Community Alliance Credit Union

2014

Annual Report

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• MEMBER SATISFACTION • LOYALTY & INTEGRITY • CREDIT UNION FAMIL
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community alliance
credit union limited

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Message from the Chair

On behalf of the Board of Directors, it is my pleasure to present to you the 2014 Community Alliance Credit Union Annual Report.

The Year in Review

In Financial Year 2014, the Credit Union recorded a profit before tax of $1.9 million, an increase of 31 per cent over the previous period.

This is an excellent result given the official cash rate has been at 2.50 per cent since August last year, causing downward pressure on our margins. Against this difficult operating condition, it is pleasing to report that a number of major Key Performance Indicator targets were met.

Whilst loan approvals were below our expectations during the year, the loan book balance grew slightly over 2014. In a reduced revenue growth environment, management continued the strong commitment to cost containment in order to reduce our cost to income ratio. Our primary focus remains on the execution of the strategic plan to deliver a sound return for the Credit Union.

Changes to the Board

As part of the governance process, the Board approved an Associate Director Policy during the year. The purpose of the Policy is to further strengthen and broaden the skills base of the Board. Potential Directors can gain an understanding of the requirements of being on the Board and the Board can assess the suitability of a prospective candidate. To this end, the Board invited Ms Deborah De Santis, who has an extensive background in public relations and marketing, to join the Board as an Associate Director.

The Board also invited Ms Marisa Mastroianni as an external member of the Audit and Risk Management Committee (ARMC). Marisa has extensive Board, Senior Level and ARMC experience and will further support our ARMC.

I welcome both Deborah and Marisa to our Credit Union.

Outlook

The operating environment for the financial services industry remains challenging. The Reserve Bank has indicated that there is little likelihood of a change in monetary policy in 2014 and well into 2015. Looking ahead, our focus continues to be on revenue growth and cost containment.

Thank you

I would like to thank my fellow Board members for their help and support during the past year. In particular, I wish to thank our CEO, Mr Bob Kotic, his management team and their staff for their hard work and ongoing commitment to the Credit Union.

Especially, I wish to thank our members, we appreciate your ongoing support.

Mary Youssif
Chair

Message from the CEO

Community Alliance Credit Union is committed to serving our members and supporting our community. We want to help our members and their families achieve life-long financial success and to be a valued and relevant part of our members' lives.

Our strategic theme for last year was integral to the line 'not a bank, a smart alternative'. We believe this message has resonated well with our existing and new members and has led to a successful year for us, as you will read throughout this report.

Our strategic theme for this year will be in a similar spirit and is encapsulated in our mission statement, which is to support our members, their families and our communities, by providing banking with a conscience.

In light of the continuing difficult economic circumstances, particularly for retirees, young families and those seeking to own their first home, we feel that our theme of 'banking with a conscience' is more than appropriate.

During the last 12 months, we improved our operating surplus before tax by 31 percent and increased member equity by 3.8 per cent, compared to the previous year. At the same time, we invested significantly in expanding our capability and talent base, as well as improving our technology and member services. All investments are made with the single purpose of increasing member value, through improved products and services.

Equally important was our continuing support, both financial and in our staff time, for many community groups. I'm sure you will read with interest (Page 8) about the deep involvement we have in a diverse and broad range of community based activities and initiatives that combine to make our community and society a better place. This is something that my staff and I are immensely proud of and is enabled by our members' continuing loyalty and support. We hope that potential new members will be drawn to us because of our commitment to our community and our continuing investment in community well-being.

I'm looking forward to the New Year as the investment in our new people, combined with our loyal and dedicated staff, continues to provide members with a great experience, supported by improvements in technology and products.

Our performance improvement over the last year is highlighted in the two tables below and further detail is provided in the body of the report.

Ratio	2014	2013
Capital Adequacy	15.74%	15.43%
HQLA	12.74%	14.87%
Total Liquidity	20.74%	22.92%
Interest Margin	2.52%	2.56%
Return on Average Assets	0.27%	0.30%
Return on Average Equity	3.73%	4.09%

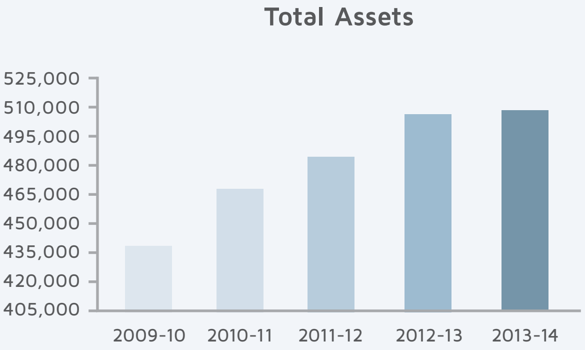
Key Performance Indicators	2014 $'000	2013 $'000
Operating Surplus before tax	1,896	1,441
Operating Surplus after tax	1,407	1,508
Total assets	512,513	510,986
Gross loans & advances to Members	396,575	384,532
Provision for loan impairment	272	261
Member deposits	465,836	465,861
Total Members' equity	38,447	37,040
Total investments	92,443	110,830

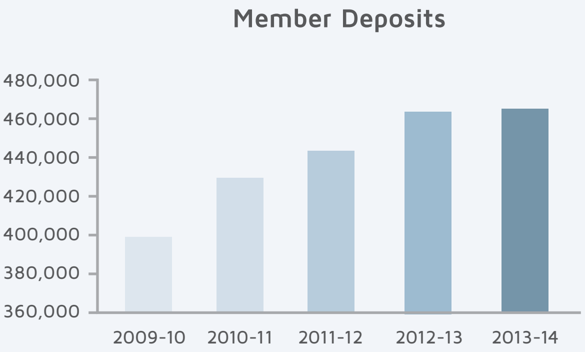
I would like to thank our staff for their dedication and commitment and for being prepared to always go that extra mile for our members and for each other. I would also like to thank our many suppliers and stakeholders, who enable us to run a successful business and also make doing business with them a pleasure.

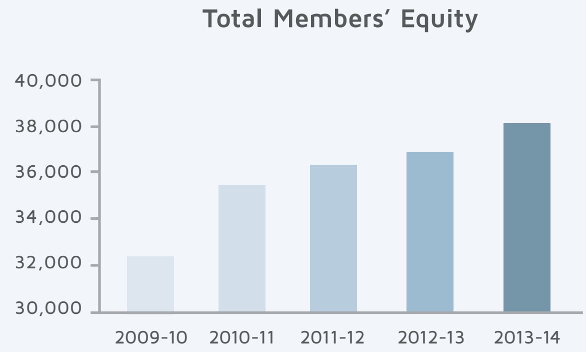
And of course, I would especially like to thank our members for their continuing support and confidence.

Bob Kotic
CEO

FIVE YEAR FINANCIAL SUMMARY







	2009-10	2010-11	2011-12	2012-13	**2013-14**
INCOME STATEMENT	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Total income	32,923	36,283	36,948	33,458	**29,685**
Interest income	27,999	30,998	32,020	28,810	**25,259**
Net interest income	12,789	12,797	12,969	12,712	**12,528**
Impairment losses on loans and advances	652	144	537	216	**132**
Operating expenses	15,507	15,432	15,505	15,703	**14,926**
Operating profit after tax	1,146	1,860	1,389	1,508	**1,407**
STATEMENT OF FINANCIAL POSITION	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Total assets	444,969	478,194	492,434	510,986	**512,513**
Gross loans and advances to Members	337,915	364,959	384,182	384,532	**396,575**
Provision for loan impairment	714	317	677	261	**272**
Member deposits	404,303	435,499	448,120	465,861	**469,831**
Total Members' equity	33,324	35,910	36,627	37,040	**38,447**
RATIO ANALYSIS	%	%	%	%	%
Total revenue to average assets	7.11	7.86	7.61	6.67	**5.80**
Operating expenses to average assets	3.35	3.34	3.19	3.13	**2.92**
Net profit after tax to average assets	0.25	0.40	0.29	0.30	**0.27**
Net profit after tax to average equity	3.59	5.37	3.83	4.09	**3.73**
Net interest margin to average assets	2.76	2.77	2.67	2.53	**2.45**
Provision for loan impairment to average loans	0.21	0.09	0.18	0.07	**0.07**

Year In Review

At Community Alliance Credit Union we are dedicated to supporting our members, their families, and the communities in which we work and live, by providing banking with a conscience. Personal service, fairer fees and a community focus is what makes us different.

With three brand options, we provide our members with choice:

- Illawarra Credit Union
- Catalyst Money
- Western City Credit Union.

The services we provide are based on our overall values and enduring principles of:

- Putting our members first
- Personal service
- Family and community.

Community Involvement

During 2013/14, we contributed more than $167,000 to our community, through our support of over 30 community organisations, sporting groups, cultural events and charities.

We put our members at the forefront of everything we do and believe in community prosperity, a tradition spanning more than 40 years.

Some of the major events we have supported over the past year include:

Southern Stars
Illawarra Credit Union is a major partner of Southern Stars, an annual event that brings together more than 2,700 students from across Regional NSW. Illawarra Credit Union is proud to be involved with an organisation that helps in the education and development of young performers. The event attracts over 12,000 people annually, allowing the region's talented young performers to showcase their skills.

Australia Day Aquathon & The Splash n' Dash Festival
Illawarra Credit Union continues to be a major sponsor of the annual Australia Day Aquathon and the Splash n' Dash Festival.

These two high profile Illawarra community fitness events attract thousands of participants and spectators annually, and involve hundreds of volunteers. Credit Union staff are heavily involved in the event, both as participants and volunteers. Our continued support has seen funds raised for worthy local initiatives, such as Anglicare and NSW Cancer Council – Southern Region.

Sharon Buikstra
(Operations Manager)
SOUTHERN STARS

Southern Stars - The Arena Spectacular was delighted to welcome Illawarra Credit Union as a Segment Sponsor in 2014. Together with all our sponsors, Illawarra Credit Union enabled 2,700 students from across Regional NSW to participate in a professional production at the WIN Entertainment Centre with audiences totalling 12,000 over four brilliant shows. Life long memories, friendships and amazing experiences will always be treasured by our students.

The team at Illawarra Credit Union have offered support and encouragement to all involved in the annual performance. We are proud to be associated with Illawarra Credit Union and their team. We look forward to a long association.

Community Involvement

Wave FM Apple for the Teacher
Illawarra Credit Union continues to support the Wave FM Apple for the Teacher Competition, an initiative set up to recognise the good work of the teachers of the Illawarra. There were a total of 566 teachers nominated, from 106 primary schools across the Illawarra. The competition was won by Minnamurra Public School teacher Miss Lisa Davis, who received an overwhelming 44,000 votes from students and parents. Illawarra Credit Union also provided each student from Miss Davis's class with a $30 Wildlife Saver Account voucher.

Legacy
Illawarra Credit Union is also a major sponsor of the annual Legacy Business and Community Luncheon. With our support, Legacy is able to provide services to Australian families suffering financially and socially after the incapacitation or death of a spouse or parent, during or after their defence force service.

Pride of the Illawarra – Emergency Services Officer of the Year
Illawarra Credit Union is a proud sponsor of the Pride of the Illawarra – Emergency Services Officer of the Year Awards. The Credit Union is honoured to be involved in an initiative that strives to acknowledge and celebrate the achievements of our local Emergency Services personnel, both paid and volunteer. The event recognises those individuals that go above and beyond the call of duty to ensure the safety of our region.

Rob Battocchio (Event Director)
ACTIVATE EVENTS

On behalf of Activate Events, I would like to extend my sincere gratitude to Illawarra Credit Union for its ongoing support of the Australia Day Aquathon and Splash and Dash Festival. This partnership now extends over six pleasurable years.

Illawarra Credit Union is a proactive partner, with all levels of the organisation engaged with the delivery of the sponsorship. From the CEO who attends the events warmly shaking the hands of participants, to the many staff, family and community partners who generously offer their time volunteering, participating and spectating.

The Illawarra Credit Union has been a key driver in the success of the Australia Day Aquathon and Splash and Dash Festivals and their ability to provide a platform for community health, fitness and charity fundraising. With their generous sponsorship, both community fitness events have grown, deliver significant benefits to the region, leave fond memories and have become part of the Illawarra event landscape.

The Illawarra community is fortunate to have this iconic institution, who provides much needed support to these events, and many other events and community organisations throughout the Illawarra.

Ian Johnston
(Past Assistant Governor)
ROTARY CLUBS OF THE ILLAWARRA

Illawarra Credit Union is a valued partner of Rotary's Pride of the Illawarra, Emergency Services Officer of the Year Awards, acknowledging and celebrating the achievements of our local Emergency Services personnel.

In line with Rotary's motto "Service Above Self", Pride of the Illawarra Awards recognise local Emergency Services personnel for community service above and beyond the call of duty. It is through the generous support of community minded organisations such as Illawarra Credit Union that Rotary is able to host these annual awards. We look forward to continuing this relationship and together recognise the unsung heroes in our community.

Our commitment to the community is also highlighted from the support we provide to a broad range of community initiatives, sporting associations and clubs and local charities in the areas we operate including:

Community initiatives:

- Symbio Wildlife Park
- Burgh2Beach Fun Run (supporting Motor Neurone Disease NSW)
- Kembla Joggers Fitness Five (raising money for Illawarra Charities and community projects)
- Need a Feed (providing food parcels to struggling local families)
- Salvation Army (supporting the Christmas Toy Appeal & Business Appeal)
- Illawarra Regional Careers Expo
- Figtree Primary School

Sporting Associations and Clubs:

- Hockey NSW
- Illawarra Hockey
- Illawarra Cutters
- Surf Life Saving Illawarra
- Illawarra District Rugby Union
- Macarthur Football Association
- Football South Coast
- Illawarra Stringrays
- Illawarra Academy of Sport
- Illawarra Triathlon Club
- Dance World
- Illawarra District Table Tennis Association

Local charities:

- Movember
- The Smith Family
- Mission Australia (supporting individuals and families to stay housed, access education and training and find employment)
- St Vincent De Paul
- Multiple Sclerosis Australia
- Ovarian Cancer Australia
- Lighthouse Youth Initiative
- RSPCA
- House with No Steps
- Cancer Council

Technology

moneytree mobile banking application – for Catalyst Money

Following the successful launch of the moneytree 'mobile banking application' for Illawarra Credit Union members in 2012/13, this year, we introduced the mobile phone application to our Catalyst Money members.

moneytree application provides members with the ability to do their online banking anytime, anywhere on their iphones.

To date, we have over 2,200 members utilising this application.

moneytree moneytree

In 2013/14 we also developed and launched a Facebook and Twitter page, plus a YouTube channel for both Illawarra Credit Union and Catalyst Money members. By investing in these channels, we are creating more opportunities to engage with members, connect with the community and enable social interactions.

Sustainability

The Credit Union goes green

Following the introduction of our Internet Banking online statements last year, 2013/14 saw an expansion of this promotion, with the launch of a successful Go Green initiative.

To continue our commitment to the environment, the Credit Union partnered with Carbon Neutral, a reforestation offset organisation, in their Plant-A-Tree Program. Under this program a tree was planted on behalf of every member that switched to e-statements.

The initiative was a success, receiving a positive community response and resulted in 1,274 members switching over to e-statements.

We donated 1,274 trees, which were planted in the Yarra Yarra Corridor, located in Western Australia's northern agricultural region approximately 400kms north of Perth. Australia is one of the world's biodiversity hotspots and in supporting this program, through our partnership with Carbon Neutral, the Credit Union is helping to regenerate and protect our incredible natural wealth.

Brand Structure

As part of our focus to improve on operational efficiencies in 2013/14, we decided to amalgamate Shoalhaven Community Credit Union with Illawarra Credit Union. All Shoalhaven Community Credit Union members were successfully transitioned into an Illawarra Credit Union membership on 1 July 2014. This process has reduced system complexities, while making sure all our members continue to benefit with excellent service, competitive interest rates and a range of financial services that meet their changing needs.

People

2013/14 has been a year of considerable change as the Credit Union sets a renewed platform of performance for growth and continued success for all. Integral to this effort are our people, including longstanding employees who have been with us for over 20 years, as well as many new employees, some of whom are just beginning their careers in financial services.

Our people have demonstrated remarkable commitment to the Credit Union, achieving many improvements in operational efficiency and productivity from our Branch Network and across all support teams, to enhance our overall performance and most importantly, the member experience.

We regularly survey staff on key workplace aspects to understand what is important to our people. There were improvements in critical and targeted areas such as change management and leadership. These aspects of employment, together with communication and career opportunities, remain important to staff.

Also important to our people is the significance of family and community to the Credit Union. Many staff took the opportunity to participate in several community events during the year including Splash n Dash as well as support charities including the Smith Family through regular payroll donations.

Achieving performance excellence and developing employee career opportunities through tertiary education has been a major focus. The education profile of our staff has increased with almost half of our employees now qualified with a Certificate IV or higher. This profile will improve further as a large cohort of staff are currently studying varying levels of tertiary education with the support of the Credit Union.

At the beginning of 2014, the Credit Union rolled out a 2 day Service and Sales Training Program in which all staff of all levels and positions participated. Our objectives for the training included enhancing our service focus to provide members with a great experience with every contact as well as to apply this same high standard of service internally, throughout the organisation and to encourage a 'one team' culture. The training also included exercises in team and morale building based on the internationally acclaimed FISH™ Principles.

2014 FINANCIALS

Annual Financial Report
30 June 2014

ABN 14 087 650 771

community alliance
credit union limited

DIRECTORS' REPORT
For the Year ended 30 June 2014

Your Directors present their report on Community Alliance Credit Union Limited ("the Credit Union") for the financial year ended 30 June 2014.

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

INFORMATION ON DIRECTORS

The names 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, AGIA, MAMI — Chair

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 and Proper Committee, Remuneration Committee and a member of the Governance Committee.

Mr John Thomas Swan MAMI — Director

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.

Mr Anthony Abela FIPA, FAMI, GAICD — Director

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 and Risk Management Committee. Mr Abela joined the Remuneration Committee from October 2012.

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

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

Mr Graham Holby FAMI — Director

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

Ms Nieves Murray BA (Psych), MSc (Commty Hlth), MBA, MAMI, FAIM — Director

Ms Murray was appointed to the Board in 2013 and is a member of the Audit and Risk Management Committee.

Mr Peter Kell Dip Law, MAMI — Director

Mr Kell was appointed to the Board in 2013 and is a member of the Audit and Risk Management Committee.

INFORMATION ON ASSOCIATE DIRECTORS

Ms Deborah De Santis — Associate Director

Ms De Santis was invited to join the Board on 26 March 2014 as an Associate Director and is a member of the Governance Committee.

INFORMATION ON EXTERNAL MEMBERS

Ms Marisa Mastroianni — External Member

Ms Mastroianni was invited to join the Audit and Risk Management Committee as an External Member on 11 March 2014.

INFORMATION ON COMPANY SECRETARY

Mr Anthony Perkiss, Chief Financial Officer, has held the position of Company Secretary from May 2013.

DIRECTORS' REPORT

For the Year ended 30 June 2014

INFORMATION ON BOARD 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	10	10			5	5	2	2	2	2
J T Swan	10	7			5	2			2	1
A Abela	10	9	5	5					2	2
R Downs	10	10			5	5	1	1	2	2
G Holby	10	9	5	5						
P Kell**	9	6	4	4						
N Murray	9	9	4	4						
D De Santis***	2	2			1	1				
M Mastroianni****			1	1						

*Fit & Proper Committee meetings were conducted with one Director and two independents

**The Board granted Director Kell a leave of absence from the November 2013 meeting

***Associate Director

****External Member to ARMC

E – Eligible to attend A - Attended

BOARD REMUNERATION

Directors are remunerated by fees determined by the Board within the aggregate amount approved by members at the Annual General Meeting. The aggregate amount of Directors' fees (including superannuation) for the year ended 30 June 2014 was $211,779 (2013: $214,795). The amount of Directors' fees excluding superannuation was $193,847 (2013: $197,454) which is in accordance with the resolution made at the 2013 Annual General Meeting.

DIRECTOR' S BENEFITS

No Directors have received or become entitled to receive, during, or since the end of the financial year, a benefit because of a contract made by the Credit Union with a Director, a firm of which a Director is a member, or an entity in which a Director has a substantial financial interest, other than that disclosed in Note 29 of the financial report.

INDEMNIFYING DIRECTORS, OFFICERS OR AUDITORS

Insurance premiums have been paid to insure each of the Directors and Officers of the Credit Union against any costs and expenses incurred by them in defending any legal proceeding arising out of their conduct while acting in their capacity as a Director or Officer of the Credit Union. In accordance with normal commercial practice, disclosure of the premium amount and the nature of the insured liabilities is prohibited by a confidentiality clause in the contract.

PRINCIPAL ACTIVITIES

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

DIRECTORS' REPORT
For the Year ended 30 June 2014

OPERATING RESULTS FOR THE YEAR

The net profit of the Credit Union for the year before income tax is $1.896m (2013: $1.441m) representing an increase of 31% from the previous year.

The results for the financial year were underpinned by:

- A decrease in Total Income of 2.29% to $17.0m from $17.4m in the previous year and
- A decrease in Operating Expenses of 5.03% from $15.9m to $15.1m

The end of year result was impacted by two one off items being the revaluation of the Chippendale Investment property of $1,119,675, which was offset by redundancy costs due to a staff restructure of $673,814.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Credit Union during the financial year.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

On Monday 15 September 2014, the Credit Union entered into a Sale and Purchase Agreement with a third party for the disposal of our investment property at 267-269 Abercombe Street, Chippendale held under Lots 5, 6, 7 & 8 in Deposited Plan 82296 for a cash consideration of $4.35m.

As at 30 June 2014 the property was revalued to $3.35m from $2.23m and the revaluation amount of $1.12m was reported in 'Other Income'. The settlement date is expected to be completed by 1 December 2014.

There have been no other significant events occurring after the balance date which may affect the Credit Union's operations or the results of those operations.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

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

i. the operations of the Credit Union;
ii. the results of those operations; or
iii. the state of affairs of the Credit Union;

in the financial years subsequent to this financial year.

ROUNDING

The financial report is presented in Australian Dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated under the option available to the Credit Union under ASIC Class Order 98/100. The Credit Union is an entity to which the class order applies.

NON-AUDIT SERVICES

The following non-audit services were provided by the Credit Union's auditor, KPMG. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

KPMG received or are due to receive the following amounts for the provision of non-audit services

	2014 $	2013 $
Taxation Services	**10,075**	24,230
Internal Audit	**75,758**	66,644
TOTAL	**85,833**	90,874

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section *307C of the Corporations Act 2001* is set out following the Director's Report.

Signed in accordance with a resolution of the Directors:

M. Youssif
Chair of the Board

A. Abela
Chair of the Audit and Risk Management Committee

CORPORATE GOVERNANCE STATEMENT
For the Year ended 30 June 2014

The Board and Management of the Credit Union are committed to acting responsibly, ethically and with the highest standards of integrity to ensure the activities of the Credit Union are continually structured and delivered in a manner that allows us to meet the needs of our members.

To achieve these sound corporate governance principles, appropriate business practices and policies have been adopted by the Board and embedded throughout the Credit Union.

The Board is continually working to improve our governance policies and practices both at Board level and throughout the organisation. While our mutual values remain constant, we know we must adapt our business practices to ensure we meet our obligations as a responsible financial institution in a rapidly changing world.

The Board has carefully considered and implemented a ‘fit and proper’ framework in accordance with relevant legislation that endeavours to ensure the Directors and Senior Managers are appropriate persons to lead the Credit Union. The ‘fit and proper’ framework deals with matters such as minimum competencies, professional development, independence and performance.

MINIMUM COMPETENCIES

Board Policy sets out the minimum competencies regarding personal attributes, character, skills and knowledge that each responsible person must bring to the Credit Union. The Board undertakes an annual director skills gap analysis to ensure the Board has the right mix of skills.

DIRECTOR DEVELOPMENT

Relevant Board Policy outlines the knowledge requirements for Directors and provides the high level guidelines for new Director induction as well as the standards for ongoing Director development. Each Director is expected to achieve a minimum number of hours of skills development per annum.

INDEPENDENCE

Board Policy requires Directors to be independent in both judgement and action. Each Director is required to be independent in their thinking which must be maintained over time such that the Director makes their own judgement based on what is in the best interests of the Entity. It is each Director’s responsibility to maintain and demonstrate their independence. The Board assesses each Director’s independence by reference to the requirements contained within APRA Prudential Standard CPS 510 and the guidelines set out in the ASX Corporate Governance Committees Principles of Good Corporate Governance and Best Practice Recommendations. The Board has adopted a charter that addresses issues relating to conflicts of interest and the manner in which they are required to be reported, managed and disclosed. Other than approved Director remuneration, the Directors do not offer, seek or accept benefits in the performance of their duties.

In the event that a potential conflict of interest arises, the Director in question must withdraw from all debate and decisions concerning the matter unless the Board resolves that the relevant interest or conflict should not disqualify the Director from being present and/or voting.

PERFORMANCE

Established Board Policy requires an annual review of performance of the Board. The Board undertakes an annual assessment of its collective performance, and a biennial assessment of its committees and individual directors.

STRUCTURE OF THE BOARD

The size and composition of the Board is determined by the Board subject to the limits set out in the Credit Union Constitution and Board Policy.

As at 30 June 2014, the Board comprised seven Non-Executive Directors and has appointed one Associate Director and one External Member to the Audit and Risk Management Committee.

All Directors are shareholding members of the Credit Union. Board members are elected by the members or appointed in accordance with the Credit Union Constitution. All elected Directors hold a three year term, and directors appointed to the Board may hold a term of no longer than three years. The Chair of the Board is a member elected Non-Executive Director.

The Board invited one Associate Director as at March 2014. This was in accordance with Board Policy and the Credit Union’s ‘fit and proper’ framework. All Associate Directors hold a term of one year.

The Board appointed an External Member to the Audit and Risk Management Committee as at March 2014. This was in accordance with the Audit and Risk Management Committee Charter and the Credit Union's 'fit and proper' framework. All External Members hold a term of one year.

It is also important to ensure that the Board is able to operate independently of Senior Management. Each of the Directors is independent of management. This means that they are free from any relationship (for example, a business interest in a supplier or competitor of the Entity), which could materially interfere with the exercise of their independent judgement and their ability to act in the best interests of the Credit Union.

Refer to page 13 of this financial report for the names of Directors who held office at any time during or since the end of the financial year.

Role of the Board

The Board comprises of Non-Executive Directors, and in particular, the Board:

- provides strategic direction including contributing to the development of and approving the corporate strategy;
- monitoring the effectiveness of the corporate governance framework;
- appointing the Chief Executive Officer;
- monitoring the performance and approving the remuneration of the Chief Executive Officer;
- reporting to members and ensuring that all regulatory requirements are met;
- overseeing financial performance and monitoring business performance against the approved Strategic Plan;
- overseeing internal controls and processes for identifying areas of significant business risk;
- monitoring compliance with regulatory and statutory requirements and the implementation of related policies;
- making decisions in relation to major expenditures, acquisitions or merger opportunities; and
- ensuring the Credit Union's business is conducted ethically and transparently.

Committees of the Board

The Board has established four standing committees as described below. These committees consider various matters and make recommendations to the Board. Each committee's authority and responsibilities are set out in their individual committee charters, as approved by the Board. Other special purpose committees may be established from time to time to consider matters of particular importance. Committee members are chosen for the skills, experience and other pertinent qualities they bring to each particular committee role.

The Audit and Risk Management Committee and the Governance Committee meet at least bimonthly, or more frequently as required and the Remuneration Committee meets as required, but at least annually, to consider and make recommendations or decisions on matters within their terms of reference. The Fit and Proper Committee meets annually or more often if required.

Committee Chair's give verbal reports to the Board at the next Board meeting and the Board reviews and notes minutes of all committee meetings. All information prepared for the consideration of committees is also available to the Board.

Standing committees in operation at any time during or since the end of the financial year were:

Audit and Risk Management Committee

The Audit and Risk Management Committee is established to oversee the financial reporting, risk management and audit frameworks. Its role includes:

- monitoring audit reports received from internal and external auditors and management's responses thereto;
- determining with the auditors (internal and external) on the scope of their work and experience in conducting an effective audit;
- ensuring the external auditors remain independent in the areas of work conducted;

- monitoring matters of risk management and prudential and other reporting obligations; and
- monitoring compliance with applicable laws.

GOVERNANCE COMMITTEE AND THE REMUNERATION COMMITTEE

The Governance Committee and the Remuneration Committee assist the Board in adopting and implementing good corporate governance in the areas of the Chief Executive Officer's appointment, Director and Chief Executive Officers (CEO) remuneration, Director elections, Director and CEO performance reviews, oversight of the 'fit and proper' framework, monitoring the size and composition of the Board, and developing CEO succession plans.

FIT AND PROPER COMMITTEE

The Board has a Fit and Proper Committee as part of the Governance Committee. It is a standing committee formed to assist the Board in the selection, review and assessment of the fitness and propriety of the following:

i. In the case of a director standing for election or director nominee
ii. In the case of an associate director nominee or appointed member of a Board Committee nominee.

- The Committee was formed to comply with the requirements of APRA's Prudential Standard CPS 520 in 2006;
- 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; and
- All current Directors were assessed in accordance with the Credit Union's Fit & Proper Policy.

GOVERNANCE STANDARDS

The Board acknowledges the need for, and continued maintenance of, the highest standards of corporate governance, and therefore adopts practices including:

- an annual review of Board performance;
- active participation by all Directors at all meetings and open access to information;
- regular Senior Management reporting to the board;
- the Chief Executive Officer and Chief Financial Officer provide assurance on the accuracy and completeness of financial information and the adequacy of risk management processes;
- the Senior Managers provide assurance to the Board that the business of the Credit Union has been conducted ethically and that all dealings have been conducted transparently with the Board;
- the transparency of information to members through publication of regular notices on the Credit Union's website – www.cu.com.au; and
- the gearing of Board policies towards risk management to safeguard the assets and interests of the Credit Union.

INTERNAL AND EXTERNAL AUDIT

External Audit
The audit is performed by KPMG.

Internal Audit
The internal audit function was performed by engaging the services of KPMG from 1 July 2013 to 30 September 2013 and Deloitte from 1 October 2013 to the current date.

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 2014 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

Warwick Shanks
Partner

Signed at Wollongong

24 September 2014

STATEMENT OF FINANCIAL POSITION
For the year ended 30 June 2014

	Note	2014 $'000	2013 $'000
ASSETS			
Cash and cash equivalents	16	**11,833**	12,569
Other financial assets	13	**30,691**	27,739
Loans and receivables	14	**459,573**	460,772
Property, plant and equipment	10	**5,238**	5,576
Investment property	12	**3,350**	2,230
Net deferred tax assets	9	**-**	291
Income tax receivable	9	**430**	327
Intangible assets	11	**381**	467
Other assets	17	**1,017**	1,015
Total Assets		**512,513**	510,986
LIABILITIES			
Deposits	21	**469,836**	465,861
Payables	24	**2,628**	6,286
Net deferred tax liabilities	9	**198**	-
Provisions	23	**1,404**	1,799
Total Liabilities		**474,066**	473,946
Net Assets		**38,447**	37,040
EQUITY			
Reserves	20	**2,316**	2,390
Retained profits	18	**36,131**	34,650
Total equity attributable to members of the Credit Union		**38,447**	37,040

The accompanying notes should be read in conjunction with these financial statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 30 June 2014

	Note	2014 $'000	2013 $'000
Interest revenue	6	**25,259**	28,810
Interest expense	6	**(12,731)**	(16,098)
Net interest income		**12,528**	12,712
Other income	7	**4,426**	4,648
Net income		**16,954**	17,360
Net impairment loss on loans and receivables	8	**(132)**	(216)
Personnel expenses	8	**(7,238)**	(8,268)
Depreciation and amortisation expenses	8	**(740)**	(768)
Data and transaction processing expenses		**(1,152)**	(1,197)
Information technology expenses		**(1,418)**	(1,176)
Property expenses		**(1,123)**	(1,176)
Marketing expenses		**(567)**	(616)
Office expenses		**(694)**	(720)
Loss on disposal of assets		**(18)**	(51)
Other corporate expenses		**(1,976)**	(1,731)
Total operating expenses		**(15,058)**	(15,919)
Profit before income tax		**1,896**	1,441
Income tax (expense)/ benefit	9	**(489)**	67
Profit after tax		**1,407**	1,508

The accompanying notes should be read in conjunction with these financial statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

For the year ended 30 June 2014

	Note	2014 $'000	2013 $'000
Profit after tax		**1,407**	1,508
Other comprehensive income			
Net change in value of available-for-sale financial assets	20	**-**	273
Net change in fair value of available-for-sale financial assets reclassified to profit or loss	20	**-**	(1,368)
Other comprehensive income for the year, net of income tax		**-**	(1,095)
Total comprehensive income for the year		**1,407**	413

The accompanying notes should be read in conjunction with these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2014

	Note	General reserve for credit losses $'000	Available-for-sale reserve $'000	Redeemed share capital reserve $'000	Revaluation reserve $'000	Retained earnings $'000	Total $'000
Balance as at 1 July 2012		1,316	1,095	220	1,019	32,977	36,627
Total comprehensive income for the year							
Profit after tax	18	-	-	-	-	1,508	1,508
Total other comprehensive income	19,20	-	(1,095)	-	-	-	(1,095)
Total comprehensive income for the year		-	(1,095)	-	-	1,508	413
Transfers between reserves	18,20	(170)	-	-	-	170	-
Total transfers		(170)	-	-	-	170	-
Transactions with members, recorded directly in equity							
Shares from closed memberships transferred from retained earnings	18,19,20	-	-	5	-	(5)	-
Total transactions with members		-	-	5	-	(5)	-
Balance as at 30 June 2013	18,19,20	1,146	-	225	1,019	34,650	37,040

Amounts are stated net of tax

The accompanying notes should be read in conjunction with these financial statements.

STATEMENT OF CHANGES IN EQUITY (CONTINUED)
For the year ended 30 June 2014

	Note	General reserve for credit losses $'000	Available-for-sale reserve $'000	Redeemed share capital reserve $'000	Revaluation reserve $'000	Retained earnings $'000	Total $'000
Balance as at 1 July 2013		1,146	-	225	1,019	34,650	37,040
Total comprehensive income for the year							
Profit after tax	18	-	-	-	-	1,407	1,407
Total other comprehensive income	19,20	-	-		-	-	-
Total comprehensive income for the year		-	-	-	-	1,407	1,407
Transfers between reserves	18,20	(79)	-	-	-	79	-
Total transfers		(79)	-	-	-	79	-
Transactions with members, recorded directly in equity							
Shares from closed memberships transferred from retained earnings	18,19,20	-	-	5	-	(5)	-
Total transactions with members		-	-	5	-	(5)	-
Balance as at 30 June 2014	18,19,20	1,067	-	230	1,019	36,131	38,447

Amounts are stated net of tax

The accompanying notes should be read in conjunction with these financial statements.

STATEMENT OF CASH FLOWS
For the year ended 30 June 2014

	Note	2014 $'000	2013 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		**25,338**	28,883
Dividends received		**300**	297
Other cash receipts in the course of operations		**3,351**	2,969
Interest paid		**(13,569)**	(17,213)
Cash paid to suppliers and employees		**(17,488)**	(13,296)
Tax (paid)		**(438)**	(388)
Net loans disbursed		**(12,283)**	(936)
Net increase in deposits		**3,975**	17,741
Net cash (used in) / from operating activities	16	**(10,814)**	18,057
CASH FLOWS FROM INVESTING ACTIVITIES			
Net movement in deposits with ADI's and held to maturity investments		**10,397**	(9,975)
Capital distributions on available for sale investment		**-**	1,497
Payments for property, plant and equipment, and intangibles		**(318)**	(524)
Net cash from / (used in) investing activities		**10,079**	(9,002)
CASH FLOWS FROM FINANCING ACTIVITIES			
Finance lease principal repayments		**(1)**	(2)
Net cash (used in) financing activities		**(1)**	(2)
Net (decrease) / increase in cash held		**(736)**	9,053
Cash and cash equivalents at the beginning of the year		**12,569**	3,516
Cash and cash equivalents at the end of the year	16	**11,833**	12,569

The accompanying notes should be read in conjunction with these financial statements.

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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 primarily involved in the provision of financial products, services and associated activities 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 24 September 2014.

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:

- 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.

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 cost 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 one unlisted equity investment. CUSCAL Limited shares are held for operational reasons and are not held for capital gain or the purposes of trading.

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.

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 cost plus

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Financial instruments (continued)

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 cost 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 did not hold any derivative financial instruments to hedge its interest rate risk exposures.

b) Property, plant and equipment

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Property, plant and equipment (continued)

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.

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 or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 or 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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Employee benefits (continued)

related on-costs such as workers compensation, superannuation and payroll tax.

Non-accumulating non-monetary benefits, such as motor 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.

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 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 held-to-maturity 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Revenue recognition (continued)

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 or 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.

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

3. Significant accounting policies (continued)

k) Finance lease payments (continued)

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.

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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n) Goods and services tax (continued)

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 2014, 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 (2009 and 2010) Financial Instruments, which becomes mandatory for the Credit Union's 2016 financial report, and introduces new requirements for 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.

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. Management has established the Risk Management Team which contributes to the oversight of risk management and regularly reports to the Audit and Risk Management Committee 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 of Directors.

4. Financial risk management (Continued)

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 of the day-to-day management of credit risk to its Lending Services Division and the Risk Management Team.

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 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 have been followed 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 Risk Management Team regularly reviews credit quality, arrears, collective and specific provisions and reports to the Board of Directors.

The Risk and Compliance personnel 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 and stress testing, 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.

4. Financial risk management (Continued)

b) Credit risk (continued)

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.

Counterparty risk for investments in financial instruments and derivatives is limited to Australian owned banks, APRA regulated foreign subsidiary 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. 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, who has a long term Standard and Poors rating of A+. 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 were no loans identified as individually impaired (2013: $0).

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 $1,438,561 were renegotiated (2013: $4,628,981).

Write-off policy

The Credit Union writes-off a loan balance when the Lending Services Division 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)

b) Credit risk (continued)

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.

c) Liquidity risk

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 Board of Directors ensure that in addition to meeting the minimum requirements set by APRA, 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 in place to adequately manage liquidity.

The Credit Union's Risk Management Team assists with the oversight of asset and liability management – including liquidity risk management. The Credit Union's liquidity policies are approved by the Board of Directors after endorsement by Risk Management Team 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 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.

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.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

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;
- 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.

f) Capital management

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. 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.

4. Financial risk management (Continued)

f) Capital management (continued)

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

- Tier 1 capital, which includes retained profits and property revaluation reserve after deductions for certain capitalised expenses, intangible assets, investments in other ADI’s and net deferred tax assets.
- Tier 2 capital, which includes collective impairment allowances.

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:-

	2014 $’000	2013 $’000
Regulatory capital	**36,478**	34,947
Risk weighted assets	**231,818**	226,493
Regulatory capital expressed as a percentage of total risk weighted assets	**15.74%**	15.43%

A reconciliation of the Credit Union’s regulatory capital and other prudential disclosures are published at www.cu.com.au/financial-documents-2.html.

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.

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.

Payables

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

5. DETERMINATION OF FAIR VALUES (CONTINUED)

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 of at call deposits approximates fair value as they are short term in nature or are payable on demand.

The fair value of term deposits carried at amortised cost is estimated using discounted cash flow analysis, based on current incremental deposit rates for similar deposit products. The nominal interest rates used have been applied to all interest payments made for deposits 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.

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 inoccupation 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.

Fair value hierarchy

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)

	2014 $'000	2013 $'000
6. NET INTEREST REVENUE		
Interest revenue		
Loans - members	**21,244**	24,243
- deposits with other ADI's	**4,015**	4,567
Total interest revenue	**25,259**	28,810
Interest expense		
Deposits - members	**12,692**	16,089
- deposits from other ADI's	**29**	-
Borrowings	**10**	9
Total interest expense	**12,731**	16,098
Net interest revenue	**12,528**	12,712

	2014 $'000	2013 $'000
7. OTHER INCOME		
Fees and commission revenue		
- loan fee income	**117**	112
- other fee income	**1,441**	1,446
- commission income	**972**	966
Bad debts recovered	**129**	120
Net gain on disposal of available-for-sale financial assets transferred from available-for-sale reserve	**-**	1,368
Income from property		
- ATM licence income	**14**	15
- rental income from freehold land and buildings	**209**	213
- rental income from investment property	**124**	111
- investment property revaluation	**1,120**	-
Dividends on available for sale equity securities	**300**	297
Total other income	**4,426**	4,648

	Note	2014 $'000	2013 $'000
8. Expenses			
Impairment loss on financial assets			
Loans and receivables impairment losses			
- increase in provision	15	**177**	60
- decrease in provision upon write off		**(211)**	(15)
- bad debts written off		**166**	164
- other		**-**	7
Total loans and receivables impairment losses	16	**132**	216
Depreciation and amortisation			
Buildings	10	**122**	123
Plant and equipment	10	**323**	331
Leasehold improvements	10	**100**	113
Intangible software	11	**179**	175
Branch make good		**16**	26
Total depreciation and amortisation expenses	16	**740**	768
Personnel Expenses			
Salaries & Associated Expenses		**6,564**	7,363
Redundancy Costs		**674**	905
Total personnel expenses		**7,238**	8,268

	2014 $'000	2013 $'000
9. TAXATION		
(a) Income tax expense		
Current tax expense		
- current year	**-**	-
- adjustments for prior periods	**-**	(9)
	-	(9)
Deferred tax expense		
- origination and reversal of temporary differences	**489**	(57)
- change in unrecognised temporary differences (all in equity)	**-**	-
- adjustments for prior periods	**-**	(1)
Total income tax expense in the statement of comprehensive income	**489**	(67)

(b) Current tax assets / (liabilities)

The current tax asset for the Credit Union of $430,000 (2013: $327,000) represents the amount of income tax receivable 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.

	2014 $'000	2013 $'000
(c) Numerical reconciliation between tax expense and pre-tax net profit /(loss)		
Profit / (Loss) before tax	**1,896**	1,441
Income tax using the company's domestic tax rate of 30% (2013: 30%)	**569**	432
Increase in income tax expense due to:		
- imputation gross up on dividends received	**39**	38
- other assessable income	**-**	-
- non deductible expenses	**10**	10
Decrease in income tax expense due to:		
- other deductible expenses	**-**	-
- current year gains not assessable for tax	**-**	(410)
- franking credits on dividends received	**(129)**	(127)
Under provided in prior years	**-**	(10)
Income tax expense on pre-tax net profit	**489**	(67)

	2014 $'000	2013 $'000
9. Taxation (continued)		
(d) Deferred tax recognised directly in equity		
- derivatives	**-**	-
- land and building	**-**	-
Total income tax recognised directly in equity	**-**	-
(e) Deferred tax assets/(liabilities)		
Provisions and accrued employee entitlements	**503**	618
Property, plant and equipment	**21**	31
Accrued expenses	**56**	57
Income in advance	**12**	22
Sundry items	**30**	32
Tax losses	**30**	44
Total deferred tax assets	**652**	804
Property, plant and equipment	**(395)**	(400)
Investment property	**(453)**	(111)
Sundry items	**(2)**	(2)
Total deferred tax liabilities	**(850)**	(513)
Net deferred tax assets / (liabilities)	**(198)**	291

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:

	2014 $'000	2013 $'000
Capital losses	**469**	469
Unrealised capital losses	**-**	-
	469	469

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.

	2014 $'000	2013 $'000
10. PROPERTY, PLANT AND EQUIPMENT		
Freehold land		
Fair value	**1,400**	1,400
	1,400	1,400
Buildings on freehold land		
Fair value	**2,812**	2,932
	2,812	2,932
Leasehold improvements		
At cost	**977**	1,064
Provision for depreciation	**(856)**	(843)
	121	221
Total land and buildings	**4,333**	4,553
Plant and equipment		
At cost	**3,927**	3,797
Provision for depreciation	**(3,040)**	(2,774)
	887	1,023
Work in progress		
At cost	**18**	-
	18	-
Total plant and equipment	**905**	1,023
Total property, plant and equipment		
At cost	**4,922**	4,861
Provision for depreciation	**(3,896)**	(3,617)
Fair value	**4,212**	4,332
	5,238	5,576

	Note	2014 $'000	2013 $'000
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	2014 $'000	2013 $'000
Freehold land			
Carrying amount at the beginning of the year		**1,400**	1,400
Carrying amount at the end of the year		**1,400**	1,400
Buildings on freehold land			
Carrying amount at the beginning of the year		**2,932**	3,045
Additions		**2**	10
Depreciation	8	**(122)**	(123)
Carrying amount at the end of the year		**2,812**	2,932
Leasehold improvements			
Carrying amount at the beginning of the year		**221**	281
Additions		**-**	6
Transfer from work in progress		**-**	47
Depreciation	8	**(100)**	(113)
Carrying amount at the end of the year		**121**	221

Reconciliations

	Note	2014 $'000	2013 $'000
Plant and equipment			
Carrying amount at the beginning of the year		**1,023**	1,164
Additions		**141**	171
Transfer from work in progress		**64**	70
Depreciation	8	**(323)**	(331)
Disposals		**(18)**	(51)
Carrying amount at the end of the year		**887**	1,023

	2014 $'000	2013 $'000
10. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)		
Work in progress		
Carrying amount at the beginning of the year	**-**	-
Additions	**82**	117
Transfer to plant and equipment	**(64)**	(70)
Transfer to leasehold improvements	**-**	(47)
Carrying amount at the end of the year	**18**	-

Measurement of fair value

a) Fair value hierarchy

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.

The fair value measurement of freehold land and buildings has been categorised as a Level 3 fair value based on the inputs to the valuation technique used (see Note 5).

b) Level 3 fair value

The following table shows a reconciliation from the opening balances to the closing balances for Level 3 fair values.

Balance at 1 July 2013	**4,553**
Acquisitions and reclassifications from property, plant and equipment	**2**
Depreciation	**(222)**
Balance at 30 June 2014	**4,333**

c) Valuation Techniques and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of freehold land and buildings, as well as the significant unobservable inputs.

Valuation Technique	Significant Unobservable Inputs	Inter-relationship between key unobservable inputs and fair value measurement
Income Capitalisation Approach: The income approach provides an indication of value by converting future cash flows to a single current capital value. This approach considers the income that an asset will generate over its useful life and indicates value through a capitalisation process. Capitalisation involves the conversion of income into a capital sum through the application of an appropriate discount rate. The income stream may be derived under a contract or contracts, or be non-contractual, eg the anticipated profit generated from either the use of or holding of the asset. The income capitalisation method has been used, where an all-risks or overall capitalisation rate is applied to a representative single period income.	• Expected market capitalisation rate (10%)	The estimated fair value would increase / (decrease) if: • Expected market capitalisation was lower (higher).

		2014 $'000	2013 $'000
11. INTANGIBLE ASSETS			
Computer software			
At cost		**5,869**	5,606
Provision for amortisation		**(5,488)**	(5,309)
		381	297
Work in progress			
At cost		**-**	170
		-	170
Total intangible assets			
At cost		**5,869**	5,776
Provision for depreciation		**(5,488)**	(5,309)
		381	467

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

		2014 $'000	2013 $'000
Computer software			
Carrying amount at the beginning of the year		**297**	396
Additions		**(45)**	76
Transfer from work in progress		**308**	-
Amortisation	8	**(179)**	(175)
Carrying amount at the end of the year		**381**	297
Work in progress			
Carrying amount at the beginning of the year		**170**	25
Additions		**144**	170
Disposals		**(6)**	(25)
Transfer to computer software		**(308)**	-
Carrying amount at the end of the year		**-**	170

12. INVESTMENT PROPERTY

	2014 $'000	2013 $'000
Fair value	**3,350**	2,230
	3,350	2,230

Reconciliation

	2014 $'000	2013 $'000
Carrying amount at the beginning of the year	**2,230**	2,230
Re-valuation	**1,120**	-
Carrying amount at the end of the year	**3,350**	2,230

Measurement of fair value

a) Fair value hierarchy

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 June 2014 on the basis of the open market value of the property concerned in the existing use, which resulted in a valuation of $3,350,000 for the Chippendale property. The valuation is in accordance with the Credit Union's policy of obtaining an independent valuation of land and buildings at least every three years.

The fair value measurement of investment properties has been categorised as a Level 2 fair value based on the inputs to the valuation technique used (see Note 5).

b) Level 2 fair value

The following table shows a reconciliation from the opening balances to the closing balances for Level 2 fair values.

Balance at 1 July 2013	**2,230**
Acquisitions and reclassifications from property, plant and equipment	**-**
Gains included in 'other income'	**1,210**
Balance at 30 June 2014	**3,350**

13. OTHER FINANCIAL ASSETS

	Note	2014 $'000	2013 $'000
Available-for-sale:			
- Unlisted equity securities, at cost	25	**1,636**	1,636
Total available for sale financial assets		**1,636**	1,636
Held-to-maturity:			
Floating rate notes, at amortised cost	25	**29,055**	26,103
Total other financial assets		**30,691**	27,739

Held-to-maturity investments with a carrying amount including accrued interest of $29,222,944 (2013: $26,249,487) have interest rates of 3.47% to 5.21% and mature in 1 to 5 years.

	Note	2014 $'000	2013 $'000
14. LOANS AND RECEIVABLES			
Loans to:			
- members	25	**396,006**	384,178
- key management personnel and their related entities	25	**569**	354
- other Authorised Deposit Taking Institutions (ADI's)	25	**63,387**	76,737
		459,962	461,269
Provision for impairment	15,25	**(272)**	(261)
Net deferred loan income and expenses	25	**(117)**	(236)
Net loans and receivables		**459,573**	460,772
Maturity analysis			
Current		**80,739**	99,428
Non-current		**379,223**	361,841
		459,962	461,269

	Note	2014 $'000	2013 $'000
15. PROVISION FOR IMPAIRMENT			
Loans and receivables			
Specific provision for credit losses			
Opening balance		**-**	400
Bad debts previously provided for and written off during the year		**-**	(385)
Decrease in provision upon write off	8	**-**	(15)
Bad and doubtful debts provided for during the year	8	**-**	-
Closing balance	25	**-**	-
Collective provision for credit losses			
Opening balance		**261**	277
Bad debts previously provided for and written off during the year		**(166)**	(76)
Bad and doubtful debts provided for during the year	8	**177**	60
Closing balance	25	**272**	261
Total provision for impairment	14	**272**	261

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.

	Note	2014 $'000	2013 $'000
16a. CASH AND CASH EQUIVALENTS			
Cash at bank and on hand		**1,435**	6,807
Deposits at call		**10,398**	5,762
	25	**11,833**	12,569

16b. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

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:

	Note	2014 $'000	2013 $'000
Cash and cash equivalents		**11,833**	12,569
Reconciliation of cash flows from operating activities			
Profit for the year attributable to members of the Credit Union		**1,407**	1,508
Adjustments for:			
Charge for bad and doubtful debts and impairment losses	8	**132**	216
Depreciation and amortisation	8	**740**	768
Available for sale reclassification adjustment	7	**-**	(1,368)
Investment property revaluation	7	**(1,120)**	
Net loss / (gain) on disposal of plant and equipment		**18**	51
Finance lease charges		**1**	4
Operating profit before changes in assets and liabilities		**1,178**	1,179
Changes in assets and liabilities			
Net loans (funded)		**(12,283)**	(936)
Net increase in deposits		**3,975**	17,741
Decrease in interest receivable		**30**	41
Decrease / (Increase) in other receivable		**9**	(14)
Decrease / (Increase) in deferred tax asset		**147**	(101)
(Increase) / Decrease in prepayments		**(41)**	61
(Decrease) in interest payable		**(790)**	(1,087)
(Decrease) / Increase in sundry creditors and accruals		**(2,884)**	918
(Decrease) / Increase in provision for employee entitlements		**(387)**	567
(Decrease) in current tax liabilities		**(93)**	(397)
(Decrease) / Increase in make good provision		**(7)**	43
Increase in deferred tax liability		**332**	42
Net cash flows (used in) / from operating activities		**(10,814)**	18,057

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.

	Note	2014 $'000	2013 $'000
17. Other Assets			
Prepayments		**356**	316
Interest receivable		**514**	544
Other		**147**	155
		1,017	1,015
18. Retained Profits			
Retained profits at beginning of the year		**34,650**	32,977
Profit after tax for the year attributable to members of the Credit Union		**1,407**	1,508
Value of redemption of withdrawable shares	19,20	**(5)**	(5)
Transfer from / (to) general reserve for credit losses	20	**79**	170
Retained profits at the end of the year		**36,131**	34,650

19. OTHER COMPREHENSIVE INCOME

	Note	Available-for-sale reserve	Redeemed share capital reserve	Revaluation reserve	Retained earnings	Total
		$'000	$'000	$'000	$'000	$'000
30 June 2014						
Net change in value of available-for-sale financial assets	20	-	-	-	-	-
Net change in fair value of available-for-sale financial assets reclassified to profit or loss	20	-	-	-	-	-
Shares closed from memberships transferred from retained earnings	18,20	-	5	-	(5)	-
Total other comprehensive income	18,20	-	5	-	(5)	-

	Note	Available-for-sale reserve	Redeemed share capital reserve	Revaluation reserve	Retained earnings	Total
		$'000	$'000	$'000	$'000	$'000
30 June 2013						
Net change in value of available-for-sale financial assets	20	273	-	-	-	273
Shares closed from memberships transferred from retained earnings	18,20	(1,368)	5	-	(5)	(1,368)
Total other comprehensive income	18,20	(1,095)	5	-	(5)	(1,095)

	Note	2014 $'000	2013 $'000
20. RESERVES			
Available-for-sale fair value reserve		**-**	-
General reserve for credit losses		**1,067**	1,146
Redeemed share capital reserve		**230**	225
Asset revaluation reserve		**1,019**	1,019
		2,316	2,390

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.

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

	Note	2014 $'000	2013 $'000
General reserve for credit losses			
Balance at the beginning of the year		**1,146**	1,316
Transfer (to) / from retained profits	18	**(79)**	(170)
Balance at the end of the year		**1,067**	1,146
Redeemed share capital reserve			
Balance at the beginning of the year		**225**	220
Preference shares redeemed during the year	18,19	**5**	5
Balance at the end of the year		**230**	225
Asset revaluation reserve			
Balance at the beginning of the year		**1,019**	1,019
Movements (net of tax)	19	**-**	-
Balance at the end of the year		**1,019**	1,019

	Note	2014 $'000	2013 $'000
20. RESERVES (CONTINUED)			
Available-for-Sale fair value reserve			
Balance at the beginning of the year		**-**	1,095
Movements (net of tax)	19	**-**	(1,095)
Balance at the end of the year		**-**	-

21. DEPOSITS

	Note	2014 $'000	2013 $'000
Withdrawable shares		**60**	65
Call deposits		**248,654**	216,993
Retail term deposits		**217,122**	248,803
Wholesale term deposits		**4,000**	-
	25	**469,836**	465,861

22. EMPLOYEE BENEFITS

	Note	2014 $'000	2013 $'000
Liability for long service leave		**458**	603
Liability for annual leave		**415**	474
Provision for redundancies		**440**	623
Total employee benefits	23	**1,313**	1,700

Included in employee benefits is a non-current amount of $94,908 (2013: $143,222)

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:

	2014	2013
Assumed rate of increase in wages and salary rates	**3.00%**	2.50%
Discount rate	**2.48%**	2.61%

Defined contribution superannuation fund
The Credit Union allows staff to allocate their super guarantee payments to their choice of super fund. The amount recognised in the Statement of Comprehensive Income for the financial year ended 30 June 2014 was $459,686 (2013: $543,593).

23. PROVISIONS

	Note	2014 $'000	2013 $'000
Employee benefits	22	**1,313**	1,700
Make good costs		**91**	99
		1,404	1,799

	Note	2014 $'000	2013 $'000
24. PAYABLES			
Sundry creditors		**401**	3,176
Accrued interest payable – retail		**1,896**	2,699
Accrued interest payable - wholesale		**13**	-
Accrued expenses		**318**	411
Total other payables	25	**2,628**	6,286

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	
		2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	Note	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Carrying amount	13,14	**396,186**	384,035	**63,387**	76,737	**1,636**	1,636	**29,055**	26,103	**11,833**	12,569
Individually impaired											
Gross amount		-	-	-	-	-	-	-	-	-	-
Provision for impairment	14,15	-	-	-	-	-	-	-	-	-	-
Carrying amount		-	-	-	-	-	-	-	-	-	-
Past due but not impaired											
Days in arrears:											
< 8 days		**3,886**	6,978	-	-	-	-	-	-	-	-
> 8 days to 1 month		**3,906**	1,715	-	-	-	-	-	-	-	-
> 1 to 2 months		**1,112**	1,784	-	-	-	-	-	-	-	-
> 2 to 3 months		**400**	819	-	-	-	-	-	-	-	-
> 3 months		**593**	742	-	-	-	-	-	-	-	-
Carrying amount		**9,897**	12,038	-	-	-	-	-	-	-	-

25. FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (continued)

		Loans and receivables to members		Loans and receivables to other ADI's		Available for sale investments		Held to maturity investments		Cash and cash equivalents	
		2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	Note	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Neither past due nor impaired											
Secured by mortgage		**372,651**	355,805	**-**	-	**-**	-	**-**	-	**-**	-
Investment grade		**-**	-	**47,087**	60,737	**1,636**	1,636	**29,055**	26,103	**10,816**	11,670
Unrated		**-**	-	**16,300**	16,000	**-**	-	**-**	-	**-**	-
Other		**14,027**	16,689	**-**	-	**-**	-	**-**	-	**1,017**	899
Net deferred income and expense	14	**(117)**	(236)	**-**	-	**-**	-	**-**	-	**-**	-
Carrying amount		**386,561**	372,258	**63,387**	76,737	**1,636**	1,636	**29,055**	26,103	**11,833**	12,569
Provision for Collective Impairment	15	**(272)**	(261)	**-**	-	**-**	-	**-**	-	**-**	-
Total adjusted carrying amount		**396,186**	384,035	**63,387**	76,737	**1,636**	1,636	**29,055**	26,103	**11,833**	12,569
Includes loans with renegotiated terms		**1,438**	4,629	**-**	-	**-**	-	-	-	-	-

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

25. FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (continued)

The Credit Union's maximum exposure to credit risk at reporting date by type of loans and receivables was;

	Note	2014 $'000	2013 $'000
Overdrafts		**2,493**	2,982
Residential loans		**374,129**	356,042
Personal Loans		**12,384**	14,521
Commercial purpose loans		**7,569**	10,987
Deposits with ADI's		**63,387**	76,737
	14	**459,962**	461,269

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:

	Note	2014 $'000	2013 $'000
Illawarra NSW		**266,861**	270,389
Sydney NSW		**91,976**	77,571
Far South Coast NSW		**13,713**	12,515
Other NSW/ACT		**12,221**	12,705
Victoria		**3,965**	3,497
QLD		**3,481**	4,460
WA		**2,142**	1,324
Other		**2,216**	2,071
	14	**396,575**	384,532

25. FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (continued)

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	
	2014 $'000	**2013 $'000**	**2014 $'000**	**2013 $'000**
Against individually impaired				
- Property	**-**	-	**-**	-
Against past due but not impaired				
- Property	**18,658**	27,062	**-**	-
- Other	**-**	-	**-**	-
Against neither past due nor impaired				
- Property	**812,058**	769,370	**-**	-
- Other	**137**	191	**-**	-
Total value of collateral held	**830,853**	796,623	**-**	-
Average Loan to Valuation ratio	**45.97%**	46.15%		

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

	2014 $'000	**2013 $'000**
Nature of non-financial assets – Property	**-**	2,812
	-	2,812

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.

25. Financial instruments (continued)

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 (2013: nil), as there are no interest rate swaps at balance date.

(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 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:

	2014	**2013**
	%	**%**
HQLA at 30 June	**12.74**	14.87
HQLA average for the period	**13.29**	15.63
HQLA maximum for the period	**15.17**	18.44
HQLA minimum for the period	**12.27**	12.79
Total liquidity at 30 June	**20.74**	22.92

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:

	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 2014								
Non-derivative liabilities								
Deposits – retail	21	**465,836**	**(470,154)**	**(287,056)**	**(75,428)**	**(106,836)**	**(834)**	**-**
Deposits – wholesale	21	**4,000**	**(4,033)**	**-**	**(4,033)**	**-**	**-**	**-**
Payables	24	**2,628**	**(2,628)**	**(1,877)**	**(317)**	**(431)**	**(3)**	**-**
		472,464	**(476,815)**	**(288,933)**	**(79,778)**	**(107,267)**	**(837)**	**-**
Unrecognised finance commitments								
- approved but undrawn loans and credit limits		**10,195**	**(10,195)**	**(7,213)**	**(1,630)**	**(1,352)**	**-**	**-**
		482,659	**(487,010)**	**(296,146)**	**(81,408)**	**(108,619)**	**(837)**	**-**
30 June 2013								
Non-derivative liabilities								
Deposits – retail	21	465,861	(469,575)	(267,981)	(83,843)	(116,004)	(1,747)	-
Deposits – wholesale	21	-	-	-	-	-	-	-
Payables	24	6,286	(6,286)	(3,587)	(1,122)	(1,553)	(24)	-
		472,147	(475,861)	(271,568)	(84,965)	(117,557)	(1,771)	-
Unrecognised finance commitments								
- approved but undrawn loans and credit limits		11,214	(11,214)	(7,053)	(2,588)	(1,573)	-	-
		483,361	(487,075)	(278,621)	(87,553)	(119,130)	(1,771)	-

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:

	2014 $'000	2013 $'000
Interest rate risk – Value at Risk	**212**	209

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

	2014	2013
Fixed rate instruments		
Financial assets	**165,808**	148,225
Financial liabilities	**(217,122)**	(248,803)
	(51,314)	(100,578)
Variable rate instruments		
Financial assets	**230,767**	236,347
Financial liabilities	**(248,402)**	(214,214)
	(17,635)	22,133

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 lose $1,594 (2013: lose $143) 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 0.87% of capital (2013: 0.08%).

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 2014		30 June 2013	
		Carrying amount $'000	Fair value $'000	Carrying amount $'000	Fair value $'000
Assets carried at fair value					
Available-for-sale financial assets		**-**	**-**	-	-
		-	**-**	-	-
Assets carried at amortised cost					
Loans and receivables	14	**459,573**	**532,109**	460,772	494,530
Held-to-maturity financial investments	13	**29,055**	**29,513**	26,103	26,453
Cash and cash equivalents	16	**11,833**	**11,833**	12,569	12,569
CUSCAL Shares	13	**1,636**	**1,636**	1,636	1,636
		502,097	**575,091**	501,080	535,188
Liabilities carried at amortised cost					
Deposits	21	**(469,836)**	**(451,576)**	(465,861)	(442,123)
Payables	24	**(2,628)**	**(2,628)**	(6,286)	(6,286)
		(472,464)	**(454,204)**	(472,147)	(448,409)

25. FINANCIAL INSTRUMENTS (CONTINUED)

(c) Market risk (continued)

Fair value hierarchy
The table below analyses financial instruments carried at fair value, by valuation method (see note 5).

There have been no transfers between the valuation levels during 2014 (2013:Nil).

30 June 2014	Note	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets not measured at fair value					
Loans and receivables	14	-	532,109	-	532,109
Held-to-maturity financial investments	13	-	29,513	-	29,513
Cash and cash equivalents	16	-	11,833	-	11,833
CUSCAL Shares	13	-	1,636	-	1,636
		-	575,091	-	575,091
Financial liabilities not measured at fair value					
Deposits	14	-	(451,576)	-	(451,576)
Payables	13	-	(2,628)	-	(2,628)
		-	(454,204)	-	(454,204)

30 June 2013	Note	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets not measured at fair value					
Loans and receivables	14	-	494,530	-	494,530
Held-to-maturity financial investments	13	-	26,453	-	26,453
Cash and cash equivalents	16	-	12,569	-	12,569
CUSCAL Shares	13	-	1,636	-	1,636
		-	535,188	-	535,188
Financial liabilities not measured at fair value					
Deposits	14	-	(442,123)	-	(442,123)
Payables	13	-	(6,286)	-	(6,286)
		-	(448,409)	-	(448,409)

26. Operating leases

The Credit Union leases out its investment property at Chippendale under an operating lease expiring within three years on the 31 December 2014. The Credit Union leases out portions of its administration building under operating leases expiring within five years on the 4 April 2017 and 31 July 2014. 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:

	2014 $'000	2013 $'000
Less than one year	**168**	366
Between one and five years	**160**	334
	328	700

During the year ended 30 June 2014, $333,000 was recognised as rental income (2013: $334,000), including $124,000 recognised as investment property income in the Statement of Profit or Loss and Other Comprehensive Income (2013: $132,000). Repairs and maintenance expense, recognised in property expenses was as follows:

	2014 $'000	2013 $'000
Income-generating property	**10**	8
	10	8

27. Commitments

Capital expenditure commitments

	2014	2013
Capital expenditure commitments not taken up in the financial statements		
- payable less than one year	**152**	-

Lease expenditure commitments

	2014	2013
Operating leases (non-cancellable)		
- payable less than one year	**563**	601
- payable between one and five years	**409**	936
	972	1,537

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 2014, $709,000 was recognised as an expense in the Statement of Profit or Loss and Other Comprehensive Income in respect of operating leases (2013: $718,000).

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.

	2014 $'000	2013 $'000
Approved but undrawn loans and credit limits	**10,195**	11,214

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 members. 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	**115**	155

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	**Senior Management**
Ms M Youssif	Mr B Kotic (Chief Executive Officer)
Mr A Abela	Mr E Thomas (Chief Operating Officer)
Mr G Holby	Mr A Perkiss (Chief Financial Officer)
Mr J Swan	Ms D Donovan (General Manager HR)
Mr R Downs	Mr M Nedeski (Head of Credit & Policy)
Mr P Kell (appointed 1st August 2013)	Mr A Struthers (Head of Strategy) (resigned 16th May 2014)
Mrs N Murray (appointed 1st August 2013)	Mr T Ellem (General Manager Member Growth) (appointed 2nd September 2013)
	Mrs K Prendergast (Manager Loan Product Sales) (appointed 2nd September 2013)

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.

Key management personnel compensation

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

	2014 **$**	**2013** **$**
Short term employee benefits	**1,398,743**	1,536,089
Other long-term benefits	**15,976**	8,507
Post-employment benefits	**124,280**	124,865
Termination benefits	**-**	114,203
	1,538,999	1,783,664

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.

29. RELATED PARTIES (CONTINUED)

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:

	2014 $	2013 $
(i) Aggregate value of loans to Key Management Personnel	**568,631**	353,812
(ii) Total value of revolving credit facilities to Key Management Personnel	**150,000**	150,000
Less amount drawn down and included in (i)	**(147,181)**	(148,233)
Net Balance available	**2,819**	1,767
(iii) New Loans advanced to Key Management Personnel	**356,900**	702,969
(iv) New revolving credit facilities advanced to Key Management Personnel	**-**	150,000
(v) Interest received on loans to Key Management Personnel	**19,008**	59,781
(vi) Repayments received from Key Management Personnel	**276,864**	288,519

All loans to key management personnel are made on an arms length basis, on the same terms and conditions as the general public and corporate partners. 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.

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

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 $2,850 (2013: $5,193). 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. There were no amounts owing to Kells the Lawyers at the end of the year.

30. EVENTS SUBSEQUENT TO BALANCE DATE

On Monday 15 September 2014, the Credit Union entered into a Sale and Purchase Agreement with a third party for the disposal of our investment property at 267-269 Abercombe Street, Chippendale held under Lots 5, 6, 7 & 8 in Deposited Plan 82296 for a cash consideration of $4.35m.

As at 30 June 2014 the property was revalued to $3.35m from $2.23m and the revaluation amount of $1.12m was reported in ‘Other Income’. The settlement date is expected to be completed by 1 December 2014.

There have been no other events subsequent to balance date which would have a material effect on the Credit Union’s financial statements as at 30 June 2014.

31. AUDITOR'S REMUNERATION

	2014 $	2013 $
Audit services		
Audit of the financial report	**87,980**	83,790
Other regulatory audit services	**24,496**	20,918
	112,476	104,708
Other services		
Internal audit	**75,758**	66,644
Other assurance services	**-**	-
Taxation services	**10,075**	24,230
	85,833	90,874
	198,309	195,582

DIRECTOR'S DECLARATION
For the year ended 30 June 2014

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 21 to 73 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 2014 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
Chair of the Audit and Risk Management Committee

Dated at Wollongong 24 September 2014

Independent Auditors' 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 2014, 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

Independent Auditors' Report

To the members of Community Alliance Credit Union Limited

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 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 2014 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

Warwick Shanks

Partner

Signed at Wollongong 24 September 2014

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