

# 2011 ANNUAL REPORT 2012

*straightforward,  
reliable banking*



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

## Our mission

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

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

# Annual Report 11-12

## Table of Contents

Year in Review	2 - 7
General Manager's Report	8 - 9
Community News	10 - 11
Chairman's Report	12 - 13
Financial Report for the year ended 30 June, 2012	14 - 64
Credit Union Representatives	65

# Year in review

## Thank you to Anne Howey: Retiring Staff Member

Anne Howey commenced work 2 days a week at Post-Tel Credit Union on 23rd August 1983. At the time Post-Tel Credit Union was located upstairs in the Macquarie Chambers building. There were 3 staff in total when Anne started.

In 29 years Anne has seen the Credit Union emerge from 3 staff using manual hand written processes, to being a Loans Officer working with 16 staff. Anne has been a committed, dedicated staff member and we would like to thank her for her loyalty to the Credit Union and wish her all the best and happiness in her retirement.



## Social Media: A growing consideration for the Credit Union

Thank you to everyone who participated in our Social Media Member Survey on our website. In this ever changing online space, it's important for us to speak to our members about what works for them. Ultimately we are all about servicing your financial needs.

It was great to see that the vast majority of respondents do use social media in one way or another. The largest proportion of which were Facebook and YouTube for the main purposes of keeping in touch with friends, keeping up to date with brands and retrieving discounts and special offers.

It was a very interesting project for the Credit Union in an industry ever more reliant on social media platforms.



## Great value ratings for Macquarie Credit Union Products

### Top 5% rating on our Home Loan products by Canstar Cannex

Macquarie Credit Union has received two 5 star ratings for outstanding value from independent research monitor Canstar Cannex for our First Home Buyer's and Variable Rate Home Loans.



*This means that these Home Loan products are  
rated in the top 5% of the industry surveyed by  
Canstar Cannex*

Macquarie Credit Union's constant review of products is what we feel sets us apart from the rest. We want to make sure our members are benefiting from our product range.

### Visa 55 Credit Card rated in top 10

As further recognition of our great value Visa 55 Credit Card, Macquarie Credit Union has also been rated in the top 10 lowest rate cards by the Sun Herald.

We are very proud to be recognised in this sense as having one of the most competitive First Home Buyer's Home Loans, Variable Home Loans and Visa 55 Credit Cards in the industry. We continue to enhance and improve our products.

## Visa card hotline charges

An important reminder to our members that the Lost/Stolen Visa Card Hotline number has now changed.

See below for details:

- **Australia wide toll free – 1800 648 027**
- **From overseas – +61 2 8299 9101**

Remember that Macquarie Credit Union's Vigil Card Monitoring Service is always monitoring any type of card fraud on your Visa card 24/7.

## Vigil Card Monitoring Service

Whilst we have exceptionally low instances of fraud we are always looking to stay ahead of emerging trends and with card fraud on the rise globally, we continually look for new ways to keep all our members cards secure.

### 1. Global card fraud trends

Fraud levels in Australia on all cards have increased dramatically over the years and have been primarily driven by card skimming as well as overseas scams. The spread of attacks of this nature and Australia's geographic location means that attacks often take place after hours and over weekends.

### 2. Keeping you secure

You may be aware that we have introduced a service which provides monitoring of all our members' cards 24 hours a day, 7 days a week, 365 days a year. Members can now be even more confident in the safety and security of Macquarie Credit Union.

The service is automatically applied to members holding a Macquarie Credit Union VISA Credit Card or VISA Debit Card at no cost.

### 3. What does this mean for you?

If there is suspicious activity on any of your Credit Union cards you may receive a call from Macquarie Credit Union Fraud Bureau Service (Vigil) on weekdays, weekends or even public holidays, to discuss any transactions or attempted transactions that could be fraudulent. You will then be asked to identify yourself as the account holder. In the mean time the fraud prevention team will already be working to minimise the risk.

If you have any questions about this service give us a call on 1300 885 480 or if you feel you've been the victim of fraud call our 24 hour fraud hotline on 1800 648 027.



## Accessing your money - it couldn't be easier



At Macquarie Credit Union we want you to be able to access your money anywhere and at any time.

Here are some of the access methods offered at the Credit Union to make sure you have convenient, secure access to your money any time of the day, anywhere you may be.

### **Internet Banking**

Your money is always at your fingertips with Internet Banking. From the comfort of your own home or any internet connection around the world, you can view your accounts and transactions, transfer funds and pay bills using BPAY® 24 hours a day, seven days a week.

### **Phone Banking**

With Macquarie Credit Union's Phone Banking service, balances and transfers are only a phone call away. Phone Banking gives you 24 hour access to your accounts from any touch phone for the cost of a local call. Just call 1300 885 480!

### **Visa Debit Card**

A VISA Debit Card is linked to your access account and gives you convenient and easy access to your own funds 24 hours a day, 7 days a week. Remember to choose 'credit' for fee free transactions with your Visa Debit Card.

### **Visa 55 Credit Card**

Macquarie Credit Union's award winning Visa 55 Credit Card can assist with any unexpected expenses and everyday purchases. As Visa is accepted at over 29 million retailers worldwide and online, Macquarie Credit Union's Credit Card can be used while overseas or for making telephone and Internet purchases.



### **Bank@Post**

With Bank@Post you can use your credit or debit card at over 3,200 Australia Post retail outlets to do your personal banking including deposits and withdrawals, account balance enquiries and paying credit card bills.

### **Direct Debits/Credits**

Why waste time travelling between different financial institutions to transfer your money when you can have it done electronically? You can even arrange to have your pay allocated automatically between your accounts.

With Direct Debits, you can arrange to have funds debited from another Financial Institution and credited to your Macquarie Credit Union account. Take the hassle out of remembering to make your payments! You can also have money directly credited to your account with a Direct Credit by quoting our BSB (802 126) and your account number.

### **Cheque**

If you need to pay large sums of money or send payments in the mail, then personal cheques may be the best solution for you. Making payments by cheque is simple, flexible and easy and you can link your cheque book to your transaction account, so there is no need to hold and manage a separate account.

So whether you're paying bills or doing your banking or shopping, we have a range of easy access options to suit you. For more information visit [macquariecu.com.au](http://macquariecu.com.au) or call us on 1300 885 480.

## Government Guarantee Scheme

Macquarie Credit Union is an Approved Deposit Taking Institution (ADI) as are the banks. We are prudentially regulated by the Australian Prudential Regulatory Authority (APRA). All ADI's are subject to the depositors protection provisions of the Banking Act of 1959.

As part of the new Government Guarantee Scheme (FCS), the guarantee for all deposits up to \$1 million held with Credit Unions, Australian Banks, and Building Societies will apply until 31st January 2012 and will then be replaced with a permanent guarantee of \$250,000 from 1st February 2012.

Existing term deposits in place at 10th September 2011 will continue to be guaranteed up to \$1 million until 31st December 2012, or until the existing term deposit matures.



## Woolworths to accept Visa Debit payments

Woolworths have announced that they will be reversing their decision not to accept Visa Debit card payments using the 'credit' function across their stores.

Since 2009 members have only been able to purchase goods from Woolworths stores using the 'cheque' or 'savings' function (EFTPOS only) when using their Visa Debit Card.

This decision proved to be unfavourable to Visa Debit card users who have to pay EFTPOS fees or have a limit on the number of free electronic transactions they are allowed.

This change applies to Visa debit purchases at stores including Big W, Safeway, Woolworths Liquor, BWS, Dan Murphy's, Dick Smith, Thomas Dux and Caltex Woolworths Petrol.

Contact the Credit Union to learn more about making the most of your debit card. Visit [macquariecu.com.au](http://macquariecu.com.au) or call 1300 885 480.



# General Manager's Report

## Results of the Past Year

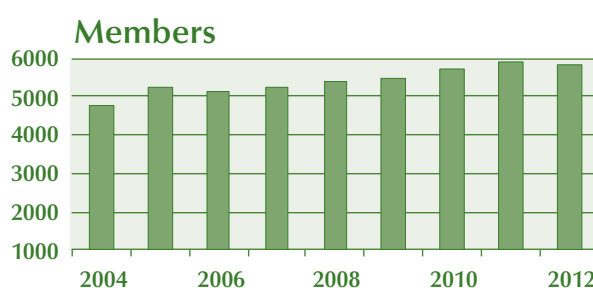
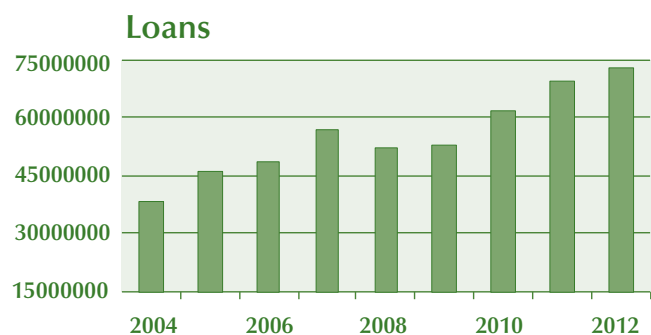
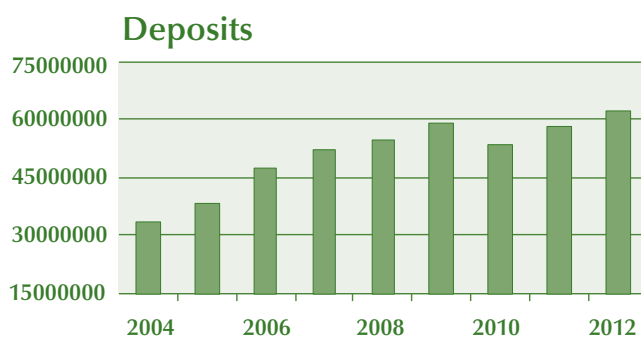
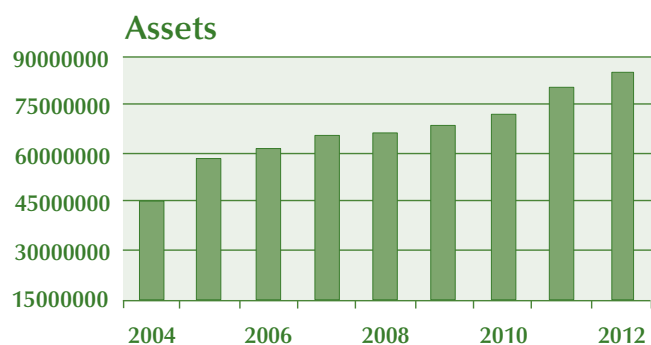
As has become a feature of our annual report our “plain English” accounts appear below. This statement is only intended to provide a snapshot of the credit union's financial performance; it is not a formal part of the annual accounts. Full details of the credit union's financial results are contained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



## Balance Sheet

ASSETS				LIABILITIES			
What the Credit Union Owns				What the Credit Union Owes			
	2012	2011	2010		2012	2011	2010
	\$,000	\$,000	\$,000		\$,000	\$,000	\$,000
Member Loans	73,420	69,447	61,317	Member Deposits	63,432	58,624	54,733
Cash & Investments	12,083	10,790	10,444	Payables & Other Liabilities	12,288	12,374	8,400
Plant & Equipment	111	110	60	Provisions	162	149	124
Other	948	899	726	Other	15	95	0
				Members Reserves/ Equity	10,665	10,004	9,290
<b>Total Assets</b>	<b>86,562</b>	<b>81,246</b>	<b>72,547</b>	<b>Total Liabilities</b>	<b>86,562</b>	<b>81,246</b>	<b>72,547</b>

## Profit and Loss Account

WHAT WE EARNED			
	2012	2011	2010
	\$,000	\$,000	\$,000
Interest – member loans	5,375	5,136	4,090
Interest – investments	616	583	534
Other income – commissions, fees etc	548	555	624
<b>Total Income</b>	<b>6,539</b>	<b>6,274</b>	<b>5,248</b>
WHAT WE SPENT			
Interest – member deposits	2,629	2,379	1,482
Interest – borrowings	423	432	393
Member service costs (ATMs, Cheques, EFTPOS etc)	490	450	404
Computer costs (data processing etc)	353	327	267
Staff costs	1,025	962	917
General expenses	691	739	826
<b>Total Operating Costs</b>	<b>5,611</b>	<b>5,289</b>	<b>4,289</b>
Operating Profit Before Tax	928	985	959
Income Tax Expense	267	270	266
<b>Net Profit After Tax</b>	<b>661</b>	<b>715</b>	<b>693</b>

# Community news

Our team regularly take part in community events and charitable causes and during the financial year they contributed to:

- Starlight Golf Day (Starlight Foundation)
- MS Red Day (Multiple Sclerosis)
- Meals on wheels (community)
- Jeans for Genes (Childrens Medical Research)
- Daffodil Day, Australia's Biggest Morning Tea (Cancer Council)

## Starlight Foundation Golf Day

The Starlight Foundation fundraiser Golf Day was held at Wauchope Country Club on Sunday 15th July. It was a beautiful day with approximately 84 golfers participating. Macquarie Credit Union sponsored the \$1,000 Hole in One (which unfortunately didn't go off), plus a couple of Nearest the Pin \$50 prizes.

The day ended up raising over \$7,000 through auctions, raffles and ticket sales.

## Essential Energy Field Days - Coffs Harbour 2012

The Essential Energy Field Days were held on Tuesday/ Wednesday 24th & 25th July. Geoff Morrison and Maree Wilson ( Business Development Officers with Macquarie Credit Union) attended. Essential Energy Credit Union conducted a survey with over 250 entries from participants at the Field Days for the chance to win a \$500 on line savings account . The results of the survey will give Macquarie Credit Union valuable feedback on different aspects of our business.



Peter Nixon from Grafton depot won our \$500 online savings account competition.

## Credit Union member and 'STAR' in the Dubbo community

National Volunteer Week is the largest celebration of volunteers in Australia and provides an opportunity to highlight the role of volunteers in our communities and say thank you to the more than 6 million Australians who volunteer.

We wanted to make special mention to one of those 6 million people – a long time Macquarie Credit Union member Jack Stanmore, who has given countless hours of his time to volunteering in and around the Dubbo area, especially at the Royal Flying Doctor Service (RFDS) Dubbo Support.

"My wife and I sell a lot of raffle tickets and raise money that way. This last little raffle we had sold 40,000 tickets at \$2 a ticket. That brings in \$80,000," says Jack Stanmore.

We are very proud of the difference that Jack, his wife and the other volunteers are making.



## Annual Members Dinner

The 2011 Annual Members Dinner was held at the Taronga Western Plains Zoo Dubbo and was a fantastic opportunity for Members, staff and directors to get together have a drink, a chat and enjoy some great entertainment.

On behalf of Macquarie Credit Union we would like to say a big thank you to all those members who came along, we hope to see you again later this year.



## MS Red Day

The staff at Macquarie Credit Union held a Red Day in support of Kiss Goodbye to MS. During the month of May they were also selling Kiss Goodbye to MS merchandise and raised in \$400 in support for the cause.

Kiss Goodbye to MS is an initiative of MS Australia to raise funds for vital research into preventing and treating the symptoms of multiple sclerosis, providing support and services for people living with the disease and ultimately a cure.

Check out some of the photos from the day below.



## Dubbo Citizen of the Year - Macquarie Credit Union member!

We wanted to make special mention to a Macquarie Credit Union member of 18 years; Ted Madden. Ted was crowned Dubbo 2012 Citizen of the Year for his efforts in assisting with a variety of charities and giving back to the Dubbo community.

“Since enrolling in a basic woodwork course Ted Madden has honed his skill and utilised it for the benefit of others, created thousands of toys and pieces of furniture, all of which were donated to fundraising efforts for charity,” Cr Dickerson said.

He has also been involved in a number of donations and assisted a number of local charities such as Dubbo Base Hospital, Dubbo Private Hospital, Lourdes Hospital, Salvation Army, Vietnam Veterans Association of Dubbo, Playmates Cottage, Pink Angels and Red Cross.

We are very proud of our very own Ted Madden; a great ambassador for the community and the Credit Union.



# Chairman's report

The past year has been one of steady growth for your credit union. In a year of many interest rate changes, severe competition from the major banks and uncertain global and domestic conditions, your credit union has been a beacon of security and stability for our increasing number of members.

It is satisfying to know that in an ever increasingly uncertain world, your credit union has just achieved its 47th year of continual growth. Membership was initially drawn from the Macquarie Valley area around Dubbo, but now we are proud to have members from all over New South Wales. We also have an increasing number of members now living interstate.

Although we are still based in Dubbo, our business model allows us to service every single one of our members equally, no matter where in Australia they reside.

## Financial Performance

We achieved another pleasing financial result this year with a profit after tax of \$661,335. Assets now stand at \$86.6 million, an increase of 6.5 % over the previous year.

## Product Awards and Recognition

Once again we were very pleased to receive five star awards from Canstar for two of our loan products during the year. These were for our First Home Buyers Loan and our Variable Home Loan products.

We were also mentioned in the Sun Herald for having the sixth lowest cost credit card.

We are very proud to receive these awards and recognition as it shows that our members are in a position to receive some of the best financial deals in the country just by doing their banking with the Macquarie Credit Union. It goes to prove the old saying that you do not have to be the biggest to be the best.

## ATM Access

During the year, the rediATM network installed some 400 new ATMs around Australia. This makes the rediATM network one of the largest in Australia, with rediATM's available all over Australia, many of which are in rural parts of the country.

This collaboration between credit unions and other card issuers allows all our credit union members direct-charge free access to their money at most places in Australia.

## Changes to the Electricity Industry

Early in 2012 the State Government announced that it would merge the three state electricity distribution companies into one State-Owned Corporation. Each of the three current distributors will remain as separate operating entities reporting to one Board.

We are still uncertain of the exact arrangements under which each one will operate, but it appears that there will be little impact on our Essential Energy members. If anything, we are anticipating a possible opportunity to increase the spread of membership to other members of the electricity industry. As always we are working closely with senior management of Essential Energy to ensure our members get the maximum benefit of any changes that may occur.

## Protecting Our Member's Money

With ever increasing card fraud in the community, we are constantly on the lookout for ways to prevent our members from becoming victims of this insidious crime. It was to this end we introduced a free service during 2011 which provides monitoring of our member's cards 24 hours a day, 7 days a week, 365 days a year.

The service will automatically monitor all transactions of all our members on both their VISA Credit Card and VISA Debit Card at no cost to the member. If any suspicious activity on any of your cards is detected, you may be contacted immediately to verify the authenticity of the transaction.

This service has already detected and prevented numerous fraudulent transactions attempted on our member's cards. Members still need to be very security conscious when using their cards, but this service will at least make it that much harder for the cyber criminals to access your money.

## Customer Service

We conducted another of our member surveys during the latter half of 2011 and once again received many helpful comments and suggestions from our members. All of these have been considered by senior management and the Board, and many will be incorporated into our operations in due course. We thank all those members who took the time to give us their thoughts.

I would like to thank all our staff for their continued commitment during the year to providing all our members with the high standard of service they have come to expect from us. I am particularly pleased with the extra time and effort the staff put in to overcome the effect of one of the largest cyber frauds ever perpetrated in Australia on financial institutions via a large retail outlet. It was due to their extraordinary efforts during this time that our credit union and all our members were relatively unscathed as a result of this criminal activity.

Your directors have once again provided an intelligent and thoughtful approach to both the short term and longer term future of our credit union. The amount of time and effort required to be a productive director is quite substantial, and you can be assured that each one of them has the future of our credit union very much at heart.

We are always on the lookout for new directors who have a strong commitment to our credit union and who think that maybe they could add a new perspective to discussions around the Board table. To this end I would encourage all members to think seriously about putting themselves forward for consideration to act as a director of our great credit union. I can assure you that the satisfaction you will gain will be well worth the effort.

Once again the effort of our employer representatives working as a bridge between the credit union and each employer organisation has been outstanding. Their work helps the employees of each of these organisations achieve the full benefits that derive from being a member of our credit union.

Finally I thank all our members for recognising that by your participation in our credit union, you are not only helping yourselves achieve your own financial dreams, but doing so at a much cheaper cost than you would be able to with any other financial organisation. I urge each and every one of you to spread the word to your family, friends and work colleagues who are eligible to join, so that even more people can take advantage of the benefits you all now take for granted.

There are very few member owned organisations left these days, and each one of you own the Macquarie Credit Union and are in a position to have a say in how it is run for the benefit of all of the members. May that situation continue for many years to come.

I wish you all a very happy, healthy and successful time in the year ahead.



Chris Shepherd  
Chairman

# Financial Report for the year ended 30 June 2012

## TABLE OF CONTENTS

Directors' Report	15 - 17
Auditor's Independence Declaration	18
Directors' Declaration	19
Statement of Comprehensive Income	20
Statement of Financial Position	21
Statement of Changes in Equity	21
Statement of Cash Flows	22
Notes to the Financial Statements	23 - 62
Independent Audit Report to the Members	63 - 64

# Directors' Report

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

## DIRECTORS

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

**TE Bacon**

**PM Nolan**

**J Millar**

**DAJ Rootes**

**RK Mills**

**CJ Shepherd**

**J Moss**

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 seven 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 \$661,335 (2011: \$714,381).

## 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 2012.

## REVIEW OF OPERATIONS

The Credit Union recorded a profit of \$661,335 compared to \$714,381 in the 2011 year. The directors are very pleased with the result given the uncertain economic conditions in the global economy.

Interest revenue increased by \$272,154 (4.8%) to \$5,991,038 due to increased borrowings by members and higher rates as the economy recovered from the global financial crisis. In turn, this resulted in interest expense increasing by \$241,742 (8.6%) to \$3,052,984 as the Credit Union increased interest rates on its term deposits to aid in offsetting the higher loan interest rates.

Other revenue decreased by \$6,556 (1.2%) to \$548,191, employee benefits expense increased by \$63,622 (6.2%) to \$1,025,553, occupancy expenses decreased by \$1,647 (1.7%) to \$96,768, depreciation and amortisation expense increased by \$6,048 (6.3%) to \$95,597 and other expenses increased by \$42,522 (3.3%) to \$1,316,512.

## 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 \$412.

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:

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

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

<b>Mr J Millar</b>	<b>Director</b>
Experience	Board Member since 25/07/05
Interest in Shares	One ordinary share in the Credit Union

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

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

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

<b>Mr J Moss</b>	<b>Director</b>
Experience	Board Member since 24/02/09
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	8	1	-
J Millar	12	7	8	4
RK Mills	12	11	8	8
J Moss	12	12	8	8
PM Nolan	12	12	7	7
DAJ Rootes	12	10	-	-
CJ Shepherd	12	12	-	-

During the year, J Millar was granted a leave of absence from attending four (4) board meetings and four (4) 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 2012 has been received and can be found on page 18 of the financial statements.

## NON-AUDIT SERVICES

The Board of Directors, in accordance with advice from the audit 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 2012:

	\$
Taxation services	1,386
Preparation of financial statements	5,200
	<b>\$6,856</b>

Signed in accordance with a resolution of the Board of Directors at Dubbo on 5 September 2012 for and on behalf of the Directors by:

Chris Shepherd

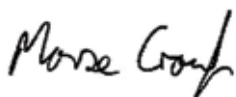
Paul Nolan

# Auditor's Declaration

## 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 2012 there have been:

- i. no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit;  
and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.



MORSE GROUP



L R SMITH  
PARTNER

2 River Street  
Dubbo  
Dated: 5 September 2012

# Directors' Declaration

The Directors of Macquarie Credit Union Limited declare that:

1. The financial statements and notes set out on pages 20 to 62 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 2012 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 5 September 2012 for and on behalf of the Directors by:



Chris Shepherd



Paul Nolan

# Financial Statements

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2012

	Notes	2012 \$	2011 \$
Interest revenue	3	5,991,038	5,718,884
Interest expense	4	(3,052,984)	(2,811,242)
<b>Net interest revenue</b>		<b>2,938,054</b>	<b>2,907,642</b>
Other revenue	3	548,191	554,747
Impairment losses on loans and advances	4	(23,830)	(53,933)
Employee benefits expense	4	(1,025,553)	(961,931)
Occupancy expense	4	(96,768)	(98,415)
Depreciation and amortisation expense	4	(95,597)	(89,549)
Other expenses	4	(1,316,512)	(1,273,990)
Profit before income tax expense		927,985	984,571
Income tax expense	5	(266,650)	(270,190)
<b>Profit for the year after income tax expense</b>		<b>661,335</b>	<b>714,381</b>
Other comprehensive income for the year		-	-
<b>Total comprehensive income for the year</b>		<b>661,335</b>	<b>714,381</b>

The accompanying notes form part of these financial statements.

## STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2012

	Notes	2012 \$	2011 \$
<b>ASSETS</b>			
Cash and liquid assets	7	12,082,752	10,790,067
Accrued receivables	8	454,442	374,606
Loans and advances	9	73,420,408	69,446,592
Other investments	10	170,456	170,456
Property, plant and equipment	11	110,641	110,320
Intangibles	12	74,462	82,182
Deferred tax assets	13	234,182	237,104
Other assets	14	14,874	34,677
<b>TOTAL ASSETS</b>		<b>86,562,217</b>	<b>81,246,004</b>
<b>LIABILITIES</b>			
Deposits and short term borrowings	15	63,432,373	58,623,653
Payables and other liabilities	16	687,752	774,017
Interest bearing liabilities	17	11,600,000	11,600,000
Tax liabilities	18	15,163	95,006
Provisions	19	161,584	149,318
<b>TOTAL LIABILITIES</b>		<b>75,896,872</b>	<b>71,241,994</b>
<b>NET ASSETS</b>		<b>10,665,345</b>	<b>10,004,010</b>
<b>EQUITY</b>			
Reserves	20	811,648	811,648
Retained profits	21	9,853,697	9,192,362
<b>TOTAL EQUITY</b>		<b>10,665,345</b>	<b>10,004,010</b>

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2012

	Retained Profits	Credit Losses Reserve \$	Total \$
<b>Balance at 1 July 2010</b>	<b>8,523,161</b>	<b>766,468</b>	<b>9,289,629</b>
Profit for the year	714,381	—	714,381
Transfer to reserves for credit loss for the year	(45,180)	45,180	—
<b>Total other comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Balance at 30 June 2011</b>	<b>9,192,362</b>	<b>811,648</b>	<b>10,004,010</b>
Profit for the year	661,335	—	661,335
Transfer to reserves for credit loss for the year	—	—	—
<b>Total other comprehensive income for the year</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Balance at 30 June 2012</b>	<b>9,853,697</b>	<b>811,648</b>	<b>10,665,345</b>

The accompanying notes form part of these financial statements.

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2012**

	Notes	2012 \$	2011 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest on loans		5,375,140	5,111,703
Interest on investments		660,222	583,210
Other non-interest income		472,903	412,042
Interest paid on members' savings		(2,699,298)	(2,267,687)
Interest paid on other finance		(423,969)	(432,301)
Payments to suppliers and employees		(2,471,618)	(2,387,203)
Income tax paid		(343,571)	(262,521)
Members' loan repayments		19,355,026	14,423,617
Members' loans' disbursed		(23,352,672)	(22,606,662)
<b>Net cash used in operating activities</b>	28.3	<b>(3,427,837)</b>	<b>(7,425,802)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Sale of investments		-	23,178
Sale of property, plant and equipment		-	24,401
Purchase of property, plant and equipment		(88,198)	(166,052)
<b>Net cash used in investing activities</b>		<b>(88,198)</b>	<b>(118,473)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from borrowings		-	3,000,000
Net movement in member savings		4,808,720	4,890,648
<b>Net cash provided by financing activities</b>		<b>4,808,720</b>	<b>7,890,648</b>
<b>NET INCREASE/(DECREASE) IN CASH HELD</b>		<b>1,292,685</b>	<b>346,373</b>
Cash at beginning of year		10,790,067	10,443,694
<b>CASH AT END OF YEAR</b>	28.2	<b>12,082,752</b>	<b>10,790,067</b>

The accompanying notes form part of these financial statements.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2012

## 1. STATEMENT 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 5 September 2012 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 the balance 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% - 50.0%
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 balance 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 balance sheet 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 %
<b>Interest revenue - 2012</b>			
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%
	<b>82,264,957</b>	<b>5,991,038</b>	

<b>Interest revenue - 2011</b>			
Deposits with financial institutions	10,209,513	607,181	5.9%
Loans and advances (other than Commercial loans)	66,471,507	4,985,363	7.5%
Commercial loans	1,272,069	126,340	9.9%
	<b>77,953,089</b>	<b>5,718,884</b>	

<b>Borrowing costs - 2012</b>			
Customer deposits	65,867,308	2,629,015	3.9%
Short-term borrowings	6,838,210	423,969	6.2%
	<b>72,705,518</b>	<b>3,052,984</b>	

<b>Borrowing costs - 2011</b>			
Customer deposits	67,285,294	2,378,941	3.5%
Short-term borrowings	7,492,218	432,301	5.7%
	<b>74,777,512</b>	<b>2,811,242</b>	

	2012	2011
	\$	\$
<b>3. REVENUE FROM ORDINARY ACTIVITIES</b>		
<b>Interest revenue</b>	<b>5,991,038</b>	<b>5,718,884</b>

<b>Non-interest revenue</b>		
Dividends received	39,224	53,234
Fees and commissions		
Fees and charges	313,284	287,899
Commissions	177,740	170,252
Bad debts recovered	13,170	21,043
Gain on disposal of assets	-	16,809
Other revenue	4,773	5,510
<b>Total non-interest revenue</b>	<b>548,191</b>	<b>554,747</b>

#### 4. PROFIT FROM OPERATIONS

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

<b>Interest expense</b>		
Deposits from members	2,629,015	2,378,941
Short term borrowings	423,969	432,301
	<b>3,052,984</b>	<b>2,811,242</b>

<b>Impairment losses</b>		
Bad debts written off directly against profit	1,830	60,864
Addition/(reversal) of amounts against provision for impaired loans	22,000	(6,931)
	<b>23,830</b>	<b>53,933</b>

<b>Depreciation and amortisation</b>		
Office equipment	444	444
Office furniture	497	-
Motor vehicles	22,748	24,917
EDP hardware	21,876	18,230
Amortisation of intangible assets	50,032	45,958
	<b>95,597</b>	<b>89,549</b>

	2012	2011
	\$	\$
<b>4. PROFIT FROM OPERATIONS (CONTINUED)</b>		
<b>Occupancy expenses</b>	<b>96,768</b>	<b>98,415</b>
<b>Employee benefits expense</b>		
Salaries	786,990	740,057
Superannuation contributions	85,959	80,128
Annual leave	6,872	15,109
Long service leave	5,104	14,423
Sick leave	248	135
Other	140,380	112,079
	<b>1,025,553</b>	<b>961,931</b>
<b>Other expenses</b>		
Fees and commissions	254,508	267,922
Loans administration	111,666	91,670
Data processing	353,877	327,078
General administration	596,461	587,320
	<b>1,316,512</b>	<b>1,273,990</b>
<b>5. INCOME TAX EXPENSE</b>		
The components of income tax expense comprise:		
Provision for income tax	263,728	254,497
Decrease in deferred tax assets	2,922	15,693
	<b>266,650</b>	<b>270,190</b>
The prima facie tax on operating profit before income tax is reconciled to income tax as follows:		
Prima facie tax on operating profit @ 30% (2011 – 30%)	278,395	295,371
Add tax effect of non allowable items	-	8,996
Less tax effect of:		
Bad debts recovered	-	(2,945)
Difference in tax depreciation	-	(15,306)
Rebateable fully franked dividends	(11,745)	(15,926)
Income tax expense attributable to operating profit	<b>266,650</b>	<b>270,190</b>

The applicable weighted average effective tax rate is 29% (2011 - 27%)

2012	2011
\$	\$

## 6. AUDITOR'S REMUNERATION

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

Audit of the financial statements	31,034	29,990
Audit of the APRA returns	5,618	5,350
Other services	6,586	6,275
	<b>43,238</b>	<b>41,615</b>

## 7. CASH AND LIQUID ASSETS

Imprest accounts	276,137	296,721
Deposits at call	4,259,480	3,493,346
Interest earning deposits	7,547,135	7,000,000
	<b>12,082,752</b>	<b>10,790,067</b>

## 8. ACCRUED RECEIVABLES

Members clearing accounts	346,197	222,037
Interest receivable	108,245	152,569
	<b>454,442</b>	<b>374,606</b>

## 9. LOANS AND ADVANCES

Overdrafts	474,977	481,103
Visa	667,257	718,688
Term loans	72,307,040	68,253,667
	<b>73,449,274</b>	<b>69,453,458</b>
Provision for impaired loans	(28,866)	(6,866)
	<b>73,420,408</b>	<b>69,446,592</b>

### 9.1 Maturity Analysis

Overdrafts	474,977	481,103
Visa	667,257	718,688
Not longer than 3 months	772,412	722,208
Longer than 3 months but less than 12 months	4,079,143	3,559,710
Longer than 1 year but less than 5 years	17,952,037	14,023,217
Longer than 5 years	49,503,448	49,948,532
	<b>73,449,274</b>	<b>69,453,458</b>

	2012 \$	2011 \$
<b>9.2 Security Dissection</b>		
Secured by mortgage over real estate	62,558,988	57,624,383
Partly secured by goods mortgage	7,622,835	8,287,983
Wholly unsecured	3,267,451	3,541,092
	<b>73,449,274</b>	<b>69,453,458</b>

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%	46,194,053	46,134,982
Loan to valuation ratio of greater than 80% and mortgage insured	12,082,454	9,438,797
Loan to valuation ratio of greater than 80% and not mortgage insured	4,282,481	2,050,604
	<b>62,558,988</b>	<b>57,624,383</b>

### 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	71,224,354	67,410,621
Other States and Territories	2,224,920	2,042,837
	<b>73,449,274</b>	<b>69,453,458</b>

ii) There are no members who individually have a loan and overdraft facility, which represents in total 10% or more of capital (2011 – Nil).

### 9.4 Movement in the Provision

Opening balance	6,866	16,704
Bad debts written off against provision	(1,830)	(63,771)
Loans provided for during the year	23,830	53,933
	<b>28,866</b>	<b>6,866</b>

## 9.5 Analysis of Loans that are Impaired or Potential Impaired by Class

	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
<b>Total</b>	<b>73,449,274</b>	<b>223,401</b>	<b>28,866</b>

	2011 Carrying Value	2011 Impaired Loans	2011 Provision for Impairment
Loans to members			
Residential	57,624,383	-	-
Personal	10,629,284	17,789	649
Overdrafts/Visa	1,199,791	17,330	6,217
<b>Total</b>	<b>69,453,458</b>	<b>35,119</b>	<b>6,866</b>

It is not practicable to determine the fair value of all collateral as at the balance 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	2012 Carrying Value	2012 Provision	2011 Carrying Value	2011 Provision
0 -90 days	33,452	-	16,707	-
91 – 182 days	-	-	-	-
183 – 273 days	178,849	22,747	1,082	649
274 – 365 days	-	-	-	-
Over 365 days	-	-	-	-
Overlimit facilities over 14 days	11,100	6,119	17,330	6,217
	<b>223,401</b>	<b>28,866</b>	<b>35,119</b>	<b>6,886</b>

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

There were no assets acquired via enforcement of security in 2012. (2011 – \$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. (2011 – Nil)

### 9.9 Loans restructured

There were no loans restructured during the year. (2011 – 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

	2012	2011
	\$	\$
Shares held with Special Service Providers		
Ordinary shares	155,868	155,868
Shares – at cost		
Unlisted	14,588	14,588
	<b>170,456</b>	<b>170,456</b>

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.

	2012	2011
	\$	\$
<b>11. PROPERTY, PLANT AND EQUIPMENT</b>		
Office furniture - at cost	140,323	138,059
Less: provision for depreciation	(138,557)	(138,059)
	<b>1,766</b>	<b>-</b>
Office equipment - at cost	92,882	92,882
Less: provision for depreciation	(92,745)	(92,301)
	<b>137</b>	<b>581</b>
Motor vehicles - at cost	165,108	131,309
Less: provision for depreciation	(79,727)	(56,979)
	<b>85,381</b>	<b>74,330</b>
EDP hardware - at cost	250,355	240,531
Less: provision for depreciation	(226,998)	(205,122)
	<b>23,357</b>	<b>35,409</b>
	<b>110,641</b>	<b>110,320</b>

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 2010	-	1,025	21,927	36,660	59,612
Additions	-	-	91,364	16,979	108,343
Disposals	-	-	(14,044)	-	(14,044)
Depreciation expense	-	(444)	(24,917)	(18,230)	(43,591)
Balance at 30 June 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)
<b>Balance at 30 June 2012</b>	<b>1,766</b>	<b>137</b>	<b>85,381</b>	<b>23,357</b>	<b>110,641</b>

<b>12. INTANGIBLES</b>		
	2012	2011
	\$	\$
EDP software	616,549	574,237
Accumulated amortisation	(542,087)	(492,055)
	<b>74,462</b>	<b>82,182</b>

## 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	82,182	42,312	-	(50,032)	74,462
				2012	2011
				\$	\$

## 13. DEFERRED TAX ASSETS

Deferred tax assets	234,182	237,104
---------------------	---------	---------

## 14. OTHER ASSETS

Prepayments	14,874	34,677
-------------	--------	--------

## 15. DEPOSITS AND SHORT TERM BORROWINGS

Term deposits	29,055,417	25,546,466
Call deposits	34,325,366	33,024,597
Withdrawable shares	51,590	52,590
	<b>63,432,373</b>	<b>58,623,653</b>

### 15.1 Maturity Analysis

On call	34,376,956	33,077,187
Not longer than 3 months	15,721,855	12,278,420
Longer than 3 and not longer than 12 months	13,333,562	13,268,046
	<b>63,432,373</b>	<b>58,623,653</b>

### 15.2 Concentration of Deposits

- i) There are no members who individually have deposits, which represent 10% or more of total liabilities (2011: Nil).
- ii) Details of the geographic concentration of the deposits are set out below.

Geographical Area		
New South Wales	61,453,151	56,866,655
Other States and Territories	1,979,222	1,756,998
	<b>63,432,373</b>	<b>58,623,653</b>

	2012	2011
	\$	\$
<b>16. PAYABLES AND OTHER LIABILITIES</b>		
Payables and accrued expenses	113,844	109,697
Accrued interest payable	527,469	597,752
Members' clearing accounts	46,439	66,568
	<b>687,752</b>	<b>774,017</b>

<b>17. INTEREST BEARING LIABILITIES</b>		
Deposits from other ADI	7,100,000	6,600,000
TWT short term loan	4,500,000	5,000,000
	<b>11,600,000</b>	<b>11,600,000</b>

<b>18. TAX LIABILITIES</b>		
Income tax	<b>15,163</b>	<b>95,006</b>

<b>19. PROVISIONS</b>		
Employee leave entitlements	161,584	149,318
Opening balance at 1 July	149,318	123,558
Additional provisions raised during the year	56,369	67,244
Amounts used	(44,103)	(41,484)
<b>Balance at 30 June</b>	<b>161,584</b>	<b>\$149,318</b>

<b>20. RESERVES</b>		
Reserve for credit losses	<b>811,648</b>	<b>811,648</b>

#### 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.

Balance at the beginning of the year	811,648	766,468
Transfer to / from retained profits	-	45,180
<b>Balance at end of year</b>	<b>811,648</b>	<b>811,648</b>

<b>21. RETAINED PROFITS</b>		
Retained profits at the beginning of the financial year	9,192,362	8,523,161
Net profit attributable to members	661,335	714,381
Transfer to/from reserves	-	(45,180)
<b>Retained profits at the end of the financial year</b>	<b>9,853,697</b>	<b>9,192,362</b>

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 \$2,729,775 (2011 - \$2,395,452). Franking credits represent reserves upon which income tax has been paid.

## 22. DIRECTORS AND KEY MANAGEMENT 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	DAJ Rootes
J Millar	CJ Shepherd
R Mills	M Bow
J Moss	L Bourne
PM Nolan	S Vanstone

### 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 three members of the executive management team during the financial year (2011 – 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:

	2012	2011
	\$	\$
Salary and fee	333,275	312,368
Superannuation contributions	37,945	25,662
	<b>371,220</b>	<b>338,030</b>

## 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.

	2012 \$	2011 \$
Aggregate value of loans and overdrafts to Directors and other Key Management Personnel at balance date	430,522	716,061
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	47,472	50,263

	2012 \$	2011 \$
<b>22.4 Savings of Key Management Personnel</b>		
Total value of term and savings deposits from Directors and Key Management Personnel at balance date	486,561	517,555
Total interest paid on deposits to Directors And Key Management Personnel during the year	24,167	25,187

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 2012 the Credit Union has no future capital commitments (2011: Nil).

### 23.2 Lease Expenditure Commitments

#### Operating leases

Within 1 year	69,266	41,126
1 - 5 years	10,223	-
	<b>79,489</b>	<b>41,126</b>

2012	2011
\$	\$

### 23.3 Other Expenditure Commitments

The Credit Union converted to the Ultracs core banking system during 2006/07 financial year. The costs committed under contracts with Ultradata and Combined Financial Processing (CFP) are as follows:

Within 1 year	143,844	143,844
1 - 5 years	88,703	234,945
	<b>232,547</b>	<b>378,789</b>

### 23.4 Outstanding Loan Commitments

Loans approved by the Board but not funded as at 30 June 2012 amounted to \$2,140,076 (2011: \$1,248,939).

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 2012 amounted to \$2,340,082 (2011: \$3,418,611). Total facilities increased by \$102,969 during the year (2011: increase of \$89,801). 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 Borrowings	-	-
<b>Net available</b>	<b>1,600,000</b>	<b>\$1,600,000</b>

2012	2011
\$	\$

## 24 Standby Borrowing Facilities (continued)

### Loan Facility - TWT Fund

Gross	5,000,000	5,000,000
Current Borrowing	(4,500,000)	(5,000,000)
<b>Net available</b>	<b>500,000</b>	<b>-</b>

### Overdraft Facility

Gross	300,000	300,000
Current Borrowing	-	-
<b>Net available</b>	<b>300,000</b>	<b>300,000</b>

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 2012 was Nil (2011: Nil).

There are no other contingent liabilities at balance 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.

### **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.

### **First Data Resources Limited (FDR)**

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

## 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;

2012	2011
\$	\$

## 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:

Cash on hand and at SSP's	4,535,617	3,790,067
Interest earning deposits	7,547,135	7,000,000
<b>Cash as per Statement of Cash Flows</b>	<b>12,082,752</b>	<b>10,790,067</b>

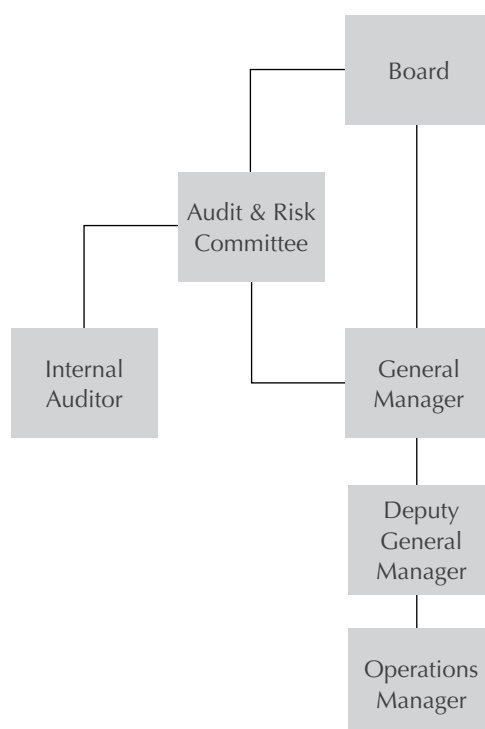
## 28.3 Reconciliation of Net Cash Provided by Operating Activities to Net Profit for the year after Income Tax expense

Operating profit after tax	661,335	714,381
<b>Non cash flow items</b>		
Employee leave entitlements	12,266	25,760
Depreciation and amortisation	95,597	89,549
Gain on disposal of assets	-	(16,809)
Bad debts written off	23,830	53,933
<b>Changes in assets and liabilities</b>		
Decrease/(increase) in deferred tax assets	2,922	15,693
(Increase)/decrease in prepayments	19,803	(15,811)
Increase/(decrease) in provision for income tax	(79,843)	(8,024)
Increase/(decrease) in payables	(86,265)	76,383
(Increase)/decrease in accrued receivables	(79,836)	(177,812)
<b>Net cash from revenue activities</b>	<b>569,809</b>	<b>757,243</b>
<b>Non-revenue operations</b>		
Movement in members loans	(3,997,646)	(8,183,045)
	<b>(3,427,837)</b>	<b>(7,425,802)</b>

## 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.

## 29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### 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 the balance 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 2012, the net profit impact for a 1% movement in interest rates would be \$93,393.

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 has 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 the balance date. These facilities are in addition to the support from CUFSS.

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

APRA	2012 %	2011 %
<b>To total adjusted liabilities</b>		
As at 30 June	13.95	14.30
Minimum during the year	13.56	13.20
<b>To total member deposits</b>		
As at 30 June	15.92	18.42

## 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	2012 Carrying Value \$	2012 Off Balance Sheet \$	2012 Max Exposure \$	2011 Carrying Value \$	2011 Off Balance Sheet \$	2011 Max Exposure \$
Residential	62,558,988	2,031,477	64,590,465	57,624,383	2,095,538	59,719,921
Personal	9,748,052	108,599	9,856,651	10,629,284	77,836	10,707,120
Overdraft/Visa	1,142,234	2,340,082	3,482,316	1,199,791	2,571,096	3,770,887
<b>Total</b>	<b>73,449,274</b>	<b>4,480,158</b>	<b>77,929,432</b>	<b>69,453,458</b>	<b>4,744,470</b>	<b>74,197,928</b>

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 assets 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 65% 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 the balance 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.

## 29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### External Credit Assessment for Institution Investments

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

Investments with	2012 Carrying value \$	2012 Past due value \$	2012 Provision \$	2011 Carrying value \$	2011 Past due value \$	2011 Provision \$
Cuscal	3,500,000	-	-	3,000,000	-	-
Banks	1,000,000	-	-	4,000,000	-	-
Other ADI	3,047,135	-	-	-	-	-
<b>Total</b>	<b>7,547,135</b>	<b>-</b>	<b>-</b>	<b>7,000,000</b>	<b>-</b>	<b>-</b>

### 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.

## 29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### 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.

At 30 June 2012, the Credit Union's capital comprises:

## 29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

June 2012

### Tier 1 Capital

Fundamental Tier 1 Capital:	
Retained earnings	9,192,362
Transfer to general reserve	-
Current year earnings net of expected dividends and tax expenses	661,335
<b>Gross Tier 1 Capital</b>	<b>9,853,697</b>
Deductions from Tier 1 Capital	
Deferred tax assets	2,922
Equity in other ADI's (50%)	77,934
	<b>80,856</b>

### Net Tier 1 Capital

9,772,841

### Tier 2 Capital

Upper Tier 2 Capital	
General reserve for credit losses	592,726
Deductions from Tier 2 Capital	
Equity in other ADI's (50%)	(77,934)
<b>Net Tier 2 Capital</b>	<b>514,792</b>

### Capital Base

10,287,633

At 30 June 2012, the credit union's risk weighted assets reported to APRA were as follows:

### Credit Risk Items

June 2012

Credit Risk Items – Standardised Approach	
On and Off Balance Sheet	42,478,359

### Operational Risk

Standardised Approach	4,939,723
-----------------------	-----------

### Market Risk

-

### Total Risk Weighted Assets

47,418,082

### Capital Adequacy Ratio

21.70%

## 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

This capital component was introduced as from 1 January 2009 and coincided with changes in the asset risk weightings for specified loans and liquid investments. Previously no operational charge was prescribed.

The Credit Union uses the Standardised approach which is considered to be 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 \$4,939,723.

### 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 the balance date, are as follows:

Recognised Financial Instruments	Statement of Financial Position Notes	Accounting Policies	Terms and Conditions
<b>(i) Financial assets</b>			
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 5.0% to 6.0%.
Unlisted shares	10	Unlisted shares are carried at the lower of cost or recoverable amount. 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
Listed Shares	10	Listed shares are valued at market value. Dividend income is recognised when the dividends are received.	
Accrued Receivables	8	The carrying value of receivables is at their nominal amounts due.	
<b>ii) Financial liabilities</b>			
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 balance date and will vary depending on the contractual rates applied to each asset and liability, relative to market rates and conditions at the time. No assets held are regularly traded by the Credit Union, and there is no active market to assess the value of the financial assets and liabilities.

	Total carrying amount in the statement of financial position		Aggregate net fair value	
	2012 \$	2011 \$	2012 \$	2011 \$
<b>Financial assets</b>				
Cash and liquid assets	12,082,752	10,790,067	12,082,752	10,790,067
Accrued receivables	454,442	374,606	454,442	374,606
Other investments	170,456	170,456	170,456	170,456
Loans and advances	73,420,408	69,446,592	73,197,007	69,411,473
<b>Total financial assets</b>	<b>86,128,058</b>	<b>80,781,721</b>	<b>85,904,657</b>	<b>80,746,602</b>

## 30.2 Net Fair Values (continued)

	Total carrying amount in the statement of financial position		Aggregate net fair value	
	2012 \$	2011 \$	2012 \$	2011 \$
<b>Financial liabilities</b>				
Deposits and short term borrowings	63,432,373	58,623,653	63,432,373	58,623,653
Payables and other liabilities	687,752	774,017	687,752	774,017
Interest bearing liabilities	11,600,000	11,600,000	11,600,000	11,600,000
<b>Total financial liabilities</b>	<b>75,720,125</b>	<b>70,997,670</b>	<b>75,720,125</b>	<b>70,997,670</b>

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 balance 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 the balance 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	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
	\$	\$	\$	\$	\$	\$	\$	\$	%	%
<b>(i) Financial assets</b>										
Cash and liquid assets	4,259,480	3,493,346	7,547,135	7,000,000	276,137	296,721	12,082,752	10,790,067	5.5	5.9
Accrued receivables	—	—	—	—	454,442	374,606	454,442	374,606	—	—
Other investments	—	—	—	—	170,456	170,456	170,456	170,456	—	—
Loans and advances	73,420,408	69,446,592	—	—	—	—	73,420,408	69,446,592	7.5	7.6
<b>Total financial assets</b>	<b>77,679,888</b>	<b>72,939,938</b>	<b>7,547,135</b>	<b>7,000,000</b>	<b>901,035</b>	<b>841,783</b>	<b>86,128,058</b>	<b>80,781,721</b>		
<b>(ii) Financial liabilities</b>										
Deposits and short term borrowings	34,325,366	33,024,597	29,055,417	25,546,466	51,590	52,590	63,432,373	58,623,653	3.9	3.9
Payables and other liabilities	—	—	—	—	687,752	774,017	687,752	774,017	—	—
Interest bearing liabilities	4,500,000	5,000,000	7,100,000	6,600,000	—	—	11,600,000	11,600,000	5.8	6.6
<b>Total financial liabilities</b>	<b>38,825,366</b>	<b>38,024,597</b>	<b>36,155,417</b>	<b>32,146,466</b>	<b>739,342</b>	<b>826,607</b>	<b>75,720,125</b>	<b>70,997,670</b>		

### 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	
	2012	2011	\$	2012	2011	\$	2012	2011	\$	2012	2011	\$	2012	2011	2012	2011
<b>(i) Financial assets</b>																
Cash and liquid assets	7,620,937	5,649,108		–	1,558,461		–	–		–	–		4,752,452	3,790,067	12,373,389	10,997,636
Accrued receivables	–	–		–	–		–	–		–	–		346,198	222,037	346,198	222,037
Loans to members	2,454,848	2,457,242		6,904,275	7,303,176		29,832,416	30,548,807		104,174,039	94,029,020		–	–	143,365,578	134,338,245
Other investments	–	–		–	–		–	–		–	–		170,456	170,456	170,456	170,456
<b>Total financial assets</b>	<b>10,075,785</b>	<b>8,106,350</b>		<b>6,904,275</b>	<b>8,861,637</b>		<b>29,832,416</b>	<b>30,548,807</b>		<b>104,174,039</b>	<b>94,029,020</b>		<b>5,269,106</b>	<b>4,182,560</b>	<b>156,255,621</b>	<b>145,728,374</b>
<b>(ii) Financial liabilities</b>																
Deposits	15,834,879	12,601,140		13,616,119	13,676,309		–	–		–	–		34,376,956	33,077,187	63,827,954	59,354,636
Interest bearing liabilities	9,703,277	10,285,267		2,100,368	1,528,967		–	–		–	–		–	–	11,803,645	11,814,234
Payables and other liabilities	–	–		–	–		–	–		–	–		160,283	176,265	160,283	176,265
<b>Total financial liabilities</b>	<b>25,538,156</b>	<b>22,886,407</b>		<b>15,716,487</b>	<b>15,205,276</b>		<b>–</b>	<b>–</b>		<b>–</b>	<b>–</b>		<b>34,537,239</b>	<b>33,253,452</b>	<b>75,791,882</b>	<b>71,345,135</b>

### 31. CHANGE IN ACCOUNTING POLICY

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 2010-8: Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets (applies to periods beginning on or after 1 January 2012).

This Standard makes amendments to AASB 112: Income Taxes and incorporates Interpretation 121: Income Taxes – Recovery of Revalued Non-Depreciable Assets into AASB 112.

Under the current AASB 112, the measurement of deferred tax liabilities and deferred tax assets depends on whether an entity expects to recover an asset by using it or by selling it. The amendments introduce a presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

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

### 31. CHANGE IN ACCOUNTING POLICY (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 2011–9: Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income (applicable for annual reporting periods commencing on or after 1 July 2012).

The main change arising from this Standard is the requirement for entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently.

This Standard affects presentation only and is therefore 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. CHANGE IN ACCOUNTING POLICY (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)

# Independent Audit Report to the Members of 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 2012, 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. We confirm that the independence declaration required by the Corporations Act, provided to the directors of Macquarie Credit Union Limited on 5 September 2012 would be in the same terms if provided to the directors as at the date of this auditor's report.

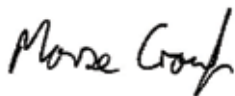
## Matters Relating to the Electronic Presentation of the Audited Financial Report

This audit report relates to the financial statements of Macquarie Credit Union Limited (the Credit Union) for the year ended 30 June 2012 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 2012 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**

2 River Street  
Dubbo  
Dated: 6 September 2012



**L R SMITH**  
PARTNER

# Credit Union Contacts

BATHURST ESSENTIAL ENERGY	S. BORGSTAHL
BOGAN SHIRE COUNCIL	C. ELLISON
BOURKE/ BREWARRINA ESSENTIAL ENERGY	C. BROWN
BULAHDELAH ESSENTIAL ENERGY	M COOK
COBAR ESSENTIAL ENERGY	M. DAVIES
COFFS HARBOUR ESSENTIAL ENERGY	A HAYNES
COONABARABRAN ESSENTIAL ENERGY	LEN ROBERTS
COONAMBLE ESSENTIAL ENERGY	D. BOREHAM
COONAMBLE MPHS	LIBBY BURNHEIM
COONAMBLE SHIRE COUNCIL	V. FULMER
DUBBO BASE HOSPITAL	P. WOODWARD
DUBBO CITY COUNCIL	V. DAWSON
DUBBO ESSENTIAL ENERGY	J. MORRISON
DUBBO E/E FSC	R. HOWELL/W AMOR
DUNEDOO ESSENTIAL ENERGY	S. CURTIS
DUNEDOO MPHS	CHRISTINE WARWICKER
DUNGOG E/E	J MIDDLEBROOK
GILGANDRA DISTRICT HOSPITAL	K. MCWHIRTER
GILGANDRA ESSENTIAL ENERGY	M.COLWELL
GILGANDRA SHIRE COUNCIL	J. HENRY
GLOUCESTER E/E	R SMITH

GULGONG ESSENTIAL ENERGY	J. LOCKYEAR
GULGONG WENONAH LODGE	V HARRIS
KEMPSEY E/E	C SIMON
MUDGEE DISTRICT HOSPITAL	J. ADAMS
MUDGEE KANANDAH	A. WARMAN
MUDGEE PIONEER HOUSE	D. NEWMAN
NAMBUCCA HEADS ESSENTIAL ENERGY	DAVID MALONEY
NARROMINE BASE HOSPITAL	L. MCLELLAND
NARROMINE SHIRE COUNCIL	S. EVERETT
NARROMINE ESSENTIAL ENERGY	A. SMITH
NYNGAN ESSENTIAL ENERGY	D. SMITH
NYNGAN DISTRICT HOSPITAL	L. HAWLEY
ORANGE ESSENTIAL ENERGY	J DUNCAN
ORANGE ESSENTIAL ENERGY CS	M HORTON
PORT MACQUARIE ESSENTIAL ENERGY	CHERYL ADAMS
TAREE ESSENTIAL ENERGY	TERRY COLLIER/ TERRY WELLS
WARREN ESSENTIAL ENERGY	M. ORIEL
WARREN MPHS	L. CLARK
WARREN SHIRE COUNCIL	J.MURRAY
WELLINGTON ESSENTIAL	P EVERINGHAM
WELLINGTON SHIRE COUNCIL	T MCINNES

## Staff

Matthew Bow

Leanne Bourne

Jenny Lee Millgate

Emma Piper

Jennifer Humphries

Matthew Mcfetridge

Cheriee Edwards

Michele Baker

Geoffrey Morrison

Maree Wilson

Jill Graham

Lisa Northill

Greg Wheatley

Georgie-Anne Pomfret

Leanne Soper

General Manager

Deputy General Manager

Loans Supervisor

Loans Officer

Loans Officer

Loans Officer

Loans Administration

Collections Officer

Business Development Officer  
(Central Western Region)

Business Development Officer  
(Mid North Coast Region)

Member Service Officer

Member Services Officer

Member Services Officer

Member Services Officer

Member Services Officer

---

## Directors

TE BACON

J MOSS

PM NOLAN

J MILLAR

DAJ ROOTES

RK MILLS

CJ SHEPHERD

---

## Registered Office

23 Hawthorn Street,  
PO Box 1618, Dubbo NSW 2830

**Telephone:** 1300 885 480

**Facsimile:** (02) 6882 6909

**Telephone Banking:** 1300 885 480

**Email:** [info@macquariecu.com.au](mailto:info@macquariecu.com.au)

**Web:** [macquariecu.com.au](http://macquariecu.com.au)

## Auditors

**MORSE GROUP**  
2 River Street, Dubbo NSW 2830

## Solicitor

**Nelson, Keane & Hemingway**  
Church Street, Dubbo NSW 2830

## Banker

**Cuscal Ltd.**  
National Australia Bank, Sydney