

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