A colourful change is coming soon...

2012-2013 Annual Report

Macquarie Credit Union
straightforward, reliable banking

ABN 85 087 650 253 | AFSL 241132 | BSB 802 126

Our mission

To provide friendly, personal and efficient financial services at the lowest possible cost to our members

Providing financial services to our members at the lowest possible cost is something that this Credit Union prides itself in achieving.

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General Manager's Report

Year in review

A challenging and exciting year has passed, an environment of reducing interest rates, fierce competition for our traditional markets, reducing margins and trying economic conditions. Despite these conditions your Credit Union continued to perform well. We look forward to a new phase in our Credit Union's development and we have many innovative changes in the near future to share with our Members.

Dubbo Show

This year we branched out and were represented at the 2013 Dubbo Show. It was our first time at the show and it was great to catch up with locals in a casual atmosphere allowing more relaxed conversations and we were able to gather a valuable insight into what our members and non members want from a local Credit Union.

We raised funds for MS Day

We raised approximately $1,700 for the Multiple Sclerosis research through the branch and members as part of the "Kiss goodbye to MS" campaign. Our staff got right behind the campaign and the branch was decorated to raise awareness for this wonderful cause. Staff were committed to raising as much money as possible to help in the search for a cure for this debilitating disease which has touched so many people in our community not only those who are sufferers but family and friends as well.

Balanced Banking

The Balanced Banking Bus visited Dubbo on the 30th April this year at the end of a tour of regional NSW. The Balanced Banking Campaign is designed to raise the profile of the issues of smaller financial institutions and is sponsored by ABACUS being the industry group representing Mutuals. Regional communities' growth will benefit if local financial institutions have a presence in the city. We want a level playing field for local credit unions, building societies and mutual banks to compete with the larger banks. The evidence is clear and there is now an imbalance in banking, which is bad for consumers, competition and choice.

Regional Advertising Campaign

We have worked with 6 other Regional Credit Union's to leverage economies of scale, innovation and operating efficiencies advertising on Regional Television. We will continue to be committed to aggregating appropriate areas with other credit unions and other entities to reduce costs and increase efficiencies. The message is that Credit Union's are local, exist for members, the benefit goes back to members, have no hidden fees and better rates.

Change in our Marketing

We have changed our approach to marketing in 2013 and now continue to look to broaden our spread of advertising and how we promote our products and services. We are engaging with a new agency, using local talent and services wherever possible.

Results of the Past Year

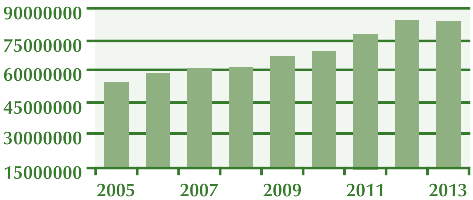
As has become a feature of our annual report our "plain English" accounts appear below. This statement is only intended to provide a snapshot of the credit union's financial performance; it is not a formal part of the annual accounts. Full details of the credit union's financial results are contained in the following pages.

Matthew Bow
General Manager

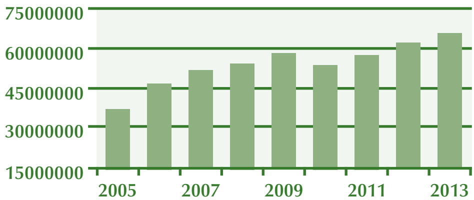
Performance over Time

The following graphs provide a simple picture of how the Credit Union has performed over the past few years.

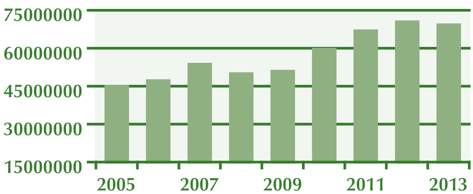
Assets



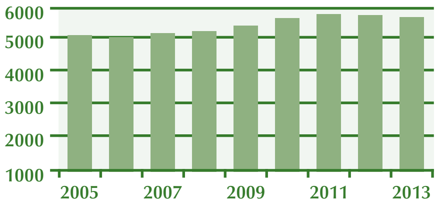
Deposits



Loans



Members



Balance Sheet

			ASSETS				LIABILITIES
What the Credit Union Owns				**What the Credit Union Owes**			
	2013	**2012**	**2011**		**2013**	**2012**	**2011**
	$,000	**$,000**	**$,000**		**$,000**	**$,000**	**$,000**
Member Loans	71,999	73,420	69,447	Member Deposits	67,142	63,432	58,624
Cash & Investments	13,019	12,083	10,790	Payables & Other Liabilities	7,188	12,288	12,374
Plant & Equipment	138	111	110	Provisions	161	162	149
Other	711	948	899	Other	69	15	95
				Members Reserves/ Equity	11,307	10,665	10,004
Total Assets	**85,867**	**86,562**	**81,246**	**Total Liabilities**	**85,867**	**86,562**	**81,246**

Profit and Loss Account

WHAT WE EARNED			
	2013	**2012**	**2011**
	$,000	**$,000**	**$,000**
Interest – member loans	4,864	5,375	5,136
Interest - investments	486	616	583
Other income – commissions, fees etc	573	548	555
Total Income	**5,923**	**6,539**	**6,274**

WHAT WE SPENT			
Interest – member deposits	2,222	2,629	2,379
Interest – borrowings	271	423	432
Member service costs (ATMs, Cheques, EFTPOS etc)	416	490	450
Computer costs (data processing etc)	389	353	327
Staff costs	939	1,025	962
General expenses	787	691	739
Total Operating Costs	5,024	5,611	5,289
Operating Profit Before Tax	899	928	985
Income Tax Expense	258	267	270
Net Profit After Tax	**641**	**661**	**715**

Chairman's Report

The past year has been one of the most challenging for your credit union since its inception 48 years ago.

With interest rates at all-time lows for both borrowers and depositors, margins have been squeezed to the point where it requires a very delicate balancing act to achieve sustainable returns to the credit union, whilst at the same time delivering the best possible outcome for our members. The fact that we have managed to achieve this is a testament to the professionalism and dedication of the staff and Directors who are acutely aware of our members' individual needs.

You would think that with interest rates so low, borrowers would be taking advantage of the situation, but that has not been the case, not only with our credit union, but right across the financial spectrum in Australia. It is hoped that consumer confidence will improve over the coming year, particularly now the federal election is over.

Because of our prudent policies in the past 48 years, we have built up a strong reserve position which has enabled us to withstand any difficult situation that the economy throws at us.

Financial Performance

In spite of the difficult operating environment during the year, we were able to post a very pleasing profit after tax of $641,369, which is only just short of last year's result of $661,335. Assets totalled $85.9 million at the end of the year.

Expansion of our Credit Union

Perhaps the most significant decision taken by your credit union during the past year has been to expand our reach into the wider Dubbo community.

As most of you will be aware, our credit union was originally formed 48 years ago by the employees of the then Macquarie County Council, which has since changed names several times with the changes to the electricity distribution industry, and is currently known as Essential Energy. Over the years we have added employees of local government councils, health workers, Telstra and Australia Post employees and State and Federal Government employees to our "bond".
With 48 years of steady growth, we feel the time is right to open up our services to the wider community of Dubbo so that any person within the Dubbo local government area will be able to avail themselves of our products and services.

We are the only locally based customer owned financial institution in Dubbo, and we have had numerous requests in recent times to allow the general public access to our organisation.

To test the waters, we set up a stand in one of the pavilions at the Dubbo show in May this year showcasing our products and services. The response was quite outstanding, with so many people wanting to know more about us and looking forward to a local alternative to meet their financial needs.

With our 48 years of experience in the local area, local knowledge, staff and directors, we are convinced that there is a large opening in Dubbo for a local alternative to the existing financial landscape.

We are currently finalising plans for our launch into the Dubbo community. There will be several major announcements in the coming year as plans of our expansion are unveiled. One of those will be the announcement of our move to new premises near the CBD in Dubbo, which will allow much easier access to our office by business and individual members alike. We will have many more exciting initiatives to offer the people of Dubbo as part of our 50 year celebrations towards the end of 2014. Watch this space.

A Win for the Environment

During the year your credit union converted from paper based to electronic Board meetings. This has had several benefits, including producing a more efficient communication system between senior staff and the Board. It will also be responsible for a much more environmentally friendly outcome, as far as wastage of paper is concerned. It is estimated we will save up to 150 reams (75,000 sheets) of paper each year with this initiative.

Director Changes

During the year John Millar resigned as a Director. John had been a Director for just under eight years, and during that time had been a tower of strength and stability to the Board. His wealth of knowledge and experience in many fields of business endeavours was invaluable to the decision making process of the Board. On behalf of all members I thank John for his time and contribution to the successful growth of our credit union during that time.

John was replaced by Jeremy Gray in October 2012. Jeremy was born and raised in Dubbo, but now resides in Port Macquarie with his family. A senior manager with Essential Energy, he has a wealth of experience in various businesses and I am sure he will be a vital cog in our Board deliberations for some time to come.

Acknowledgements

In closing I have great pleasure in thanking all the people who have helped in making our credit union such an outstanding success year after year.

Our General Manager Matt Bow and his Deputy Leanne Bourne have once again performed an amazing job to run our business so smoothly for the benefit of all our members. This would not have been possible without the backing of such a dedicated and professional group of staff. Once again I thank each and every one for their effort, dedication and loyalty, not only to the credit union, but to the members that they serve every day.

To my fellow Directors, once again my thanks for your wise counsel and careful deliberation which helped us through one of the most challenging years in our history.

Also to all our representitives at the many employer organisations that we service around the state, thank you for helping your fellow work colleagues to be a part of our great credit union experience.

There are exciting times ahead for our credit union, and the Directors and staff look forward to our expansion plans with great enthusiasm. I am sure the people of Dubbo will welcome the increased opportunities that our move into the community will bring them.

I wish our members all the very best for the year ahead.

Chris Shepherd
Chairman

Financial Report for the year ended 30 June 2013

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Directors' Report

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

DIRECTORS

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

TE Bacon	**J Moss**
J Gray (appointed 10 October 2012)	**PM Nolan**
J Millar (resigned 27 March 2013)	**DAJ Rootes**
RK Mills	**CJ Shepherd**

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

COMPANY SECRETARY

The following person held the position of company secretary at the end of the financial year:

Mr Matthew Bow – Mr Bow has worked for Macquarie Credit Union Limited for the past eight years and was appointed the General Manager of the Credit Union on 19 November 2007. He was appointed company secretary on 19 November 2007.

PRINCIPAL ACTIVITIES

The principal activities of the Credit Union during the year were the provision of financial services to members in the form of taking deposits and giving financial accommodation as prescribed by the constitution. There were no significant changes in the nature of the Credit Union's activities during the year.

OPERATING RESULTS

The amount of profit of the Credit Union for the financial year after providing for income tax was $641,369 (2012: $661,335).

DIVIDENDS RECOMMENDED

The Credit Union's constitution does allow the payment of a dividend, but the Directors of the Credit Union have elected not to pay a dividend for the year ended 30 June 2013.

REVIEW OF OPERATIONS

The Credit Union recorded a profit of $641,369 compared to $661,335 in the 2012 year. The directors are very pleased with the result given the uncertain economic conditions in the global economy.

Interest revenue decreased by $640,151 (10.7%) to $5,350,887 due to decreased borrowings by members and lower interest rates. In turn, this resulted in interest expense decreasing by $560,012 (18.3%) to $2,492,972 as the Credit Union decreased interest rates on its term deposits to aid in offsetting the lower loan interest rates.

Other revenue increased by $24,550 (4.5%) to $572,741. Impaired losses on loans increased by $55,224 (231.7%) to $79,054, employee benefits expense increased by $86,571 (8.4%) to $938,982 and other expenses increased by $2,257 (0.2%) to $1,318,769.

ENVIRONMENTAL ISSUES

The Credit Union's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or State.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

EVENTS AFTER THE REPORTING PERIOD

No matters or circumstances have arisen since the end of the financial year, that have significantly affected, or may significantly affect, the operations of the Credit Union, the results of those operations, or the state of affairs of the Credit Union in future financial years.

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

During the next financial year the Directors do not expect any significant changes in the operations or services of the Credit Union which will affect the results of the Credit Union.

Further information as to future developments, prospects and business strategies of the Credit Union have not been included in this report as the Directors believe, on reasonable grounds, that to include such information would be likely to result in unreasonable prejudice to the interests of the Credit Union.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of emoluments) by reason of a contract made by the Credit Union or a related corporation with a Director or with a firm of which he or she is a member, or with an entity in which he or she has a substantial financial interest.

INDEMNIFYING OFFICERS AND AUDITOR

The Credit Union has a Directors' and Officers' liability insurance policy covering all Directors. The premium paid in respect of this policy in force at the date of this report was $435.

No indemnities have been given or agreed to be given or insurance premiums paid or agreed to be paid, during or since the end of the financial year, for the auditor of the Credit Union.

INFORMATION ON DIRECTORS

The Directors in office at the date of this report are:

Mr C J Shepherd	Chairman
Experience	Appointed Chairman 23/10/86 Board Member since 19/04/71
Interest in Shares	One ordinary share in the Credit Union

Mr T E Bacon	Director
Experience	Board Member since 1/11/03
Interest in Shares	One ordinary share in the Credit Union

Mr J Gray	Director
Experience	Board Member since 10/10/12
Interest in Shares	One ordinary share in the Credit Union

Mr D A J Rootes	Director
Experience	Board Member since 30/08/06
Interest in Shares	One ordinary share in the Credit Union

Mr P M Nolan	Director
Experience	Board Member since 1/11/03
Interest in Shares	One ordinary share in the Credit Union

Mr R K Mills	Director
Experience	Board Member since 22/05/06
Interest in Shares	One ordinary share in the Credit Union

Mr J Moss	Director
Experience	Board Member since 24/2/09
Interest in Shares	One ordinary share in the Credit Union

GENERAL BOARD ATTENDANCE

During the financial year the following meetings of Directors were held. Attendances were:

	Board Meetings Eligible to Attend	Board Meetings Attended	Audit and Risk Committee Meetings Eligible to Attend	Audit and Risk Committee Meetings Attended
TE Bacon	12	11	4	4
J Gray	9	9	-	-
J Millar	9	5	4	1
RK Mills	12	10	6	5
J Moss	12	12	6	6
PM Nolan	12	12	2	2
DAJ Rootes	12	10	-	-
CJ Shepherd	12	12	2	2

During the year, J Millar was granted a leave of absence from attending two (2) Board meetings and two (2) Board Audit and Risk Committee meetings.

PROCEEDINGS ON BEHALF OF CREDIT UNION

No person has applied for leave of Court to bring proceedings on behalf of the Credit Union or intervene in any proceedings to which the Credit Union is a party for the purpose of taking responsibility on behalf of the Credit Union for all or any part of those proceedings.

The Credit Union was not a party to any such proceedings during the year.

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 30 June 2013 has been received and can be found on page 14 of the financial statements.

NON-AUDIT SERVICES

The Board of Directors, in accordance with advice from the audit and risk committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the audit; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethics Standards Board.

The following fees for non-audit services were paid/payable to the external auditors during the year ended 30 June 2013:

	$
Taxation services	1,455
Preparation of financial statements	5,460
	$6,915

PRUDENTIAL STANDARD APS 330 – PUBLIC DISCLOSURES

As required by the Prudential Standards, the Credit Union's public disclosures of prudential information are located at www.macquariecu.com.au/aboutus/aps330 Prudential Disclosures.

Signed in accordance with a resolution of the Board of Directors at Dubbo on 4 September 2013 for and on behalf of the Directors by:

Chris Shepherd

John Moss

Auditor's Declaration

MORSE | GROUP
ACCOUNTANTS & ADVISORS

AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF MACQUARIE CREDIT UNION LIMITED

I declare that to the best of my knowledge and belief, during the year ended 30 June 2013 there has 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.

Morse Group

MORSE GROUP

2 River Street
Dubbo
Dated: 4 September 2013

JM SHANKS
PARTNER

Chartered Accountants
COVER OF EXCELLENCE

Liability limited by the Accountants Scheme, approved under the Professional Standards Act 1994 (NSW)

Directors' Declaration

The Directors of Macquarie Credit Union Limited declare that:

1. The financial statements and notes set out on pages 16 to 58 are in accordance with the Corporations Act 2001; and

   i) comply with Accounting Standards and the Corporations Regulations 2001; and

   ii) give a true and fair view of the financial position as at 30 June 2013 and of the performance for the year ended on that date of the Credit Union.

2. In the Directors' opinion there are reasonable grounds to believe that the Credit Union will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors and is signed at Dubbo on 4 September 2013 for and on behalf of the Directors by:

Chris Shepherd **John Moss**

Financial Statements

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2013

	Notes	2013	2012
		$	$
Interest revenue	3	5,350,887	5,991,038
Interest expense	4	(2,492,972)	(3,052,984)
Net interest revenue		**2,857,915**	**2,938,054**
Other revenue	3	572,741	548,191
Impairment losses on loans and advances	4	(79,054)	(23,830)
Employee benefits expense	4	(938,982)	(1,025,553)
Occupancy expense	4	(105,772)	(96,768)
Depreciation and amortisation expense	4	(88,837)	(95,597)
Other expenses	4	(1,318,769)	(1,316,512)
Profit before income tax expense		899,242	927,985
Income tax expense	5	(257,873)	(266,650)
Profit for the year after income tax expense		**641,369**	**661,335**
Other comprehensive income for the year		-	-
Total comprehensive income for the year		**$641,369**	**$661,335**

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2013

	Notes	2013	2012
		$	$
ASSETS			
Cash and liquid assets	7	13,019,474	12,082,752
Accrued receivables	8	265,976	454,442
Loans and advances	9	71,999,397	73,420,408
Other investments	10	163,336	170,456
Property, plant and equipment	11	77,796	110,641
Intangibles	12	59,773	74,462
Deferred tax assets	13	229,251	234,182
Other assets	14	51,610	14,874
TOTAL ASSETS		**85,866,613**	**86,562,217**
LIABILITIES			
Deposits and short term borrowings	15	67,142,057	63,432,373
Payables and other liabilities	16	588,309	687,752
Interest bearing liabilities	17	6,600,000	11,600,000
Tax liabilities	18	68,615	15,163
Provisions	19	160,918	161,584
TOTAL LIABILITIES		**74,559,899**	**75,896,872**
NET ASSETS		**11,306,714**	**10,665,345**
EQUITY			
Reserves	20	811,648	811,648
Retained profits	21	10,495,066	9,853,697
TOTAL EQUITY		**11,306,714**	**$10,665,345**

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2013

	Retained Profits	Credit Losses Reserve	Total
		$	$
Balance at 1 July 2011	**9,192,362**	**811,648**	**10,004,010**
Profit for the year	661,335	–	661,335
Transfer to reserves for credit loss for the year	–	–	–
Total other comprehensive income for the year	–	–	–
Balance at 30 June 2012	**9,853,697**	**811,648**	**10,665,345**
Profit for the year	641,369	–	641,369
Transfer to reserves for credit loss for the year	–	–	–
Total other comprehensive income for the year	–	–	–
Balance at 30 June 2013	**10,495,066**	**811,648**	**11,306,714**

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2013

	Notes	2013	2012
		$	$
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest on loans		4,863,652	5,375,140
Interest on investments		533,142	660,222
Other non-interest income		767,385	472,903
Interest paid on members' savings		(2,357,124)	(2,699,298)
Interest paid on other finance		(271,305)	(423,969)
Payments to suppliers and employees		(2,416,995)	(2,471,618)
Income tax paid		(199,490)	(343,571)
Members' loan repayments		17,073,882	19,355,026
Members' loans' disbursed		(15,731,926)	(23,352,672)
Net cash provided by (used in) operating activities	**28.3**	**2,261,221**	**(3,427,837)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Sale of investments		7,120	-
Purchase of property, plant and equipment		(41,303)	(88,198)
Net cash used in investing activities		**(34,183)**	**(88,198)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Net movement in member savings		3,709,684	4,808,720
Repayment of borrowings		(5,000,000)	-
Net cash provided by (used in) financing activities		**(1,290,316)**	**4,808,720**
NET INCREASE/(DECREASE) IN CASH HELD		**936,722**	**1,292,685**
Cash at beginning of year		12,082,752	10,790,067
CASH AT END OF YEAR	**28.2**	**13,019,474**	**12,082,752**

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial statements are for Macquarie Credit Union Limited as an individual entity. Macquarie Credit Union Limited is a financial institution, incorporated and domiciled in Australia.

The financial statements of Macquarie Credit Union Limited comply with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety.

The financial statements were authorised for issue on 4 September 2013 in accordance with a resolution of the Board of Directors.

The following is a summary of the material accounting policies adopted by the Credit Union in the preparation of the financial statements. The accounting policies have been consistently applied unless otherwise stated.

1.1 Basis of Preparation

The financial statements have been prepared on an accruals basis and are based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

1.2 Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by reporting date.

Deferred tax is accounted for using the statement of financial position liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the statement of comprehensive income except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Credit Union will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

1.3 Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Plant and Equipment

Plant and equipment are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item.

Depreciation

The depreciable amount of all fixed assets is depreciated on a straight line basis over their useful lives to the Credit Union commencing from the time the asset is held ready for use. The depreciation rates used for each class of depreciable assets are:

Class of fixed asset	Depreciation rate
Office equipment	33.3% - 50%
EDP equipment	33.3%
Office furniture and fittings	33.3%
Motor vehicles	22%

Assets with a cost less than $1,000 are not capitalised.

1.4 Intangible Assets

Items of computer software which are not integral to the computer hardware owned by the Credit Union are classified as intangible assets, not as part of property, plant and equipment. Computer software is amortised over the expected useful life of the software at 33.3% per year.

1.5 Loans to Members

(i) Basis of Inclusion

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

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

(ii) Interest Earned

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

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

Non-Accrual Loan Interest - while still legally recoverable, interest is not brought to account as income where the Credit Union is informed that the member has deceased, or, where a loan is impaired. A loan is classified as impaired where recovery of the debt is considered unlikely as determined by the Board of Directors. Australian Prudential Regulation Authority (APRA) has made it mandatory that interest is not recognised as revenue after the irregularity exceeds 90 days for a loan facility, or 90 days for an overlimit overdraft facility.

(iii) Loan Origination Fees and Discounts

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

1.6 Loan Impairment

(i) Specific and Collective Provision

A provision for losses on impaired loans is recognised when there is objective evidence that the impairment of a loan has occurred. Estimated impairment losses are calculated on either a portfolio basis for loans of similar characteristics, or on an individual basis. The amount provided is determined by management and the board to recognise the probability of loan amounts not being collected in accordance with terms of the loan agreement.

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

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

(ii) Reserve for Credit Losses

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

1.7 Bad Debts Written Off

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

1.8 Equity Investments

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

Investments in shares, which do not have a ready market and are not capable of being reliably valued, are recorded at the lower of cost or recoverable amount. Investments in shares where no market value is readily available are carried at cost less any provision for impairment.

Realised net gains and losses on available for sale financial assets taken to the profit and loss account comprises only gains and losses on disposal.

All investments are in Australian currency.

1.9 Members' Deposits

(i) Basis for Measurement

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

(ii) Interest Payable

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

1.10 Provision for Employee Benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within twelve months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within twelve months are measured at the present value of the estimated future cash outflows to be made by the Credit Union in respect of services provided by employees up to the reporting date.

The provision for annual leave was reviewed with entitlements not expected to be used within twelve months being measured at the present value of the estimated future cash outflows.

Contributions are made by the Credit Union to an employee's superannuation fund and are charged as expenses when incurred. The Credit Union has no legal obligation to cover any shortfall in the fund's obligation to provide benefits to employees on retirement.

1.11 Cash and Liquid Assets

Cash and liquid assets comprise cash on hand and at call deposits with banks or financial institutions, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in interest bearing liabilities in the statement of financial position.

1.12 Impairment of Assets

At each reporting date, the Credit Union assesses whether there is an indication that individual assets are impaired. Where impairment indicators exist, recoverable amount is determined and impairment losses are recognised in the statement of comprehensive income where the asset's carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where it is not possible to estimate recoverable amount for an individual asset, recoverable amount is determined for the cash generating unit to which the asset belongs.

1.13 Provisions

Provisions are recognised when the Credit Union has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation.

1.14 Goods and Services Tax

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

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

Receivables and payables are stated with the amount of GST included where applicable GST is collected. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or current liability in the statement of financial position.

Cashflows 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.

1.15 Comparative Amounts

When the presentation or classification of items in the financial statements is amended, comparative amounts shall be reclassified unless the reclassification is impracticable.

1.16 Adoption of New and Revised Accounting Standards

During the current year the Board adopted all of the new and revised Australian Accounting Standards and Interpretations applicable to its operations which became mandatory. The adoption of these standards has impacted the recognition, measurement and disclosure of certain transactions.

2. INTEREST REVENUE AND INTEREST EXPENSE

The following tables show the average balance for each of the major categories of interest bearing assets and liabilities, the amount of interest revenue or expense and the average interest rate. Most averages are monthly averages, and are representative of the Credit Union's operations during the period.

	Average Balance $	Interest $	Average Rate %
Interest revenue – 2013			
Deposits with financial institutions	12,308,963	487,235	4.0%
Loans and advances (other than Commercial loans)	71,339,007	4,753,736	6.7%
Commercial loans	1,182,733	109,916	9.3%
	84,830,703	**5,350,887**	
Interest revenue – 2012			
Deposits with financial institutions	11,149,981	615,898	5.5%
Loans and advances (other than Commercial loans)	69,871,368	5,253,998	7.5%
Commercial loans	1,243,608	121,142	9.7%
	82,264,957	**5,991,038**	
Borrowing costs - 2013			
Customer deposits	69,454,827	2,221,667	3.2%
Short-term borrowings	6,350,000	271,305	4.3%
	75,804,827	**2,492,972**	
Borrowing costs – 2012			
Customer deposits	65,867,308	2,629,015	4.0%
Short-term borrowings	6,838,210	423,969	6.2%
	72,705,518	**3,052,984**	

	2013	2012
	$	$

3. REVENUE FROM ORDINARY ACTIVITIES

Interest revenue	**$5,350,887**	**$5,991,038**
Non-interest revenue		
Dividends received	39,666	39,224
Fees and commissions		
- Fees and charges	311,752	313,284
- Commissions	189,536	177,740
Bad debts recovered	10,554	13,170
Other revenue	21,233	4,773
Total non-interest revenue	**$572,741**	**$548,191**

4. PROFIT FROM OPERATIONS

Profit from operations before income tax expense has been determined after recognising the following expenses:-

Interest expense		
- Deposits from members	2,221,667	2,629,015
- Short term borrowings	271,305	423,969
	$2,492,972	**$3,052,984**

Impairment losses		
- Bad debts written off directly against profit	69,943	1,830
- Addition/(reversal) of amounts against provision for impaired loans	9,111	22,000
	$79,054	**$23,830**

Depreciation and amortisation		
- Office equipment	137	444
- Office furniture	747	497
- Motor vehicles	27,536	22,748
- EDP hardware	14,245	21,876
- Amortisation of intangible assets	46,172	50,032
	$88,837	**$95,597**

Occupancy expenses	**$105,772**	**$96,768**

	2013	2012
	$	$

4. PROFIT FROM OPERATIONS (CONTINUED)

Employee benefits expense		
- Salaries	755,071	786,990
- Superannuation contributions	75,191	85,959
- Annual leave	13,004	6,872
- Long service leave	(13,592)	5,104
- Sick leave	(78)	248
- Other	109,386	140,380
	$938,982	**$1,025,553**

Other expenses		
- Fees and commissions	236,727	254,508
- Loans administration	101,158	111,666
- Data processing	389,420	353,877
- General administration	590,464	596,461
	$1,317,769	**$1,316,512**

5. INCOME TAX EXPENSE

The components of income tax expense comprise:

Provision for income tax	252,942	263,728
Decrease in deferred tax assets	4,931	2,922
	$257,873	**$266,650**

The prima facie tax on operating profit before income tax is reconciled to income tax as follows:

Prima facie tax on operating profit @ 30% (2012 – 30%)	269,773	278,395
Add tax effect of non allowable items Less tax effect of:		
- Rebateable fully franked dividends	(11,900)	(11,745)
Income tax expense attributable to operating profit	**$257,873**	**$266,650**

The applicable weighted average effective tax rate is 29% (2012 - 29%)

	2013	2012
	$	$

6. AUDITOR'S REMUNERATION

Amounts received or due and receivable by the auditors of the Credit Union for:

- Audit of the financial statements	32,588	31,034
- Audit of the APRA returns	5,899	5,618
- Other services	6,915	6,586
	$45,402	**$43,238**

7. CASH AND LIQUID ASSETS

Imprest accounts	208,164	276,137
Deposits at call	4,311,310	4,259,480
Interest earning deposits	8,500,000	7,547,135
	$13,019,474	**$12,082,752**

8. ACCRUED RECEIVABLES

Members clearing accounts	203,639	346,197
Interest receivable	62,337	108,245
	$265,976	**$454,442**

9. LOANS AND ADVANCES

Overdrafts	523,742	474,977
Visa	632,151	667,257
Term loans	70,881,481	72,307,040
	72,037,374	**73,449,274**
Provision for impaired loans	(37,977)	(28,866)
	$71,999,397	**$73,420,408**

9.1 Maturity Analysis

Overdrafts	523,742	474,977
Visa	632,151	667,257
Not longer than 3 months	1,116,722	772,412
Longer than 3 months but less than 12 months	4,278,668	4,079,143
Longer than 1 year but less than 5 years	17,878,328	17,952,037
Longer than 5 years	47,607,763	49,503,448
	$72,037,374	**$73,449,274**

	2013	2012
	$	$

9.2 Security Dissection

Secured by mortgage over real estate	62,347,241	62,558,988
Partly secured by goods mortgage	6,670,068	7,622,835
Wholly unsecured	3,020,065	3,267,451
	$72,037,374	**$73,449,274**

It is impractical to provide a valuation of the security held against loans due to the large number of assets to be valued to arrive at the amount. A breakdown of the quality of the security on a portfolio basis is as follows:

Security held as mortgages against real estate is on the basis of:

loan to valuation ratio of less than 80%	47,681,977	46,194,053
loan to valuation ratio of greater than 80% and mortgage insured	11,957,974	12,082,454
loan to valuation ratio of greater than 80% and not mortgage insured	2,707,290	4,282,481
	$62,347,241	**$62,558,988**

9.3 Concentration of Risk

The Credit Union has an exposure to groupings of individual loans which concentrate risk and create exposure to particular segments as follows:

i) Geographical Area		
New South Wales	69,058,916	71,224,354
Other States and Territories	2,978,458	2,224,920
	$72,037,374	**$73,449,274**

ii) There are no members who individually have a loan and overdraft facility, which represents in total 10% or more of capital (2012 – Nil).

9.4 Movement in the Provision

Opening balance	28,866	6,866
Bad debts written off against provision	(69,943)	(1,830)
Loans provided for during the year	79,054	23,830
	$37,977	**$28,866**

9.5 Analysis of Loans that are impaired or potential impaired by class

	2013 Carrying Value	2013 Impaired Loans	2013 Provision for Impairment
Loans to members			
- Residential	62,347,241	-	-
- Personal	8,534,240	231,962	36,488
- Overdrafts/Visa	1,155,893	4,564	1,489
Total	**72,037,374**	**236,526**	**37,977**

	2012 Carrying Value	2012 Impaired Loans	2012 Provision for Impairment
Loans to members			
- Residential	62,558,988	-	-
- Personal	9,748,052	212,301	22,747
- Overdrafts/Visa	1,142,234	11,100	6,119
Total	**$73,449,274**	**$223,401**	**$28,866**

It is not practicable to determine the fair value of all collateral as at reporting date due to the variety of asset conditions.

9.6 Analysis of Loans that are Impaired or Potential Impaired Based on Age of Repayments Outstanding

Days in Arrears	2013 Carrying Value	2013 Provision	2012 Carrying Value	2012 Provision
0 – 90 days	174,943	-	33,452	-
91 – 182 days	-	-	-	-
183 – 273 days	57,019	36,488	178,849	22,747
274 – 365 days	-	-	-	-
Over 365 days	-	-	-	-
Overlimit facilities over 14 days	4,564	1,489	11,100	6,119
	236,526	**37,977**	**223,401**	**28,866**

The provision based on the age of repayments outstanding has been taken from the June D2A return, and is based on the formula for impairment provided by APRA. The impaired loans are generally not secured against residential property. Some impaired loans are secured by bill of sale over motor vehicles or other assets of varying value. It is not practicable to determine the fair value of all collateral as at the reporting date due to the variety of assets and condition.

9.7 Assets Acquired Via Enforcement of Security

At reporting date there was one current repossession order for the security of a car loan past due by 90 days which has not yet been recovered. (2012 – Nil)

9.8 Loans with Repayments Past Due but not Regarded as Impaired

There are no loans past due by 90 days or more which are not considered to be impaired. (2012 – Nil)

9.9 Loans restructured

There were no loans restructured during the year. (2012 – Nil)

9.10 Key Assumptions in Determining Impairment

In the course of the preparation of the annual report the Credit Union has determined the likely impairment loss on loans which have not maintained the loan repayments in accordance with the loan contract, or where there is other evidence of potential impairment such as job losses or economic circumstances. In identifying the impairment likely from these events the Credit Union is required to estimate the potential impairment using the length of time the loan is in arrears and the historical losses arising in past years. Given the relatively small number of impaired loans, the circumstances may vary for each loan over time resulting in higher or lower impairment losses.

10. OTHER INVESTMENTS

	2013	2012
	$	$
Shares held with Special Service Providers		
- Ordinary shares	155,855	155,868
Shares – at cost		
- Unlisted	7,481	14,588
	$163,336	**$170,456**

The shareholding in CUSCAL is measured at cost as its fair value could not be measured reliably. This company was created to supply services to the member Credit Unions and does not have an independent business focus. These shares are held to enable the Credit Union to receive essential banking services. The shares are not able to be traded and are not redeemable.

The financial statements of CUSCAL record that the net tangible asset backing of these shares exceeds their cost value. Based on the net assets of CUSCAL, any fair value determination on these shares is likely to be greater than their cost value, but due to the nature of services supplied a market value if not able to be determined readily.

The Credit Union is not intending, nor is it able to dispose of these shares as the services supplied by the company relate to the day to day activities of the Credit Union.

11. PROPERTY, PLANT AND EQUIPMENT

	2013	2012
	$	$
Office furniture - at cost	140,323	140,323
Less: provision for depreciation	(139,304)	(138,557)
	1,019	**1,766**
Office equipment - at cost	92,882	92,882
Less: provision for depreciation	(92,882)	(92,745)
	-	**137**
Motor vehicles - at cost	165,108	165,108
Less: provision for depreciation	(107,263)	(79,727)
	57,845	**85,381**
EDP hardware - at cost	260,175	250,355
Less: provision for depreciation	(241,243)	(226,998)
	18,932	23,357
	$77,796	**$110,641**

Movement in carrying amounts for each class of property, plant and equipment between the beginning and end of the current financial year.

	Office Furniture	Office Equipment	Motor Vehicles	EDP Hardware	Total
	$	$	$	$	$
Balance at 1 July 2011	-	581	74,330	35,409	110,320
Additions	2,263	-	33,799	9,824	45,886
Disposals	-	-	-	-	-
Depreciation expense	(497)	(444)	(22,748)	(21,876)	(45,565)
Balance at 30 June 2012	1,766	137	85,381	23,357	110,641
Additions	-	-	-	9,820	9,820
Disposals	-	-	-	-	-
Depreciation expense	(747)	(137)	(27,536)	(14,245)	(42,665)
Balance at 30 June 2013	**1,019**	**-**	**57,845**	**18,932**	**77,796**

12. INTANGIBLES

	2013	2012
	$	$
EDP software	648,033	616,549
Accumulated amortisation	(588,260)	(542,087)
	$59,773	**$74,462**

12. INTANGIBLES (Continued)

Movement in carrying amounts for each class of intangibles between the beginning and end of the current financial year.

	Beginning balance	Additions	Disposals	Amortisation expense	Carrying amount at end of year
	$	$	$	$	$
EDP software	74,462	34,293	(2,810)	(46,172)	59,773

13. DEFERRED TAX ASSETS

	2013	2012
	$	$
Deferred tax assets	**$229,251**	**$234,182**

14. OTHER ASSETS

Prepayments	**$51,610**	**$14,874**

15. DEPOSITS AND SHORT TERM BORROWINGS

Term deposits	28,229,603	29,055,417
Call deposits	38,861,274	34,325,366
Withdrawable shares	51,180	51,590
	$67,142,057	**$63,432,373**

15.1 Maturity Analysis

On call	38,912,454	34,376,956
Not longer than 3 months	19,447,797	15,721,855
Longer than 3 and not longer than 12 months	8,781,806	13,333,562
	$67,142,057	**$63,432,373**

15.2 Concentration of Deposits

i) There are no members who individually have deposits, which represent 10% or more of total liabilities (2012: Nil).

ii) Details of the geographic concentration of the deposits are set out below.

Geographical Area		
New South Wales	65,270,397	61,453,151
Other States and Territories	1,871,660	1,979,222
	$67,142,057	**$63,432,373**

	2013	2012
	$	$

16. PAYABLES AND OTHER LIABILITIES

	2013 $	2012 $
Payables and accrued expenses	103,096	113,844
Accrued interest payable	392,012	527,469
Members' clearing accounts	93,201	46,439
	$588,309	**$687,752**

17. INTEREST BEARING LIABILITIES

	2013 $	2012 $
Deposits from other ADI	3,600,000	7,100,000
TWT short term loan	3,000,000	4,500,000
	$6,600,000	**$11,600,000**

18. TAX LIABILITIES

	2013 $	2012 $
Income tax	**$68,615**	**$15,163**

19. PROVISIONS

	2013 $	2012 $
Employee leave entitlements	$160,918	$161,584
Opening balance at 1 July	161,584	149,318
Additional provisions raised during the year	42,011	56,369
Amounts used	(42,677)	(44,103)
Balance at 30 June	**$160,918**	**$161,584**

20. RESERVES

	2013 $	2012 $
Reserve for credit losses	**$811,648**	**$811,648**

20.1 Reserve for Credit Losses

This reserve records amounts previously set aside as a General provision on loans and advances and is maintained to comply with the Prudential Standards set down by APRA.

	2013 $	2012 $
Balance at the beginning of the year	811,648	811,648
Transfer to/from retained profits	-	-
Balance at end of year	**$811,648**	**$811,648**

	2013	2012
	$	$
21. RETAINED PROFITS		
Retained profits at the beginning of the financial year	9,853,697	9,192,362
Net profit attributable to members	641,369	661,335
Transfer to/from reserves	-	-
Retained profits at the end of the financial year	**$10,495,066**	**$9,853,697**

Balance of franking credits held by the Credit Union after adjustments for credits that will arise from the payment of income tax payable as at the end of the financial year is $2,929,266 (2012 - $2,729,775). Franking credits represent reserves upon which income tax has been paid.

22. DIRECTORS AND KEY MANAGEMENT PERSONNEL DISCLOSURES

22.1 Names of Directors and other Key Management Personnel

During the course of the financial year the following were the key management persons of the Credit Union:

TE Bacon
J Gray (appointed appointed 10 October 2012)
J Millar (resigned appointed 27 March 2013)
RK Mills
J Moss
PM Nolan
DAJ Rootes
CJ Shepherd
M Bow
L Bourne
S Vanstone (Resigned 14 September 2012)

22.2 Key Management Personnel Compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, directly or indirectly, including any director (whether executive or otherwise) of the Credit Union. *Control* is the power to govern the financial and operating policies of the Credit Union so as to obtain benefits from its activities.

Key Management Persons (KMP) have been taken to comprise the Directors and the two members of the executive management team during the financial year (2012 – three), responsible for the day to day financial and operational management of the Credit Union.

The aggregate compensation of key management persons during the year comprising amounts paid or payable or provided for was as follows:

	2013	2012
	$	$
Salary and fee	287,478	333,275
Superannuation contributions	23,220	37,945
	$310,698	**$371,220**

22.2 Key Management Personnel Compensation (continued)

Compensation includes all employee benefits (as defined in AASB 119 *Employee Benefits*). Employee benefits are all forms of consideration paid, payable or provided by the Credit Union, or on behalf of the Credit Union, in exchange for services rendered to the Credit Union.

Compensation includes:

(i) short-term employee benefits, such as wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses (if payable within twelve months of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees;

(ii) post-employment benefits such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care;

(iii) other long-term employee benefits, including long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits and, if they are not payable wholly within twelve months after the end of the period, profit-sharing, bonuses and deferred compensation;

(iv) termination benefits; and

(v) share-based payment.

22.3 Loans to Key Management Persons

Loans provided to key management persons are on conditions no more favourable than those extended to members. Security has been obtained for these loans in accordance with the Credit Union's lending policy.

There is no provision for impairment in relation to any loan extended to key management persons. No loan impairment expense in relation to these loans has been recognised during the year.

There are no benefits on concessional terms and conditions applicable to the close family members of the key management persons. There are no loans which are impaired in relation to the loan balances with close family relatives of directors and management.

	2013	**2012**
	$	**$**
Aggregate value of loans and overdrafts to Directors and other Key Management Personnel at reporting date	$363,966	$430,522
Aggregate value of loans disbursed to Directors and Key Management Personnel during the year	$ -	$ -
Aggregate value of revolving credit facilities limits granted or increased to Directors and Key Management Personnel during the year	$ -	$ -
Interest earned on loans and revolving credit facilities to Directors and Key Management Personnel during the year	$26,542	$47,472

	2013	2012
	$	$

22.4 Savings of Key Management Personnel

	2013 $	2012 $
Total value of term and savings deposits from Directors and Key Management Personnel at reporting date	$765,383	$486,561
Total interest paid on deposits to Directors and Key Management Personnel during the year	$27,755	$24,167

Directors and key management personnel have received interest on deposits with the Credit Union during the financial year. Interest has been paid on terms and conditions no more favourable to those available on similar transactions to members of the Credit Union.

22.5 Other Transactions with Related Parties

Other transactions between related parties include deposits from Directors and their Directors related entities, which are received on the same terms and conditions as applicable to members.

There were no benefits paid or payable to the close family members of the key management personnel.

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

The Credit Union's policy for receiving deposits from other related parties and, in respect of other related party transactions, is that all transactions are approved and deposits accepted on the same terms and conditions which applied to members for each type of deposit.

23. EXPENDITURE AND CREDIT COMMITMENTS

23.1 Future Capital Commitments

At 30 June 2013 the Credit Union has no future capital commitments (2012: $Nil).

23.2 Lease Expenditure Commitments

	2013 $	2012 $
Operating leases		
Within 1 year	26,977	69,266
1 to 5 years	-	10,223
	$26,977	**$79,489**

	2013	2012
	$	$

23.3 Other Expenditure Commitments

The costs committed under contracts with Ultradata and Transaction Solutions are as follows:

Within 1 year	168,968	143,844
1 to 5 years	149,120	88,703
	$318,088	**$232,547**

23.4 Outstanding Loan Commitments

Loans approved by the Board but not funded as at 30 June 2013 amounted to $1,674,434 (2012: $2,140,076).

The withdrawal of these funds is at the discretion of the Board subject to available liquid funds. It is anticipated all of the commitment will be paid within 12 months.

23.5 Unfunded Loan Facilities

Loan facilities to members for overdrafts approved but unfunded at 30 June 2013 amounted to $2,289,287 (2012: $2,340,082). Total facilities decreased by $76,400 during the year (2012: increase of $102,969). There are no restrictions to withdrawal of the funds provided normal payments are maintained.

23.6 Other

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 the members. The Credit Union applies 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.

24. STANDBY BORROWING FACILITIES

The Credit Union has gross borrowing facilities with CUSCAL of:

Loan facility		
Gross	1,600,000	1,600,000
Current borrowing	-	-
Net available	**$1,600,000**	**$1,600,000**

	2013 $	2012 $
24. STANDBY BORROWING FACILITIES (continued)		
Loan facility – TWT Fund		
Gross	5,000,000	5,000,000
Current borrowing	(3,000,000)	(4,500,000)
Net available	**$2,000,000**	**$500,000**
Overdraft facility		
Gross	300,000	300,000
Current borrowing	-	-
Net available	**$300,000**	**$300,000**

There are no restrictions as to withdrawal of these funds. The borrowing facilities are secured by a fixed and floating charge over the assets of the Credit Union.

25. CONTINGENT LIABILITIES

Credit Union Financial Support System

The Credit Union is a participant in the Credit Union financial support scheme (CUFSS). The purpose of the CUFSS is to protect the interests of Credit Union members, increase stability in the industry and provide liquidity in excess of current borrowing limits in times of need.

An Industry Support Contract made on the 4 March 1999 between Credit Union Services Corporation (Australia) Limited, (CUSCAL), Credit Union Financial Support System Limited and participating Credit Unions required the Credit Union to execute an equitable charge in favour of CUSCAL. The charge is a fixed and floating charge over the assets and undertakings of the Credit Union and secures any advances which may be made to the Credit Union under the scheme. The balance of the debt at 30 June 2013 was $Nil (2012: $Nil).

There are no other contingent liabilities at reporting date or the date of this report.

26. ECONOMIC DEPENDENCY

The Credit Union has an economic dependency on the following suppliers of services:

Credit Union Services Corporation (Australia) Limited - (CUSCAL)
This entity supplies financial banking services to the Credit Union and is an approved Special Service Provider for the provision of financial intermediation services. The Credit Union has invested all of its high quality liquid assets and operating liquid assets with the entity to maximise return on funds and to comply with the Emergency Liquidity Support requirements under the Prudential Standards.

This entity also supplies the Credit Union rights to members' cheques and Visa cards in Australia and provides services in the form of settlement with bankers for members' cheques and Visa card transactions and the production of Visa cards for use by members.

This company operates the switching computer used to link Redicards and Visa cards operated through RediATMs and other approved EFT suppliers to the Credit Union's EDP systems.

Ultradata Australia Pty Limited
This company provides and maintains the application software utilised by the Credit Union.

TransAction Solutions Pty Ltd (TAS)
This entity provides computing services to the Credit Union.

27. SEGMENTAL REPORTING

The Credit Union operates predominantly in the finance industry within New South Wales.

28. CASH FLOW INFORMATION

28.1 Cash flows presented on a net basis

Cash arising from the following activities are presented on a net basis in the Statement of Cash Flows:

(i) member deposits to and withdrawals from savings, money market and other deposit accounts;

ii) sales and purchases of maturing certificates of deposit;

	2013	2012
	$	$

28.2 Reconciliation of cash

For the purposes of the statement of cash flows, cash includes cash on hand and at call with other financial institutions. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	2013 $	2012 $
Cash on hand and at SSP's	4,519,474	4,535,617
Interest earning deposits	8,500,000	7,547,135
Cash as per Statement of Cash Flows	**$13,019,474**	**$12,082,752**

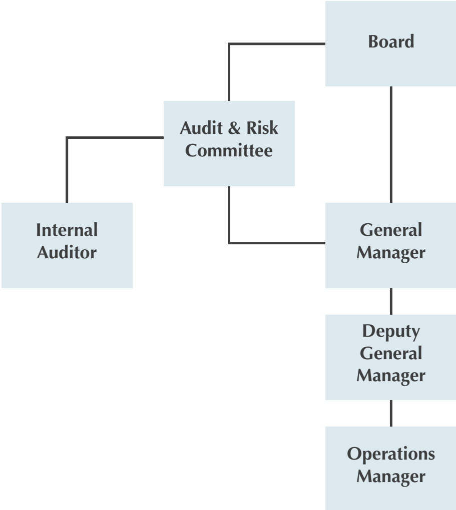
28.3 Reconciliation of Net Cash Provided by Operating Activities to Net Profit for the year after Income Tax expense

	2013 $	2012 $
Operating profit after tax	641,369	661,335
Non cash flow items:		
Employee leave entitlements	(666)	12,266
Depreciation and amortisation	88,837	95,597
Gain on disposal of assets	-	-
Bad debts written off	79,055	23,830
Changes in assets and liabilities:		
Decrease/(increase) in deferred tax assets	4,931	2,922
(Increase)/decrease in prepayments	(36,736)	19,803
Increase/(decrease) in provision for income tax	53,452	(79,843)
(Decrease)/increase in payables	(99,443)	(86,265)
Decrease/(increase) in accrued receivables	188,466	(79,836)
Net cash from revenue activities	**919,265**	**569,809**
Non-revenue operations		
Movement in members loans	1,341,956	(3,997,646)
	$2,261,221	**$(3,427,837)**

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

INTRODUCTION

The Board has endorsed a policy of compliance and risk management to suit the risk profile of the Credit Union. The Credit Union's risk management focuses on the major areas of market risk, credit risk, and operational risk. Authority flows from the Board of Directors to the Audit and Risk Committee which are integral to the management of risk. The following diagram gives an overview of the structure.



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

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

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

The Audit and Risk Committee should discharge the following additional responsibilities:

- formulation of the Credit Union's Risk Strategy;
- determining policies to ensure that the Credit Union's Risk Strategy is adhered to; and
- monitoring adherence to those policies.

This requirement is reflected in the Charter of the Audit Committee.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

General Manager: This person has responsibility for both liaising with the operational function to ensure timely production of information for the Audit and Risk Committee and ensuring that instructions passed down from the Board via the Audit and Risk Committee are implemented.

Internal Audit: Internal audit has responsibility for implementing the controls testing and assessment as required by the Audit and Risk Committee.

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

- Interest rate risk;
- Liquidity management;
- Credit risk management; and
- Operations risk management including data risk management.

A. MARKET RISK AND HEDGING POLICY

The objective of the Credit Union's market risk management is to manage and control market risk exposures in order to optimise risk and return.

Market risk is the risk that changes in interest rates, foreign exchange rates or other prices and volatilities will have an adverse effect on the Credit Union's financial condition or results. The Credit Union is not exposed to currency risk, and other significant price risk. The Credit Union does not trade in the financial instruments it holds on its books. The Credit Union is exposed only to interest rate risk arising from changes in market interest rates.

The management of market risk is the responsibility of the Audit and Risk Committee, which reports directly to the Board.

Interest Rate Risk

Interest rate risk is the risk of variability of the fair value or future cash flows arising from financial instruments due to the changes in interest rates.

Most banks are exposed to interest rate risk within its Treasury operations. This Credit Union does not have a treasury operation and does not trade in financial instruments.

Interest Rate Risk in the Banking Book

The Credit Union is exposed to interest rate risk in its banking book due to mismatches between the repricing dates of assets and liabilities.

The interest rate risk on the banking book is measured monthly, and reported to the Board by the General Manager.

In the banking book the most common risk the Credit Union faces arises from fixed rate assets and liabilities. This exposes the Credit Union to risk of sensitivity should interest rates change.

The level of mismatch on the banking book is set out in Note 30 below. The table set out in Note 30 displays the period that each asset and liability will reprice as at reporting date. The risk is not considered significant to warrant the use of derivatives to mitigate this risk.

Method of Managing Risk

The Credit Union manages its interest rate risk by the use of interest rate sensitivity analysis, the detail and assumptions used are set out below.

Interest Rate Sensitivity

The Credit Union's exposure to market risk is measured and monitored using interest rate sensitivity models.

The policy of the Credit Union to manage the risk is to maintain a balanced 'on book' strategy by ensuring the net interest rate gaps between assets and liabilities are not excessive. The gap is measured monthly to identify any large exposures to the interest rate movements and to rectify the excess through targeted fixed rate interest products available through investment assets, and term deposits to rectify the imbalance to within acceptable levels. The policy of the Credit Union is not to undertake derivatives to match the interest rate risks. The Credit Union's exposure to interest rate risk is set out in Note 30 which details the contractual interest change profile.

Based on calculations as at 30 June 2013, the net profit impact for a 1% movement in interest rates would be $90,259.

The Credit Union performs a sensitivity analysis to measure market risk exposures.

The method used in determining the sensitivity was to evaluate the profit based on the timing of the interest repricing on the banking book of the Credit Union for the next 12 months. In doing the calculation the assumptions applied were that:

- the interest rate change would be applied equally over to the loan products and term deposits;
- the rate change would be as at the beginning of the 12 month period and no other rate changes would be effective during the period;
- the term deposits would all reprice to the new interest rate at the term maturity, or be replaced by a deposit with similar terms and rates applicable;
- savings deposits would not reprice in the event of a rate change;
- mortgage loans and personal loans would all reprice to the new interest rate within 28 days;
- all loans would be repaid in accordance with the current average repayment rate (or contractual repayment terms);
- the value and mix of call savings to term deposits will be unchanged; and
- the value and mix of personal loans to mortgage loans will be unchanged.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

There as been no change to the Credit Union's exposure to market risk or the way the Credit Union manages and measures market risk in the reporting period.

Price Risk – Equity Investments

The Credit Union is not exposed to price risk on the value of shares.

B. LIQUIDITY RISK

Liquidity risk is the risk that the Credit Union may encounter difficulties raising funds to meet commitments associated with financial instruments, eg. borrowing repayments or member withdrawal demands. It is the policy of the Board of Directors that treasury maintains adequate cash reserves and committed credit facilities so as to meet the member withdrawal demands when requested.

The Credit Union manages liquidity risk by:

- Continuously monitoring actual daily cash flows and longer term forecasted cash flows;
- Monitoring the maturity profiles of financial assets and liabilities;
- Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities; and
- Monitoring the prudential liquidity ratio daily.

The Credit Union has a longstanding arrangement with the industry liquidity support service, Credit Union Financial Support Services (CUFSS) which can access industry funds to provide support to the Credit Union should support be necessary at short notice.

The Credit Union is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 24 hours under the APRA Prudential Standards. The Credit Union policy is to apply 15% of funds as liquid assets to maintain adequate funds for meeting member withdrawal requests. The ratio is checked daily. Should the liquidity ratio fall below this level the management and Board are to address the matter and ensure that the liquid funds are obtained from new deposits, or borrowing facilities available. Note 24 describes the borrowing facilities as at reporting date. These facilities are in addition to the support from CUFSS.

The maturity profile of the financial liabilities, based on the contractual repayment terms are set out in the specific note 30. The ratio of liquid funds over the past year is set out below:

APRA	2013	2012
	%	%
To total adjusted liabilities		
As at 30 June	14.75	13.95
Minimum during the year	14.68	13.56
To total member deposits		
As at 30 June	17.16	15.92

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

C. CREDIT RISK

Credit risk is the risk that members, financial institutions and other counterparties will be unable to meet their obligations to the Credit Union which may result in financial losses. Credit risk arises principally from the Credit Union's loan book and investment assets.

Credit Risk – Loans

Loans to	2013 Carrying Value $	2013 Off Balance Sheet $	2013 Max Exposure $	2012 Carrying Value $	2012 Off Balance Sheet $	2012 Max Exposure $
Residential	62,347,241	1,472,830	63,820,071	62,558,988	2,031,477	64,590,465
Personal	8,534,241	201,604	8,735,845	9,748,052	108,599	9,856,651
Overdraft/Visa	1,155,892	3,445,180	4,601,072	1,142,234	2,340,082	3,482,316
Total	**$72,037,374**	**5,119,614**	**$77,156,988**	**$73,449,274**	**$4,480,158**	**$77,929,432**

Carrying value is the value on the statement of financial position. Maximum exposure is the value on the statement of financial position plus the undrawn facilities (Loans approved not advanced, redraw facilities; lines of credit facilities; overdraft facilities; credit card limits).

All loans and facilities are within Australia. Concentrations are described in note 9.

The method of managing credit risk is by way of strict adherence to the credit assessment policies before the loan is approved and close monitoring of defaults in the repayment of loans thereafter on a weekly basis. The credit policy has been endorsed by the Board to ensure that loans are only made to members that are creditworthy (capable of meeting loan repayments).

The Credit Union has established policies over the:

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

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

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Past due and impaired

A financial asset is past due when the counterparty has failed to make a payment when contractually due. As an example, a member enters into a lending agreement with the Credit Union that requires interest and a portion of the principle to be paid every month. On the first day of the month, if the agreed repayment amount has not been paid, the loan is past due. Past due does not mean that a counterparty will never pay, but it can trigger various actions such as renegotiation, enforcement of covenants, or legal proceedings. Once the past due exceeds 90 days the loans is regarded as impaired, unless other factors indicate the impairment should be recognised sooner.

Daily reports monitor the loan repayments to detect delays in repayments and recovery action is undertaken after 7 days. For loans where repayments are doubtful, external consultants are engaged to conduct recovery action once the loans is over 90 days in arrears. The exposures to losses arise predominately in the personal loans and facilities not secured by registered mortgages over real estate.

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

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

Statement of financial position provisions are maintained at a level that management deems sufficient to absorb probable incurred losses in the Credit Union's portfolio from homogenous portfolios of assets and individually identified loans.

A provision for incurred losses is established on all past due loans after a specified period of repayment default where it is probable that some of the capital will not be repaid or recovered. Specific loans and portfolios of assts are provided against depending on a number of factors including deterioration in country risk, changes in a counterparty's industry, and technological developments, as well as identified structural weaknesses or deterioration in cash flows.

The provisions for impaired and past due exposures relate to the loans to members.

Past due value is the 'on balance sheet' loan balances which are past due by 90 days or more.

Details are as set out in Note 9.

Bad debts

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

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

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

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Collateral Securing Loans

A sizeable portfolio of the loan book is secured on residential property in Australia. Therefore, the Credit Union is exposed to risks in the reduction the Loan to Value (LVR) cover should the property market be subject to a decline.

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

The Board policy is to maintain at least 70% of the loans in well secured residential mortgages which carry an 80% loan to valuation ratio or less. Note 9 describes the nature and extent of the security held against the loans held as at reporting date.

Concentration risk – Individuals

Concentration risk is a measurement of the Credit Union's exposure to an individual counterparty (or Credit Union of related parties). If prudential limits are exceeded as a proportion of the Credit Union's regulatory capital (10 per cent) a large exposure is considered to exist. No capital is required to be held against these but the APRA must be informed. APRA may impose additional capital requirements if it considers the aggregate exposure to all loans over the 10% capital benchmark, to be higher than acceptable.

The aggregate value of large exposure loans are set out in Note 9. [The Credit Union holds no significant concentrations of exposures to members]. Concentration exposures to counterparties are closely monitored with annual reviews being prepared for all exposures over 5% of the capital base.

The Credit Union's policy on exposures of this size is to insist on an initial Loan to Valuation ratio (LVR) of at least 80% and bi-annual reviews of compliance with this policy are conducted.

Concentration risk – Industry

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

The Credit Union has a concentration in the retail lending for members who comprise employees and family in the electricity industry and all levels of government. This concentration is considered acceptable on the basis that the Credit Union was formed to service these members, and the employment concentration is not exclusive. Should members leave the industry the loans continue and other employment opportunities are available to the members to facilitate the repayment of the loans. The details of the geographical concentrations are set out in Note 9.

Credit Risk – Liquid Investments

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the Credit Union incurring a financial loss. This usually occurs when debtors fail to settle their obligations owing to the Credit Union.

There is a concentration of credit risk with respect to investment receivables with the placement of investments in CUSCAL. The credit policy is that investments are only made to institutions that are credit worthy. Exposures to other Credit Unions and building societies are limited to 10% of total liabilities less capital collectively, and $1,000,000 to any one Credit Union or Building Society. In respect of other counterparties, the Credit Union limits its exposure to any individual or associated Credit Union (excluding CUSCAL) to 5% of total liabilities less capital.

External Credit Assessment for Institution Investments

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

Investments with	2013 Carrying value	2013 Past due value	2013 Provision	2012 Carrying value	2012 Past due value	2012 Provision
	$	$	$	$	$	$
CUSCAL	2,000,000	-	-	3,500,000	-	-
Banks	3,500,000	-	-	1,000,000	-	-
Other ADI	3,000,000	-	-	3,047,135	-	-
Total	**8,500,000**	**-**	**-**	**7,547,135**	**-**	**-**

D. OPERATIONAL RISK

Operational risk is the risk of loss to the Credit Union resulting from deficiencies in process, personnel, technology, infrastructure, and from external factors other than credit, market and liquidity risks. Operational risks in the Credit Union relate mainly to those risks arising from a number of sources including legal compliance, business continuity, data infrastructure, outsourced services failures, fraud, and employee errors.

The Credit Union's objective is to manage operational risk so as to balance the avoidance of financial losses through the implementation of controls, whilst avoiding procedures which inhibit innovation and creativity. These risks are managed through the implementation of policies and systems to monitor the likelihood of the events and minimise the impact. Systems of internal control are enhanced through:

- the segregation of duties between employee duties and functions, including approval and processing duties;
- documentation of the policies and procedures, employee job descriptions and responsibilities, to reduce the incidence of error and inappropriate behaviour;
- implementation of the whistleblowing policies to promote a complaint cultures and awareness of the duty to report exceptions by staff;
- education of members to review their account statements and report exceptions to the Credit Union promptly;
- effective dispute resolution procedures to respond to member complaints;
- effective insurance arrangements to reduce the impact of losses;
- contingency plans for dealing with the loss of functionality of systems or premises or staff.

Fraud

Fraud can arise from member card PINS, and internet passwords being compromised where not protected adequately by the member. It can also arise from other systems failures. The Credit Union has systems in place which are considered to be robust enough to prevent any material fraud. However, in common with all retail banks, fraud is potentially a real cost to the Credit Union. Fraud losses have been from card skimming and internet password theft.

IT Systems

The worst case scenario would be the failure of the Credit Union's core banking system and IT network suppliers, to meet customer obligations and service requirements. The Credit Union has outsourced the IT systems management to an Independent Data Processing Centre (IDPC) which is owned by a collection of Credit Unions. This organisation has the experience in–house to manage any short-term problems and has a contingency plan to manage any related power or systems failures. Other network suppliers are engaged on behalf of the Credit Union by CUSCAL to service the settlements with other financial institutions for direct entry, ATM and Visa cards, and BPay etc.

A full disaster recovery plan is in place to cover medium to long-term problems which is considered to mitigate the risk to an extent such that there is no need for any further capital to be allocated.

E. CAPITAL MANAGEMENT

The capital levels are prescribed by Australian Prudential Regulation Authority (APRA). Under the APRA prudential standards capital is determined in three components:

- Credit risk;
- Market risk (trading book);
- Operations risk.

The market risk component is not required as the Credit Union is not engaged in a trading book for financial instruments.

Capital Resources

Tier 1 Capital

The vast majority of Tier 1 capital comprises:

- Preference share capital;
- Retained profits;
- Realised reserves.

The preference shares issues are approved by APRA and qualify as Tier 1 capital.

Tier 2 Capital

Tier 2 capital consists of capital instruments that combine the features of debt and equity in that they are structured as debt instruments, but exhibit some of the loss absorption and funding flexibility features of equity. There are a number of criteria that capital instruments must meet for inclusion in Tier 2 capital resources as set down by APRA.

Tier 2 capital generally comprises:

- Available for sale reserves which arises from the revaluation of financial instruments categorised as available for sale and reflects the net gains in fair value of those assets in the year. This is included within upper Tier 2 capital.
- A subordinated loan, which is not applicable to the Credit Union.
- A general reserve for credit losses.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

At 30 June 2013, the Credit Union's capital comprises:

	June 2013
Tier 1 Capital	
Common Equity Tier 1 Capital:	
Retained earnings	9,853,697
Transfer to general reserve	-
Current year earnings net of expected dividends and tax expenses	641,369
Gross Tier 1 Capital	**10,495,066**
Deductions from Tier 1 Capital	
Equity in other ADI's	155,855
Net Tier 1 Capital	**10,339,211**
Tier 2 Capital	
Upper Tier 2 Capital	
General reserve for credit losses	554,277
Net Tier 2 Capital	**554,277**
Capital Base	**10,893,488**

At 30 June 2013, the Credit Union's risk weighted assets reported to APRA were as follows:

Credit Risk Items	**June 2013**
Credit Risk Items – Standardised Approach	
On and Off Balance Sheet	39,231,403
Operational Risk	
Standardised Approach	5,110,782
Market Risk	**-**
Total Risk Weighted Assets	**44,342,185**
Capital Adequacy Ratio	**24.57%**

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

To manage the Credit Union's capital the Credit Union reviews the ratio monthly and monitors major movements in the asset levels. If the capital adequacy ratio declines by more than 0.5% for 3 consecutive quarters or reaches 17%, Management advises the Board. Management's advice will show how growth, profit levels, mix of loan products and the acquisition of other assets has affected the capital adequacy ratio.

Pillar 2 Capital on Operational Risk

The Credit Union uses the Standardised approach which is considered to be the most suitable for its business given the small number of distinct transaction streams. The operational risk capital requirement is calculated by mapping the Credit Union's three year average net interest and net non-interest income to the Credit Union's various business lines.

Based on this approach, the Credit Union's operational risk requirement is $5,110,782.

Internal Capital Adequacy Management

The Credit Union manages its internal capital levels for both current and future activities through the Audit and Risk Committee. The output of the Audit and Risk Committee is reviewed by the Board in its capacity as the primary governing body. The capital required for any change in the Credit Union's forecasts for asset growth, or unforeseen circumstances are assessed by the Board.

30. FINANCIAL INSTRUMENTS

30.1 Terms, Conditions and Accounting Policies

The Credit Union's accounting policies, including the terms and conditions of each class of financial asset, financial liability and equity instrument, both recognised and unrecognised at reporting date, are as follows:

Recognised Financial Instruments	Statement of Financial Position Notes	Accounting Policies	Terms and Conditions
(i) Financial assets			
Loans and advances	9	The loan interest is calculated on the daily balance outstanding and is charged in arrears to a member's account on the last day of each month, and on the 3rd day for overdrafts.	All housing loans are secured by registered mortgages. The remaining loans are assessed on an individual basis.
Short-term deposits	7	Short-term deposits are stated at the lower of cost and net realisable value. Interest is recognised in the profit and loss when earned.	Short-term deposits have an average maturity of 30 days and effective interest rates of 3.5% to 4.5%.
Unlisted shares	10	Unlisted shares are carried at the lower of cost or recoverable amount. Dividend income is recognised when the dividends are received.	
Listed Shares	10	Listed shares are valued at market value. Dividend income is recognised when the dividends are received.	

30.1 Terms, Conditions and Accounting Policies (continued)

Recognised Financial Instruments	Statement of Financial Position Notes	Accounting Policies	Terms and Conditions
Accrued Receivables	8	The carrying value of receivables is at their nominal amounts due.	
(ii) Financial liabilities			
Bank overdrafts	15	The bank overdrafts are carried at the principal amount. Interest is charged as an expense as it accrues.	Interest is charged at the bank's benchmark rate.
Payables and other liabilities	16	Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Credit Union.	Trade liabilities are normally settled on 30 day terms.
Deposits and short term borrowings	15	Deposits are recorded at the principal amount.	Details of maturity terms are set out in Note 15.

30.2 Net Fair Values

Net fair value has been determined on the basis of the present value of expected future cash flows under the terms and conditions of each financial asset and financial liability.

Significant assumptions used in the determining the cash flows are that the cash flows will be consistent with the contracted cash flows under the respective contracts.

The information is only relevant to circumstances at reporting date and will vary depending on the contractual rates applied to each asset and liability, relative to market rates and conditions at the time. No assets held are regularly traded by the Credit Union, and there is no active market to assess the value of the financial assets and liabilities.

	Total carrying amount in the statement of financial position		**Aggregate net fair value**	
	2013	**2012**	**2013**	**2012**
	$	**$**	**$**	**$**
Financial assets				
Cash and liquid assets	13,019,474	12,082,752	13,019,474	12,082,752
Accrued receivables	265,976	454,442	265,976	454,442
Other investments	163,336	170,456	163,336	170,456
Loans and advances	71,999,397	73,420,408	71,762,871	73,197,007
Total financial assets	**85,448,183**	**86,128,058**	**85,211,657**	**85,904,657**

30.2 Net Fair Values (continued)

	Total carrying amount in the statement of financial position		Aggregate net fair value	
	2013	2012	2013	2012
	$	$	$	$
Financial liabilities				
Deposits and short term borrowings	67,142,057	63,432,373	67,142,057	63,432,373
Payables and other liabilities	588,309	687,752	588,309	687,752
Interest bearing liabilities	6,600,000	11,600,000	6,600,000	11,600,000
Total financial liabilities	**74,330,366**	**75,720,125**	**74,330,366**	**75,720,125**

The net fair value estimates were determined by the following methodologies and assumptions:

Cash and liquid assets

The carrying values of cash and liquid assets approximate their net fair value as they are short term in nature or are receivable on demand.

Accrued receivables

The carrying amounts approximate fair value because they are short term in nature.

Loan and other advances

For variable rate loans (excluding impaired loans) the amount shown in the statement of financial position is considered to be a reasonable estimate of net fair value.

Other Investments

For financial instruments traded in organised financial markets, fair value is the current quoted market bid price for an asset or offer price for a liability, adjusted for transaction costs necessary to realise the asset or settle the liability. 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/security.

Other financial liabilities

This includes interest payable and unrealised expenses payable for which the carrying amount is considered to be a reasonable estimate of 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.

Receivables

The carrying amounts approximate fair value because they are short term in nature.

30.2 Net Fair Values (continued)

Payables and other liabilities

The carrying amounts approximate fair value as they are short term in nature.

Members deposits

This includes interest and unrealised expenses payable for which the carrying amount is considered to be reasonable estimate of 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. The fair value of deposits at call is the amount payable on demand at the reporting date.

30.3 Credit Risk Exposures

The Credit Union's maximum exposures to credit risk at reporting date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the statement of financial position. 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.

30.4 Concentrations of Credit Risk

The Credit Union minimises concentrations of credit risk in relation to loans receivable by undertaking transactions with a large number of members.

30.5 Interest rate risk

The Credit Union's exposure to interest rate risks which is the risk that a financial instruments value will fluctuate as a result of changes in market rates and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at reporting date, are as follows:-

Financial instruments	Floating interest rate		1 year or less		Non-interest bearing		Total carrying amount as per the statement of financial position		Weighted average effective interest rate	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
	$	$	$	$	$	$	$	$	%	%
(i) Financial assets										
Cash and liquid assets	4,311,310	4,259,480	8,500,000	7,547,135	208,164	276,137	13,019,474	12,082,752	3.9	5.5
Accrued receivables	-	-	-	-	265,976	454,442	265,976	454,442	-	-
Other investments	-	-	-	-	163,336	170,456	163,336	170,456	-	-
Loans and advances	71,999,397	73,420,408	-	-	-	-	71,999,397	73,420,408	6.7	7.5
Total financial assets	**76,310,707**	**77,679,888**	**8,500,000**	**7,547,135**	**637,476**	**901,035**	**85,448,183**	**86,128,058**		
(ii) Financial liabilities										
Deposits and short term borrowings	38,861,274	34,325,366	28,229,603	29,055,417	51,180	51,590	67,142,057	63,432,373	3.2	3.9
Payables and other liabilities	-	-	-	-	588,309	687,752	588,309	687,752	-	-
Interest bearing liabilities	3,000,000	4,500,000	3,600,000	7,100,000	-	-	6,600,000	11,600,000	4.3	5.8
Total financial liabilities	**41,861,274**	**38,825,366**	**31,829,603**	**36,155,417**	**639,489**	**739,342**	**74,330,366**	**75,720,125**		

30.6 Maturity profile of financial instruments

Monetary liabilities have differing maturity profiles depending on the contractual term. The table below shows the period in which different financial instruments will mature and be eligible for renegotiation or withdrawal. In the case of loans, the table shows the period over which the principal outstanding and interest will be repaid based on the remaining period to the repayment date assuming contractual repayments are maintained, and is subject to change in the event that current repayment conditions are varied. Financial assets and liabilities are at the undiscounted values including future interest expected to be earned or paid). Accordingly these values will not agree to the statement of financial position.

Financial instruments	Within 3 months		3-12 months		1-5 Years		> 5 years		At Call		Total	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
	$	$	$	$	$	$	$	$	$	$	$	$
(i) Financial assets												
Cash and liquid assets	6,577,500	7,620,937	2,031,796	-	-	-	-	-	4,534,993	4,752,452	13,144,289	12,373,389
Accrued receivables	-	-	-	-	-	-	-	-	203,639	346,198	203,639	346,198
Loans to members	2,255,991	2,454,848	6,362,698	6,904,275	27,740,100	29,832,416	86,704,028	104,174,039	-	-	123,062,817	143,365,578
Other investments	-	-	-	-	-	-	-	-	163,336	170,456	163,336	170,456
Total financial assets	**8,833,491**	**10,075,785**	**8,394,494**	**6,904,275**	**27,740,100**	**29,832,416**	**86,704,028**	**104,174,039**	**4,901,968**	**5,269,106**	**136,574,081**	**156,255,621**
(ii) Financial liabilities												
Deposits	17,538,536	15,834,879	12,023,931	13,616,119	-	-	-	-	38,912,454	34,376,956	68,474,921	63,827,954
Interest bearing liabilities	6,193,173	9,703,277	510,779	2,100,368	-	-	-	-	-	-	6,703,953	11,803,645
Payables and other liabilities	-	-	-	-	-	-	-	-	196,297	160,283	196,297	160,283
Total financial liabilities	**23,731,709**	**25,538,156**	**12,534,710**	**15,716,487**	**-**	**-**	**-**	**-**	**39,108,751**	**34,537,239**	**75,375,171**	**75,791,882**

31. NEW ACCOUNTING STANDARDS FOR APPLICATION IN FUTURE PERIODS

The following Australian Accounting Standards have been issued or amended and are applicable to the Credit Union but are not yet effective and have not been adopted in preparation of the financial statements at reporting date.

- AASB 9: Financial Instruments (December 2011) (applicable for annual reporting periods commencing on or after 1 January 2013). This Standard is applicable retrospectively and includes revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments.

The Credit Union has not yet determined any potential impact on the financial statements.

The key changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument;
- requiring financial assets to be reclassified where there is a change in an entity's business model as they are initially classified based on: (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows; and
- requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

- AASB 10: Consolidated Financial Statements, AASB 11: Joint Arrangements, AASB 12: Disclosure of Interests in Other Entities, AASB 127: Separate Financial Statements (August 2011), AASB 128: Investments in Associates and Joint Ventures (August 2011) and AASB 2011–7: Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards (applicable for annual reporting periods commencing on or after 1 January 2013).

AASB 10 replaces parts of AASB 127: Consolidated and Separate Financial Statements (March 2008, as amended) and Interpretation 112: Consolidation – Special Purpose Entities. AASB 10 provides a revised definition of control and additional application guidance so that a single control model will apply to all investees.

The amendments are not expected to significantly impact to the Credit Union.

31. NEW ACCOUNTING STANDARDS FOR APPLICATION IN FUTURE PERIODS (continued)

- AASB 13: Fair Value Measurement and AASB 2011–8: Amendments to Australian Accounting Standards arising from AASB 13 (applicable for annual reporting periods commencing on or after 1 January 2013).

  AASB 13 defines fair value, sets out in a single Standard a framework for measuring fair value, and requires disclosures about fair value measurement.

  AASB 13 requires:

  - inputs to all fair value measurements to be categorised in accordance with a fair value hierarchy; and
  - enhanced disclosures regarding all assets and liabilities (including, but not limited to, financial assets and financial liabilities) measured at fair value.

These Standards are not expected to significantly impact the Credit Union.

- AASB 119: Employee Benefits (September 2011) and AASB 2011–10: Amendments to Australian Accounting Standards arising from AASB 119 (applicable for annual reporting periods commencing on or after 1 January 2013).

  These Standards introduce a number of changes to accounting and presentation of defined benefit plans. The Credit Union does not have any defined benefit plans and so is not impacted by the amendment.

- AASB 2012-1 Amendments to Australian Accounting Standards – Fair Value Measurements – Reduced Disclosure Requirements [AASB 3, AASB 7, AASB 13, AASB 140 and AASB 141] (applicable for annual reporting periods commencing 1 July 2013).

  This Standard establishes and amends reduced disclosure requirements for entities preparing general purpose financial statements under Australian Accounting Standards – Reduced Disclosure Requirements for additional amended disclosures arising from AASB 13 and the consequential amendments implemented through AASB 2011-8.

  This Standard is not expected to significantly impact the Credit Union.

- AASB 2012-2 Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities [AASB 7 and AASB 132] (applicable for annual reporting periods commencing on or after 1 January 2013).

  This Standard amends the required disclosures in AASB 7 to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. The Standard also amends AASB 132 to refer to the additional disclosures added to AASB 7 by this Standard.

  This Standard is not expected to significantly impact the Credit Union.

31. NEW ACCOUNTING STANDARDS FOR APPLICATION IN FUTURE PERIODS (continued)

- AASB 2012-3 Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities [AASB 132] (applicable to annual reporting periods commencing on or after 1 January 2014).

  This Standard adds application guidance to AASB 132 to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.

  This Standard is not expected to significantly impact the Credit Union.

- AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle [AASB 1, AASB 101, AASB 116, AASB 132 and AASB 134 and Interpretation 2] (applicable to annual reporting periods commencing on or after 1 January 2013).

  These amendments are a consequence of the annual improvements process, and result from proposals that were included in Exposure Draft ED 213 Improvements to IFRSs published in July 2011 and follow the issuance of Annual Improvements to IFRSs 2009 – 2011 Cycle issued by the International Accounting Standards Board in May 2012.

  This Standard is not expected to significantly impact the Credit Union.

The Credit Union does not anticipate early adoption of any of the above reporting requirements and does not expect them to have any material effect on the Credit Union's financial statements.

32. COMPANY DETAILS

The registered office of the Credit Union is:-

Macquarie Credit Union Limited
23 Hawthorn Street
Dubbo NSW 2830

(End of Audited Financial Statements)

MORSE | GROUP
ACCOUNTANTS & ADVISORS

INDEPENDENT AUDIT REPORT TO THE MEMBERS 0F MACQUARIE CREDIT UNION LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of Macquarie Credit Union Limited, which comprise the statement of financial position as at 30 June 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the Credit Union at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Statements

The directors of the Credit Union are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards (AIFRS) ensures that the financial statements, comprising the financial statements and notes, complies with AIFRS.

Audit Responsibility

Our responsibility is to express an opinion on the financial statements 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 statements is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Credit Union's preparation and fair presentation of the financial statements 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 Credit Union'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 statements.

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

Independence

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

Chartered Accountants

COVER OF EXCELLENCE

Liability limited by the Accountants Scheme, approved under the Professional Standards Act 1994 (NSW)

Matters Relating to the Electronic Presentation of the Audited Financial Report

This audit report relates to the financial statements of Macquarie Credit Union Limited (the Credit Union) for the year ended 30 June 2013 included on the Credit Union's web site. The Credit Union's directors are responsible for the integrity of the Credit Union's web site. The audit report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial statements to confirm the information included in the audited financial statements presented on this web site.

Auditor's Opinion

In our opinion:

(a) the financial statements of Macquarie Credit Union is in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the Credit Union's financial position as at 30 June 2013 and of their performance for the year ended on that date; and

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

(b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Morse Group

MORSE GROUP

2 River Street
Dubbo
Dated: 4 September 2013

JM SHANKS
PARTNER

Credit Union Contacts

BATHURST ESSENTIAL ENERGY	S. BORGSTAHL
BOGAN SHIRE COUNCIL	C. ELLISON
BOURKE/BREWARRINA ESSENTIAL ENERGY	C. BROWN
BOURKE SHIRE COUNCIL	L. BROWN
BULAHDELAH ESSENTIAL ENERGY	M. COOK
COBAR ESSENTIAL ENERGY	M. DAVIES
COFFS HARBOUR ESSENTIAL ENERGY	D. HAYNES
COONABARABRAN ESSENTIAL ENERGY	L. ROBERTS
COONAMBLE MPHS	L. BURNHEIM
COONAMBLE SHIRE COUNCIL	V. FULMER
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DUBBO CITY COUNCIL	B. GRADY
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KEMPSEY ESSENTIAL ENERGY	C. SIMON
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MUDGEE PIONEER HOUSE	D. NEWMAN
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NARROMINE SHIRE COUNCIL	S. EVERETT
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WARREN MPHS	L. CLARK
WARREN SHIRE COUNCIL	J. MURRAY
WELLINGTON ESSENTIAL ENERGY	P. EVERINGHAM
WELLINGTON SHIRE COUNCIL	T. MCINNES

Staff

Matthew Bow	General Manager
Leanne Bourne	Deputy General Manager
Jenny Lee Millgate	Loans Supervisor
Emma Piper	Loans Officer
Jennifer Humphries	Loans Officer
Matthew Mcfetridge	Loans Officer
Cheriee Edwards	Loans Administration (Maternity Leave)
Michele Baker	Collections Officer
Geoffrey Morrison	Business Development Officer (Central Western Region)
Maree Wilson	Business Development Officer (Mid North Coast Region)
Lisa Northill	Office Supervisor
Jill Graham	Member Service Officer
Greg Wheatley	Member Service Officer
Georgie-Anne Pomfret	Member Service Officer
Leanne Soper	Member Service Officer

Registered Office

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Directors

TE Bacon	PM Nolan
J Gray	DAJ Rootes
RK Mills	CJ Shepherd
J Moss	

Auditors

MORSE GROUP
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Solicitor

Nelson, Keane & Hemingway
Church Street, Dubbo NSW 2830

Banker

Cuscal Ltd.
National Australia Bank, Sydney