2013

54TH ANNUAL REPORT

ADCU
Australian Defence Credit Union

Contents

2013

Directors' Report

In a year of record low interest rates ADCU has achieved strong growth which has been complemented by sound prudential reserves and growing member satisfaction.

Chairman's summary

It is my pleasure as the outgoing Chairman to report on another positive year for ADCU and its membership.

Over the last 12 months ADCU has introduced a number of new products and services aimed at better satisfying the needs of our members (these are covered in more detail in the CEO's report). The growth of the business reflects the fact that members are choosing to do more of their banking with ADCU. Independent rating agencies continue to rate our products highly. It was very pleasing to see the member survey report an increase in member satisfaction at levels significantly higher than the banks. I am also pleased to report a strong ongoing commitment to supporting the Defence community as we continue to provide sponsorship for national and local sports and other community events, both on and off base.

During this reporting period, we had a change in our Chief Executive Officer. I'd like to take this opportunity to thank our former CEO, Ian Doyle, for his significant contribution during 5 years service at ADCU. I also formally welcome our new CEO, John Ford, who will lead the organisation going forward.

Your Board has taken its responsibilities for good corporate governance seriously and ensured ADCU's provisions and capital reserves have been increased to levels well in excess of regulatory requirements. I retire as Chairman knowing that ADCU is soundly positioned for the future and is in excellent financial health.

Throughout my time as Chairman, ADCU has enjoyed wonderful support from our members and friends in the Defence Force, the wider Defence Community, the RSL movement, our suppliers and industry connections. I look forward to hearing of ADCU's ongoing success in maintaining those relationships to ensure that we continue to serve well, those that serve our country.

The ADCU Board is now going about its task of appointing the next Chairman. I wish my successor well and know that the membership's interest will continue to remain of paramount importance to their deliberations.

Finally I would like to take this opportunity to thank my fellow Directors for their professionalism and diligence, the CEO and his Management team for their dedication to our goals and objectives, and, of course, to our wonderful ADCU staff for their never tiring efforts in support of our members. I thank you all and it has been my privilege to serve as your Chairman for the last 12 years.

John Wood
Chairman
19 September 2013

The Directors present their report on Australian Defence Credit Union Limited (ADCU) for the financial year ended 30 June 2013.

Corporate governance

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

Legislative and regulatory requirements

ADCU is a company registered under the *Corporations Act 2001*.

ADCU is primarily regulated as:

- an Authorised Deposit Taking Institution by the Australian Prudential Regulation Authority (APRA) (via Australian Prudential Standards and the Banking Act 1959);
- an Australian Financial Services Licence holder by the Australian Securities and Investments Commission (ASIC) (via the Financial Services Reform Act 2001 and the *Corporations Act 2001*);
- an Australian Credit Licence holder, by the Australian Securities and Investment Commission (ASIC) (via the National Consumer Credit Protection Act 2009); and
- a provider of designated services, by the Australian Transaction Reports and Analysis Centre (AUSTRAC) (via the Anti-Money Laundering and Counter-Terrorism Financing Act 2006).

ADCU's policy on corporate governance, to meet these regulatory requirements and establish best practice, is formulated by the Board of Directors based on the requirements and key principles of the Prudential Standard CPS 510 Governance as they apply to ADCU.

Role of the Board

The Board is responsible for the overall corporate governance of ADCU including formulating its strategic direction, approving and monitoring the business plan, creating policies, assessing risk, ensuring compliance and establishing and monitoring the achievement of ADCU's goals.

The Board has delegated responsibility for the operation and administration of ADCU to the Chief Executive Officer (CEO) and the Executive Management Team.

Composition of the Board

The names of the Directors and their qualifications are set out later in the Directors' Report.

The Constitution sets out the size and composition of the Board. The Board comprises seven independent non executive Directors. A Director must retire from office at the end of the third AGM after the AGM at which the Director's election is announced, and may stand for re-election should he or she re-nominate. The Board may appoint a new Director to fill a casual vacancy and the term of a Director so appointed will end at the conclusion of the next Annual General Meeting after the elected director's appointment.

Board processes

To assist in the planning and execution of its responsibilities, the Board has established a number of Board Committees. They are the Executive Committee, Renewal Committee, Audit Committee, Risk Committee and Remuneration Committee.

These committees have written charters and policies that are reviewed annually along with a range of plans. Through the committees, policies and plans, the Board has established a governance and risk management framework including a system of internal controls, operational risk, compliance, financial and regulatory reporting. The significant outcomes of the committees' work are reviewed and endorsed by the full Board. The Board currently holds eleven scheduled meetings a year together with two strategic planning conferences.

Typically at a Board meeting the Directors review the monthly and year to date financial results and key performance indicators, make decisions on resolutions and new policies, note progress on projects, discuss CEO and Executive Management's departmental reports and endorse Board Committee reports.

Executive Committee

The Executive Committee's role is to plan, manage and coordinate the agendas and timetables of the Board meetings and strategic planning activities. This committee comprises the Chairman of the Board, the Deputy Chairman and Chief Executive Officer.

Renewal Committee

The Renewal Committee's role is to maintain the Corporate Governance, Fit and Proper, Board Renewal and Performance Evaluation policies and initiate and conduct the activities that flow from these policies. The committee comprises at least two Directors. The Chair of the Renewal Committee is normally a senior Director. The Committee is assisted by the Head of Human Resources.

Audit Committee

The Audit Committee has specific responsibilities relating to policy development, financial accounting and reporting processes, internal and external audit processes, risk management (in conjunction with the Risk Committee), and whistleblower monitoring.

The Audit Committee has free and unfettered access to senior management, the Internal Auditor, the External Auditor and the heads of all risk management functions. The committee comprises three Directors, assisted by the Internal Audit Manager.

Risk Committee

The Risk Committee's role is to formulate ADCU's risk appetite and strategy, develop policies and plans to ensure the risk strategy is complied with, and to monitor compliance with those policies. The risk management areas overseen by the committee include, but are not restricted to, market, liquidity, credit, strategic, funding and operational risk. The committee comprises three Directors assisted by the Head of Finance and Operations, the Head of Credit and the Head of Risk.

Remuneration Committee

The Remuneration Committee is responsible for overseeing the establishment and regular review of the Remuneration Policy, including assessment of the effectiveness of the policy. The committee is responsible for making annual recommendations to the Board on remuneration of the CEO, direct reports of the CEO and other persons whose activities may in the Remuneration Committee's opinion affect the financial soundness of ADCU, and any other person specified by APRA. The committee comprises three Directors.

Asset and Liability Committee (ALCO)

The ALCO meets at least monthly and has responsibility for managing and reporting credit, liquidity, market and capital risk exposure. It scrutinises operational reports and monitors exposures against limits determined by the Board.

Operational Risk Management Committee (ORMC)

The ORMC meets at least monthly and is responsible for enabling Executive Management and the Board to implement an effective Operational Risk Management Framework and to ensure that the Board receives regular reporting and updates relating to operational risk management matters, thereby fulfilling the Board's oversight responsibilities in respect to operational risk management. The committee reviews, monitors, interrogates and reports to the Executive Management, Risk Committee and Board on the information contained within the operational risk management system.

Strategic planning

The Board and Executive Management meet twice a year (December and May) to plan the strategic direction of ADCU by the establishment of medium to long term goals and objectives. The progression of these goals and objectives are reviewed through the course of the plan and are monitored throughout the year to ensure ADCU remains on track to deliver the best possible financial offering to our members.

Ethical standards

All Directors, Managers and Staff are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of ADCU.

Conflicts of interest

The Directors and Executive Management must keep the Board informed of any interests they have that could potentially conflict with those of ADCU and declarations are made at the start of each Board and Board Committee meeting.

Code of conduct

The Directors are expected to abide by ADCU's Code of Conduct as set out in the Corporate Governance Policy.

Communications with members

Considerable information is available to members and potential members via the ADCU website, www.adcu.com.au. Additionally, members receive our newsletter, Communique, advising current activities and promotions, and our Member Contact Centre and all of our branches are there to assist with information and advice.

The Board encourages full participation of members at the Annual General Meeting to ensure a high level of accountability and identification with the strategic direction and performance of ADCU. The members are requested to vote on Director appointments and aggregate remuneration of Directors as prescribed by the Constitution. Copies of the Constitution can be downloaded from the website, and are available to anyone who so requests.

The Annual Report is distributed to all members who have elected to receive this document and is also posted on our website. The Board ensures that the Annual Report includes all relevant information about the operation of ADCU during the financial year, changes in the state of affairs and future developments, in addition to the other disclosures required by the *Corporations Act 2001*.

Directors (top to bottom, L to R):

Michael Pike, Graham Weber, John Brooks, RADM Clinton Thomas, BRIG Jane Spalding, John Wood (Chairman) and Warren Thomas.

2013 Office bearers

John Wood

Qualifications

Fellow of Australian Defence College

Fellow of the Australian Institute of Company Directors

Fellow of the Australasian Mutuals Institute

Experience and Responsibilities

36 years service and experience in the Royal Navy and Royal Australian Navy

Consultant to Defence Industry

Credit Union Director for 16 years and Chairman from 2001

Chairman of Board

Chairman of Board Executive Committee

Member of the Board Renewal and Remuneration Committees

John Robert Brooks

Qualifications

Bachelor of Arts

Graduate of the Royal Air Force Staff College

Fellow of the Australian Defence College

Member of the Australasian Mutuals Institute

Member of the Australian Institute of Company Directors

Graduate Diploma in Strategic Studies

Experience and Responsibilities

28 years with the Royal Australian Air Force (Logistics Branch)

Owner of Brooks Newsagency, Orange, NSW

Credit Union Director for 13 years

Member of the Risk Committee

Michael Morrison Pike

Qualifications

Graduate RAN College and RAN Staff College

Graduate Joint Services Staff College

Fellow of the Australian Institute of Management

Member of the Australasian Mutuals Institute

Member of the Australian Institute of Company Directors

Graduate Diploma in Management

Graduate Diploma in Strategic Studies

Master of Management Economics (UNSW)

Diploma Company Directors

Experience and Responsibilities

28 years service in the Royal Australian Navy (Supply Branch)

Active Naval Reservist

Credit Union Director for 20 years

Member of the Remuneration and Risk Committees

Past Deputy Chairman, Chairman of Audit and Renewal Committees

Brigadier Jane Maree Spalding AM

Qualifications

Bachelor of Social Science

Master of Arts (Military Studies)

Master of Defence Studies

Master of Arts (Strategic Studies)

Graduate of the Royal Military College of Science (United Kingdom)

Graduate of the Australian Army Command and Staff College

Graduate of the Centre for Defence and Strategic Studies

Graduateship of the City and Guilds of London Institute

Member of the Australasian Mutuals Institute

Member of the Australian Institute of Management

Graduate Member of the Australian Institute of Company Directors

Experience and Responsibilities

30 years in the Australian Regular Army

Currently Director General Explosive Ordnance, Joint Logistics Command

Credit Union Director for 6 years

Chair of the Audit Committee

Rear Admiral Clinton William Thomas AM, CSC, RAN

Qualifications

Graduate RAN College and RAN Staff College

Member of the Australasian Mutuals Institute

Member of the Risk Management Institute of Australasia

Associate Member of the Australian Institute of Project Management

Graduate Member of the Australian Institute of Company Directors

Fellow of the Chartered Institute of Logistics and

Transport Australia

Diploma Applied Science (UNSW)

Diploma Company Directors

Diploma of Government (Contract Management)

Advanced Diploma of Government (Strategic Procurement)

Advanced Diploma of Project Management

Graduate Diploma of Resource Management

Master of Management (Operations/Logistics) (MGSM)

Experience and Responsibilities

37 years in the Royal Australian Navy and Defence

Past Member of the Defence Audit Committee (3 years)

Past Chairman of RAN Relief Trust Fund (5 years)

Past Chairman of the RAN Australian Football Association (8 years)

Current Patron of the RAN Australian Football Association

Current Chairman of the Navy Canteens

Currently the Commander Joint Logistics Command

Credit Union Director for 13 years

Past Chair of the ADCU Risk Committee (6 years)

Current Chair of the ADCU Renewal Committee

Current Member of the ADCU Audit Committee

Warren Raymond Thomas

Qualifications

Qualified Accountant

Graduate Diploma in Company Directorship

Member of the Australasian Mutuals Institute

Graduate Member of the Australian Institute of Company Directors

Member of the Club Directors Institute of NSW

Experience and Responsibilities

37 years in Dept of Defence, including Army service in Vietnam

20 years experience in high level financial management in various Navy and Army Commands

President of Cronulla RSL sub-branch

Director of Cronulla RSL Memorial Club

Credit Union Director for 17 years

Deputy Chairman of the ADCU Board

Served on the Risk Committee for 4 years

Chair of Remuneration Committee

Member of the Board Executive and Audit Committees

Graham Anthony Weber

Qualifications

Member Australian Society of Certified Practising Accountants (CPA)

Bachelor of Commerce in Accounting

Member of the Australasian Mutuals Institute

Member Australian Institute of Company Directors

Experience and Responsibilities

6 years in Accounting Firms and Advisory Services

19 years in State and Commonwealth Agencies in Financial Management, budgeting and performance reporting

Currently Chief Finance Officer – Air Force

Credit Union Director for 5 years

Chairman of the Risk Committee

John Ford

Qualifications

Bachelor of Arts

Graduate Diploma of Business Studies

Fellow of the Institute of Financial Services

Fellow of the Australasian Mutuals Institute

Advanced Diploma of Superannuation

Member of the Association of Superannuation Funds of Australia Limited

Experience and Responsibilities

Chief Executive Officer – Australian Defence Credit Union Limited

25 years management experience in Banks, Building Societies and Credit Unions

Grazier

Andrew Prichard

Qualifications

Member Institute of Chartered Accountants (CA)

Bachelor of Commerce – University of New South Wales

Experience and Responsibilities

8 years in the Chartered Accounting profession

Over 17 years in the Banking and Finance Industry

Head of Finance and Operations

Company Secretary

Meetings attended

	Board meetings		Annual Gen Meeting		Board Committee Meetings									
					Executive		Audit		Risk		Renewal		Remuneration	
Directors	H	A	H	A	H	A	H	A	H	A	H	A	H	A
John Wood	11	10	1	1	12	11	-	-	-	-	3	3	4	4
John Brooks	11	8	1	1	-	-	-	-	6	4	-	-	-	-
Michael Pike	11	9	1	1	-	-	-	-	6	5	-	-	4	4
Jane Spalding	11	11	1	1	-	-	6	6	-	-	-	-	-	-
Clinton Thomas	11	8	1	1	-	-	6	4	-	-	3	3	-	-
Warren Thomas	11	9	1	1	12	10	6	5	-	-	-	-	4	4
Graham Weber	11	10	1	1	-	-	-	-	6	6	-	-	-	-

H: Number of meetings held that the Director was eligible to attend

A: Number of meetings attended

Director benefits

Directors are required to make an annual declaration of any benefits or interests that may have occurred because of their association with ADCU. As at 30 June 2013, no Director has received or become entitled to receive any such benefit.

Indemnity of Directors and Officers

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

No insurance cover has been provided for the benefit of the ADCU auditors, Grant Thornton Audit Pty Ltd.

Principal activities

The principal activities of ADCU during the year remain unchanged and were the raising of funds authorised by the Prudential Standards administered by APRA and the Banking Act 1959, and the application of those funds in providing financial and credit services to our members in the form of lending, savings and insurance products.

As a Home Loan Provider under the Defence Home Ownership Assistance Scheme (DHOAS) ADCU has continued to experience sound growth in mortgage loans and associated products during the year ended 30 June 2013.

Operating and financial review

Operating results

Net profit after tax for the year ended 30 June 2013 decreased 17% on the prior year to $4.2 million and reflected the low interest rate environment and reductions in interest rates across ADCU's variable home loan portfolio.

The key components of the result were:

Interest revenue decreased by 7% to $51 million due primarily to the reduction in interest rates across ADCU's variable home loan portfolio, offset partially by the additional revenue generated from the increase in the loans to members of 12% to $682 million.

Interest expense decreased by 12% to $27 million due primarily to lower interest rates for deposit funds, offset partially by the additional funding costs generated from an increase in member deposits of 12% to $619 million.

Net interest income decreased by 0.36% to $23.6 million, reflecting a decrease in net interest margin which was offset by a 10% growth in interest bearing assets.

Non interest income continued to perform well and increased by 3% to $9.6 million.

Non interest expenses increased by 6% to $27 million. Disciplined cost management and control remain a key focus area. During the financial year, ADCU continued to grow, with total on and off balance sheet assets increasing by 7% to $918 million despite subdued underlying credit growth. This growth was largely sourced from quality growth in ADCU's home loan portfolio both from DHOAS and the broader membership.

Throughout the year demand continued in the banking and financial services market for deposits. Despite the competitive pressure, ADCU successfully grew deposits by $69 million (12%) to $619 million and this provided a stable base to fund our loan growth.

Dividends

No dividends have been paid or declared since the end of the financial year and no dividends have been recommended or provided for by the Directors of ADCU.

Significant changes in state of affairs

There have been no significant changes in the state of affairs for ADCU.

Regulatory snapshot

During the year we implemented further changes to our lending and collections processes to comply with new hardship provisions introduced as part of enhancements to the National Consumer Credit Protection Act. The new hardship provisions commenced on 1 March 2013, a key component of which is that hardship notices can be given orally or in writing by members simply stating that they are unable to meet their obligations.

The transition from the former Electronic Funds Transfer Code to the new ePayments Code was completed, with the latter coming into full force from March 2013. The new Code provides greater protection to consumers around transactions such as mistaken internet payments, and will give our members greater confidence that they may be protected when things go wrong.

Privacy legislation has been subject to significant review in recent years, with the Privacy Amendment Act being passed by Parliament in November 2012. The Act will introduce a number of changes that take effect in March 2014, including the Australian Privacy Principles which will replace the current National Privacy Principles. There will also be a new positive credit reporting code introduced in March 2014 that can significantly change the amount and type of information exchanged between lenders and credit reporting bodies. ADCU is in the process of modifying its data collection processes to enable the new positive reporting to be available for exchange between relevant parties.

The Board strongly supports these changes and will work closely with management to ensure that the changes required are completed by the commencement date.

Events occurring after balance date

Since the end of the financial year, the Directors have not become aware of any matters or circumstances that may significantly affect the operations or state of affairs of ADCU.

Likely developments and results

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

- operations of ADCU;
- results of these operations; or
- state of affairs of ADCU;

in the financial years subsequent to this financial year.

Auditors' independence

The auditors have provided the declaration of independence to the Board prescribed by the *Corporations Act 2001* as set out below.

Board resolution

This report is signed in accordance with a formal resolution of the Board of Directors.

John Wood
Chairman
19 September 2013

Warren Thomas
Deputy Chairman
19 September 2013

Directors' declaration

In the opinion of the Directors of Australian Defence Credit Union Limited:

1. The financial statements and notes of Australian Defence Credit Union Limited are in accordance with the *Corporations Act 2001*, including

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

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

2. There are reasonable grounds to believe that Australian Defence Credit Union Limited will be able to pay its debts as and when they become due and payable.

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

Signed in accordance with a resolution of the directors:

John Wood
Chairman
19 September 2013

Declaration of independence

Auditor's Independence Declaration

To the Directors of Australian Defence Credit Union Limited.

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the audit of Australian Defence Credit Union Limited for the year ended 30 June 2013, I declare that, to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

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

Grant Thornton

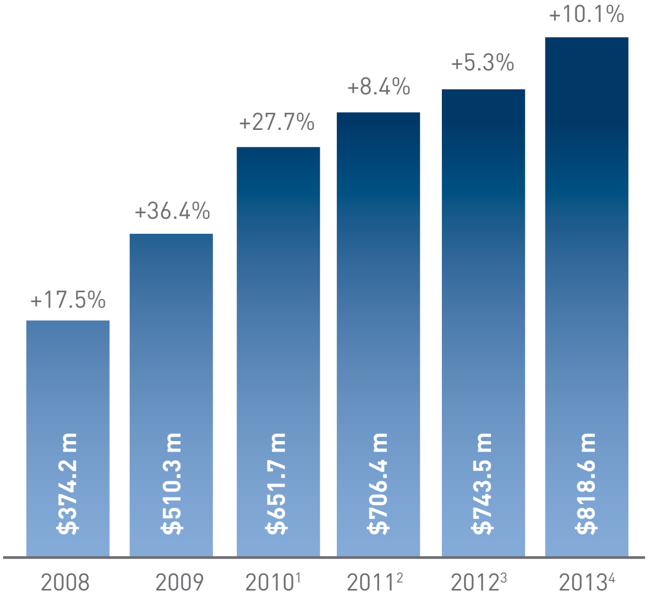
GRANT THORNTON AUDIT PTY LTD

Chartered Accountants

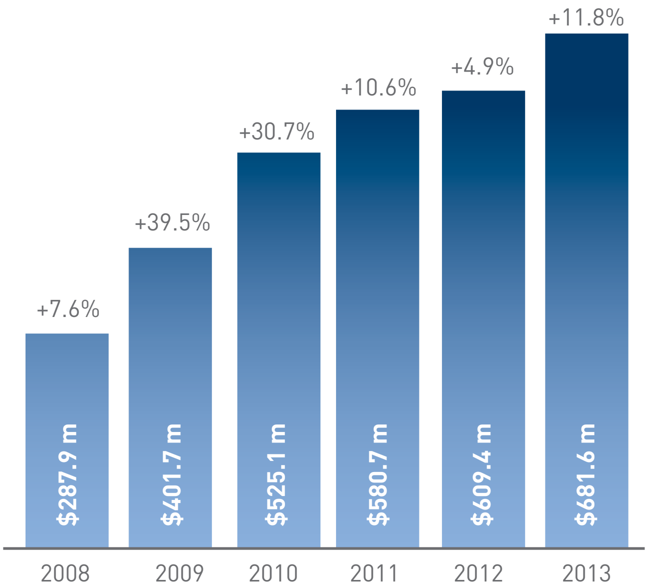
N.E. Sinclair
Partner – Audit & Assurance
Sydney 19 September 2013

Grant Thornton Audit Pty Ltd
ACN 130 913 594
Level 19, 2 Market Street
Sydney NSW 2000

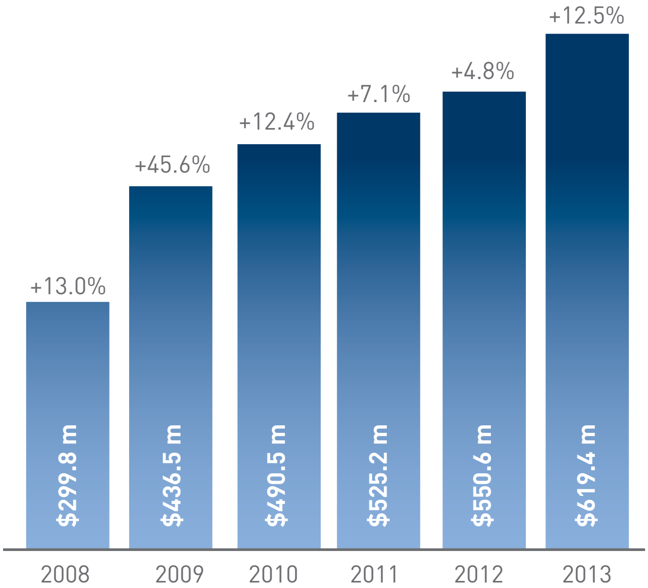
Key Performance Measures



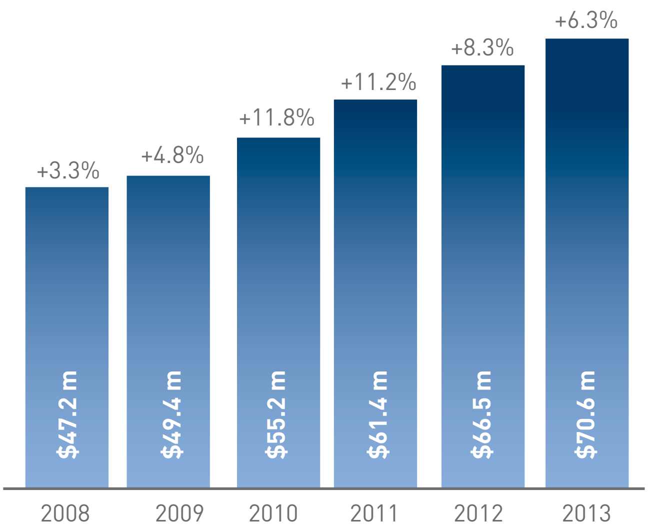
Balance Sheet Assets



Net Balance Sheet Loans



Deposits



Member's Equity

[1] Includes $56,366,795 in loans securitised through Athena Trust.

[2] Includes $56,298,045 in loans securitised through Athena Trust.

[3] Includes $66,498,506 in loans securitised through Athena Trust.

[4] Includes $59,960,139 in loans securitised through Athena Trust.

2013

Chief Executive's Report

I am pleased to report that your Credit Union grew strongly during the 2012-13 financial year. Total assets grew by 10% as more members turned to ADCU for their borrowing, saving and investment needs. ADCU's growth was around twice that experienced by the banking system overall.

During the course of the year interest rates fell to levels previously not seen by the Reserve Bank of Australia. Record low interest rates create winners and losers depending on whether you're a borrower or an investor. Home affordability has certainly improved, as has the cost of financing a new car. However, we should spare a thought for retirees' with interest bearing investments who are experiencing reduced investment income. ADCU sought to balance the needs of both depositing and borrowing members and in doing so experienced a decline in interest margin in 2012-13. Net profit after tax was $4.2 million, down on 2011-12, reflecting the decline in interest margin and an increase in bad debts.

Your Credit Union remains well placed for future growth due to its strong capital position. Our capital adequacy ratio finished the year at 18.21% and our reserves remain well in excess of the amount required by the banking regulator, APRA.

New Products and Services

During the course of the year there were a number of important product and service improvements.

Our Recruit Saver Account was launched in January and is designed to attract new members as they join the Australian Defence Force and are starting out financially. This account combines a high interest savings account with a full access transactional account.

A Mobile Banking service was introduced in Canberra for the added convenience of members. Our Mobile Banker is available to visit existing and prospective members to discuss their home loan and other banking needs. We look forward to rolling out this service more widely.

Towards the end of the year our mobile banking app (on-the-go banking) was available for members to download. Our mobile app is now available for both Apple and Android users and is doing well, with strong take-up from members already. We encourage members seeking the convenience of banking at their fingertips to download our on-the-go banking app.

We were also encouraged to receive a Canstar 5 Star rating for our DIY Super account. This award is the highest possible rating and reflects the utility and pricing on offer. This 5 Star award joins our other highly rated products such as our Low Rate Visa Credit Card.

Our conversion to a new transaction switching service was also completed during the year. We apologise again to those members who experienced a service disruption in December but are pleased to report a robust and reliable service since that time. One of the added benefits of switching to the new service is that members can now change their PINs at ATMs or branches.

Finally, and in the interest of making repayments easier for members, we have introduced a Bpay biller code on our credit card statements. We encourage you to take advantage of this convenient payment method.

Investing in Infrastructure

ADCU made a number of important investments to our infrastructure during the course of the year.

We commenced an upgrade of our Wireless Area Network (WAN) to improve the line speed between Head Office and our 39 branches. This upgrade is being rolled out progressively and you should see an improvement in the speed of service where line speed was previously a limiter.

A voice over internet protocol (VOIP) phone system was installed late in the year. This state of the art phone system will assist us in providing a better phone service in the future. The introduction of voice recording, for example, will allow us to accept verbal instructions in some instances avoiding the need for paperwork.

Finally, we relocated ADCU's Sydney Headquarters to Level 18, 45 Clarence Street. The new Headquarters was necessary to support the future space requirements of ADCU and to provide better amenities to staff. The new building has a 5 Star NABERS environmental rating and offers a branch service to Sydney based members.

Supporting our communities

Since our establishment in 1959, it has been part of the ADCU tradition to play an active role in the Defence family. Throughout the financial year we continued our ongoing commitment to give back to those who support us.

We have been delighted to assist a wide range of sporting and charitable causes with the Defence community Australia wide. Particular highlights for the year were our proud involvement in the Big Healthy Breakfast at HMAS Stirling, the Avalon air show in Victoria, attendance at the War Memorial Open Day and the 24 hour Legacy ride in the ACT.

We also remain committed to a number of Defence aligned sporting groups such as the ADCU Army Black Hawks netball team, the ASAFA football association and the Puckapunyal Cricket Club.

As we have done in previous years, ADCU continued our long standing relationship with the Returned & Services Leagues both at a state and national level. During September 2012 we were delighted to be part of the National RSL congress. We are looking forward to a bright future working closely with the RSL and its membership.

It is my privilege to have joined ADCU during the course of the 2012/13 financial year. I'd like to thank the ADCU team for welcoming me and publically acknowledge the effort and commitment of our staff in serving those who serve our country. Thank you!

John Ford,
Chief Executive Officer
19 September 2013

The Executive Management Team (L to R):

Joe Serrao, Head of IT and Projects, Bob McGregor, Head of Credit, Joa De Wet, Head of Risk, Mike Lanzing, Head of Business Development, John Ford, Chief Executive Officer, John Knezevic, Head of ADCU Direct, Andrew Prichard, Head of Finance and Operations and Bernadette Gates, Head of Human Resources.

L to R: Andrew Moebus ADCU Regional Manager Hume and WO2 Neil McCallum present Legacy Canberra chairman Chris Hunter with a cheque for money raised in the 24-hour ride.

L to R: Jo Wright Southern Regional Supervisor, Graham Weber ADCU Board member and Vivien Allen, Southern Regional Manager at the Avalon Air show.

Andrew Moebus, Regional Manager HUME with long time ADCU members Mr Mickey Michaelis, National Project Officer RSL's, and his wife Nancy.

2013

Independent Auditor's Report

To the members of Australian Defence Credit Union Limited.

Report on the Financial Statements

We have audited the accompanying financial report of Australian Defence Credit Union Limited (the “Company”), which comprises the statement of financial position as at 30 June 2013, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors’ declaration of the Company.

Directors’ responsibility for the financial report

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

Auditor’s responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

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

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

Independence

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

Auditor’s opinion

In our opinion:

a. the financial report of Australian Defence Credit Union Limited is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the company’s financial position as at 30 June 2013 and of its performance for the year ended on that date; and

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

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

GRANT THORNTON AUDIT PTY LTD

Chartered Accountants

N.E. Sinclair
Partner – Audit & Assurance
Sydney 19 September 2013

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Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2013

	Note	2013 $	2012 $
Interest revenue	2.a	50,729,575	54,393,922
Interest expense	2.c	(27,153,527)	(30,731,525)
Net interest income		**23,576,048**	**23,662,397**
Fee, commission and other income	2.b	9,552,775	9,252,876
		33,128,823	32,915,273
Less non interest expenses			
Impairment losses on loans receivable from members	2.d	2,089,036	1,757,370
Fee and commission expenses		3,434,458	3,724,721
General administration expenses			
- Employees compensation and benefits		13,331,299	12,793,472
- Depreciation and amortisation	2.e	407,505	581,782
- Information technology		2,257,587	2,054,731
- Office occupancy	2.f	1,150,695	881,720
- Other administration		2,540,096	2,141,243
Other operating expenses		2,149,520	1,835,875
Total non interest expenses		**27,360,196**	**25,770,914**
Profit before income tax		5,768,627	7,144,359
Income tax expense	3	1,602,321	2,107,533
Profit after income tax		**4,166,306**	**5,036,826**
Other comprehensive income, net of income tax		-	-
Total comprehensive income for the period		**4,166,306**	**5,036,826**

Statement of Changes in Member Equity for the year ended 30 June 2013

	Capital reserve $	Reserve for credit losses $	Retained earnings $	Total $
Total as at 1 July 2011	98,450	1,060,545	60,261,111	61,420,106
Profit for the year	-	-	5,036,826	5,036,826
Transfer to reserve for credit losses in the year	-	-	-	-
Transfer to capital account on redemption of shares	7,716	-	(7,716)	-
Total as at 30 June 2012	**106,166**	**1,060,545**	**65,290,221**	**66,456,932**
Profit for the year	-	-	4,166,306	4,166,306
Transfer to reserve for credit losses in the year	-	445,874	(445,874)	-
Transfer to capital account on redemption of shares	6,026	-	(6,026)	-
Total as at 30 June 2013	**112,192**	**1,506,419**	**69,004,627**	**70,623,238**

Statement of Financial Position as at 30 June 2013

	Note	2013 $	2012 $
Assets			
Cash	4	6,410,538	13,499,668
Liquid Investments	5	123,738,519	113,974,302
Receivables	6	4,214,453	3,891,203
Loans to members	7.a	681,591,997	609,389,487
Available for sale investments	9	907,097	907,154
Property, plant and equipment	10	388,914	521,698
Taxation assets	11	888,145	829,547
Intangible assets	12	459,050	504,368
Total assets		**818,598,713**	**743,517,427**
Liabilities			
Short term borrowings	13	110,110,470	110,706,053
Deposits from members	14	619,439,965	550,639,553
Creditor accruals and settlement accounts	15	12,749,069	15,119,651
Taxation liabilities	16	198,716	136,332
Provisions	17	477,255	458,906
Long term borrowings	18	5,000,000	-
Total liabilities		**747,975,475**	**677,060,495**
Net assets		**70,623,238**	**66,456,932**
Members' equity			
Capital reserve account	19	112,192	106,166
General reserve for credit losses	20	1,506,419	1,060,545
Retained earnings		69,004,627	65,290,221
Total members' equity		**70,623,238**	**66,456,932**

Statement of Cash Flows for the year ended 30 June 2013

	Note	2013 $	2012 $
Operating activities			
Revenue inflows			
Interest received		50,756,866	54,571,375
Fees and commissions received		8,979,784	8,573,116
Dividends received		164,769	195,002
Other income		468,117	413,669
Revenue outflows			
Interest paid		(29,968,890)	(29,779,827)
Payments to suppliers and employees		(24,060,907)	(24,091,470)
Income taxes paid		(1,598,536)	(3,232,033)
Net cash from revenue activities	34.b	**4,741,203**	**6,649,832**
Inflows (outflows) from other operating activities			
Increase in member loans (net movement)		(74,355,100)	(30,419,426)
Increase in member deposits and shares (net movement)		67,681,320	28,766,494
Increase in deposits to other financial institutions (net movement)		(9,764,218)	(6,547,318)
Net cash used in operating activities		**(11,696,795)**	**(1,550,418)**
Investing activities			
Inflows			
Proceeds on sale of property, plant and equipment		5,945	-
Proceeds on sale of investment		57	-
Less: Outflows			
Purchase of property, plant and equipment		(96,925)	(288,056)
Purchase of intangible assets		(134,763)	(167,807)
Money refunded / (placed) - security deposit		428,933	(761,008)
Net cash used in investing activities		**203,247**	**(1,216,871)**
Financing activities			
Inflows (outflows)			
Increase in borrowings (net movement)		4,404,418	3,828,696
Net cash provided by financing activities		**4,404,418**	**3,828,696**
Total net cash increase/(decrease)		(7,089,130)	1,061,407
Cash at beginning of year		13,499,668	12,438,261
Cash at end of year	34.a	**6,410,538**	**13,499,668**

1. Statement of Accounting Policies

This financial report is prepared for Australian Defence Credit Union Limited (the Credit Union) as a group comprising the Credit Union and the Athena Trust, a Special Purpose Vehicle deemed under the Accounting Standards to be controlled by the Credit Union, for the year ended the 30 June 2013. The financial report was authorised for issue on 19 September 2013 in accordance with a resolution of the Board of Directors. The financial report is presented in Australian dollars. The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. Compliance with Australian Accounting Standards ensures compliance with the International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). Australian Defence Credit Union Limited is a for-profit entity for the purpose of preparing the financial statements.

a. Basis of measurement

The financial statements have been prepared on an accruals basis, and are based on historical costs, which do not take into account changing money values or current values of non-current assets except for available for sale investments which are stated at fair value. The accounting policies are consistent with the prior year unless otherwise stated.

b. Classification and subsequent measurement of financial assets and liabilities

Financial assets and financial liabilities are recognised when the Credit Union becomes a party to the contractual provisions of the financial instrument, and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss, which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below. Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- loans and receivables
- financial assets at fair value through profit or loss (FVTPL)
- held-to-maturity (HTM) investments
- available-for-sale (AFS) financial assets.

The category determines subsequent measurement and whether any resulting income and expense is recognised in profit or loss or in other comprehensive income.

All financial assets except for those at FVTPL are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below. All income and expenses relating to financial assets that are recognised in profit or loss, are presented within interest income, interest expense and other income, except for impairment of loans and receivables which is presented within non interest expenses.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less provision for impairment. The Credit Union's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in Credit Unions, which are determined by reference to the industry and region of a counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified Credit Union.

Financial assets at FVTPL

Financial assets at FVTPL include financial assets that are either classified as held for trading or that meet certain conditions and are designated at FVTPL upon initial recognition. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply. Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

HTM investments

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as HTM if the Credit Union has the intention and ability to hold them until maturity. The Credit Union currently holds Term deposits, Negotiable Certificates of Deposit (NCD) and Floating Rate Notes in this category. If more than an insignificant portion of these assets are sold or redeemed early then the asset class will be reclassified as Available For Sale financial assets. HTM investments are measured subsequently at amortised cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognised in profit or loss.

Available For Sale (AFS) financial assets

AFS financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Credit Union's AFS financial assets include the equity investment in Cuscal Limited.

The equity investment in Cuscal Limited is measured at cost less any impairment charges, as its fair value cannot currently be estimated reliably. Impairment charges are recognised in profit or loss. All other AFS financial assets are measured at fair value. Gains and losses on these assets are recognised in other comprehensive income and reported within an AFS reserve within equity, except for impairment losses, which are recognised in profit or loss. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognised in other comprehensive income is reclassified from the equity reserve to profit or loss, and presented as reclassification adjustments within other comprehensive income. Interest calculated using the effective interest method and dividends are recognised in profit or loss within 'other income'. Reversals of impairment losses are recognised in other comprehensive income, except for financial assets that are debt securities which are recognised in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognised.

Classification and subsequent measurement of financial liabilities

The Credit Union's financial liabilities include borrowings, trade and other payables and derivative financial instruments. Financial liabilities are measured subsequently at amortised cost using the effective interest method, except for financial liabilities held for trading or designated at FVTPL, that are carried subsequently at fair value with gains or losses recognised in profit or loss. All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at FVTPL.

c. Loans to members

(i) Basis of recognition

All loans are initially recognised at fair value, net of loan origination fees and inclusive of transaction costs incurred. Loans are subsequently measured at amortised cost. Any difference between the proceeds and the redemption amount is recognised in the profit or loss 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 impairment for debts considered doubtful. A loan is classified as impaired where recovery of the debt is considered unlikely as determined by the Board of Directors.

(ii) Interest earned

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

Credit cards - interest is calculated initially on the basis of the daily balance outstanding and is charged in arrears to a member's account on the second day of each month, on cash advances and purchases in excess of the payment due date. Purchases are granted up to 55 days interest free until the due date for payment.

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 is deceased, or where a loan is impaired.

(iii) Loan origination fees and discounts

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

(iv) Transaction costs

Transaction costs are expenses which are direct and incremental to the establishment of the loan. These costs are initially deferred as part of the loan balance, and are brought to account as a reduction to income over the expected life of the loan, and included as part of interest revenue.

(v) Fees on loans

The fees charged on loans after origination of the loan are recognised as income when the service is provided or costs are incurred.

(vi) Net gains and losses

Net gains and losses on loans to members to the extent that they arise from the partial transfer of business or on securitisation, do not include impairment write downs or reversals of impairment write downs.

d. Loan Impairment

(i) Specific and collective provision for impairment

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 key assumptions used in the calculation are as set out in Note 8. Note 21 details the credit risk management approach for loans. The APRA Prudential Standards require a minimum provision to be maintained, based on specific percentages on the loan balance which are contingent upon the length of time the repayments are in arrears. This approach is used to assess the collective provisions for impairment. An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset or a group of financial assets is impaired. Evidence of impairment may include indications that the borrower has defaulted, is experiencing significant financial difficulty, or where the debt has been restructured to reduce the burden to the borrower.

(ii) Reserve for credit losses

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

- the level of security taken as collateral; and
- the concentration of loans taken by employment type.

(iii) Renegotiated loans

Loans which are subject to renegotiated terms which would have otherwise been impaired do not have the repayment arrears diminished and interest continues to accrue to income. Each renegotiated loan is retained at the full arrears position until the normal repayments are reinstated and brought up to date and maintained for a period of 6 months.

e. Bad debts written off (direct reduction in loan balance)

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 provisions for impairment, if a provision for impairment had previously been recognised. If no provision had been recognised, the write-offs are recognised as expenses in the income statement.

f. Property, plant and equipment

Property, plant and equipment are depreciated on a straight line basis so as to write off the net cost of each asset over its expected useful life to the Credit Union. The useful lives are adjusted if appropriate at each reporting date. Estimated useful lives as at the balance date are as follows:

- Leasehold improvements - 10 years.
- Plant and equipment - 3 to 7 years.
- Assets less than $300 are not capitalised.

g. Receivables from other financial institutions

Term deposits and Negotiable Certificates of Deposit with other financial institutions are unsecured and have a carrying amount equal to their principal amount. Interest is paid on the daily balance at maturity. All deposits are in Australian currency. The accrual for interest receivable is calculated on a proportional basis of the expired period of the term of the investment. Interest receivable is included in the amount of receivables in the statement of financial position.

h. Equity investments and other securities

Investments in marketable financial instruments

Available For Sale financial instruments held for trading are measured at fair value. Realised net gains and losses on available for sale financial assets taken to the profit or loss account comprises only gains and losses on disposal.

Investments in shares

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 listed on the stock exchanges are revalued to fair value based on the market bid price at the close of business on statement of financial position date. 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. Movements in Available For Sale asset balances are reflected in equity through the Available for Sale Reserve. All investments are in Australian currency.

i. Member Deposits

(i) Basis for measurement

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

(ii) Interest payable

Interest on savings is calculated either 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.

j. Borrowings

All borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the profit or loss statement over the period of the loans and borrowings using the effective interest method.

k. Provision for Employee Benefits

Provision is made for the Credit Union's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year, have been measured at their nominal amount. Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits discounted using national government bond rates. Provision for long service leave is on a pro-rata basis from commencement of employment with the Credit Union based on the present value of its estimated future cash flows. Annual leave is accrued in respect of all employees on pro-rata entitlement for part years of service and leave entitlement due but not taken at balance date. Annual leave is reflected as part of the Creditor accruals and settlement accounts. Contributions are made by the Credit Union to an employee's superannuation fund and are charged to the profit or loss as incurred.

l. Leasehold on Premises

Leases where the lessor retains substantially all the risks and rewards of ownership of the net asset are classified as operating leases. Payments made under operating leases (net of incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease.

m. Income Tax

The income tax expense shown in the profit or loss is based on the profit before income tax adjusted for any non tax deductible, or non-assessable items between accounting profit and taxable income. Deferred tax assets and liabilities are recognised using the statement of financial position liability method in respect of temporary differences arising between the tax bases of assets or liabilities and their carrying amounts in the financial statements. Current and deferred tax balances relating to amounts recognised directly in equity are also recognised directly in equity. Deferred tax assets and liabilities are recognised for all temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable. These differences are presently recognised at the company tax rate of 30%. Deferred tax assets are only brought to account if it is probable that future taxable amounts will be available to utilise those temporary differences. The recognition of these benefits is based on the assumption that no adverse change will occur in income tax legislation; and the anticipation that the Credit Union will derive sufficient future assessable income and comply with the conditions of deductibility imposed by the law to permit an income tax benefit to be obtained.

n. Intangible Assets

Items of computer software which are not integral to the computer hardware owned by the Credit Union are classified as intangible assets. Computer software is amortised over the expected useful life of the software. These lives range from 2 to 5 years.

o. Goods and Services Tax (GST)

As a financial institution the Credit Union is input taxed on all income except for income from commissions and some fees. An input taxed supply is not subject to GST collection, and similarly the GST paid on related or apportioned 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 (RITC), of which 75% of the GST paid is recoverable. Revenue, expenses and assets are recognised net of the amount of GST. To the extent that the full amount of the GST incurred is not recoverable from the Australian Taxation Office (ATO), 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. Cash flows are included in the cash flow statement 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.

p. Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

q. Impairment of Assets

At each reporting date the Credit Union assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, recoverable amount is determined and impairment losses are recognised in the profit or loss 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.

r. Accounting Estimates and Judgements

Management have made judgements when applying the Credit Union's accounting policies with respect to derecognition of loans assigned to a special purpose vehicle used for securitisation purposes – refer Note 7. Management have made critical accounting estimates when applying the Credit Union's accounting policies with respect to the impairment provisions for loans - refer Note 8.

s. New or emerging standards not yet mandatory

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2013 reporting periods. The Credit Union's assessment of the impact of these new standards and interpretations is set out below.

AASB reference	Nature of Change	Application date	Impact on Initial Application
AASB 9 Financial Instruments (issued December 2009 and amended December 2010)	Amends the requirements for classification and measurement of financial assets. The following requirements have generally been carried forward unchanged from AASB 139 *Financial Instruments: Recognition and Measurement* into AASB 9. These include the requirements relating to: • classification and measurement of financial liabilities; and • derecognition requirements for financial assets and liabilities. However, AASB 9 requires that gains or losses on financial liabilities measured at fair value are recognised in profit or loss, except that the effects of changes in the liability's credit risk are recognised in other comprehensive income.	Periods beginning on or after 1 January 2015	The Credit Union does not have any financial liabilities measured at fair value through profit or loss. There will therefore be no impact on the financial statements when these amendments to AASB 9 are first adopted.
AASB 10 Consolidated Financial Statements (Issued August 2012)	Introduces a single 'control model' for all entities, including special purpose entities (SPEs), whereby all of the following conditions must be present: • power over investee (whether or not power used in practice); • exposure, or rights, to variable returns from investee; and • ability to use power over investee to affect the entity's returns from investee.	Annual reporting periods commencing on or after 1 January 2013	When this standard is first adopted for the year ended 30 June 2014, there will be no impact on transactions and balances recognised in the financial statements because the Credit Union already consolidates its Special Purpose Entity, Athena Trust.

AASB reference	Nature of Change	Application date	Impact on Initial Application
AASB 13 Fair Value Measurement (issued September 2012)	Currently, fair value measurement requirements are included in several Accounting Standards. AASB 13 establishes a single framework for measuring fair value of financial and non-financial items recognised at fair value in the statement of financial position or disclosed in the notes in the financial statements. Additional disclosures required for items measured at fair value in the statement of financial position, as well as items merely disclosed at fair value in the notes to the financial statements. Extensive additional disclosure requirements for items measured at fair value that are 'level 3' valuations in the fair value hierarchy that are not financial instruments, e.g. land and buildings, investment properties.	Annual reporting periods commencing on or after 1 January 2013	When this standard is adopted for the first time for the year ended 30 June 2014, there will be no impact on the financial statements because the revised fair value measurement requirements apply prospectively from 1 July 2013. When this standard is adopted for the first time on 1 January 2013, additional disclosures will be required about fair values.
AASB 119 Employee Entitlements (reissued September 2012)	Main changes include: Elimination of the 'corridor' approach for deferring gains/losses for defined benefit plans. Actuarial gains/losses on remeasuring the defined benefit plan obligation/asset to be recognised in other comprehensive income rather than in profit or loss, and cannot be reclassified in subsequent periods. Subtle amendments to timing for recognition of liabilities for termination benefits Employee benefits expected to be settled (as opposed to due to be settled under current standard) within 12 months after the end of the reporting period are short-term benefits, and therefore not discounted when calculating leave liabilities. Annual leave not expected to be used within 12 months of end of reporting period will in future be discounted when calculating leave liability.	Annual periods commencing on or after 1 January 2013	The Credit Union currently calculates its liability for annual leave employee benefits on the basis that it is due to be settled within 12 months of the end of the reporting period because employees are entitled to use this leave at any time. The amendments to AASB 119 require that such liabilities be calculated on the basis of when the leave is expected to be taken, i.e. expected settlement. When this standard is first adopted for the year ended 30 June 2014, annual leave liabilities will be recalculated on 1 January 2013. Leave liabilities for any employees with significant balances of leave outstanding who are not expected to take their leave within 12 months will be discounted, which may result in a reduction of the annual leave liabilities recognised on 1 January 2013, and a corresponding increase in retained earnings at that date.

	2013 $	2012 $

2. Income statement

a. Analysis of interest revenue

	2013 $	2012 $
Interest revenue on assets carried at amortised cost		
Cash - deposits at call	66,955	205,170
Receivables from financial institutions	5,598,218	6,135,527
Loans to members	45,064,402	48,053,225
Total interest revenue	**50,729,575**	**54,393,922**

b. Fee, commission and other income

	2013 $	2012 $
Fee and commission revenue		
Fee income on loans - other than loan origination fees	1,754,912	1,668,608
Other fee income	4,820,687	4,673,159
Insurance commissions	1,777,701	1,669,554
Other commissions	562,928	632,884
Total fee and commission revenue	**8,916,228**	**8,644,205**
Other income		
Dividends received on available for sale assets	164,769	195,002
Bad debts recovered	433,813	375,385
Gain on disposal of assets		
- Property, plant and equipment	3,661	-
Miscellaneous revenue	34,304	38,284
Total other income	**636,547**	**608,671**
Total fee, commission and other income	**9,552,775**	**9,252,876**

c. Interest expenses

	2013 $	2012 $
Interest expense on liabilities carried at amortised cost		
Short term borrowings	1,885,377	2,862,591
Deposits from members	22,043,630	24,390,335
Long Term Borrowings	288,954	-
Borrowings from Westpac- Athena Trust	2,935,566	3,478,599
Total interest expense	**27,153,527**	**30,731,525**

d. Impairment losses

	2013 $	2012 $
Loans and advances		
Increase/(decrease) in provision for impairment	244,916	55,118
Bad debts written off directly against profit	1,844,120	1,702,252
Total impairment losses	**2,089,036**	**1,757,370**

e. Other prescribed disclosures

	2013 $	2012 $
General administration - employee compensation and benefits includes:		
- net movement in provisions for employee annual leave	(5,220)	17,767
- net movement in provisions for employee long service leave	18,349	43,772
	13,129	**61,539**
General administration - depreciation and amortisation expense includes:		
- Plant and equipment	132,508	175,623
- Leasehold improvements	94,917	94,952
- Amortisation of software	180,080	311,207
	407,505	**581,782**

	2013 $	2012 $

f. General administration – office occupancy costs include:

Property operating lease payments	**806,088**	**759,088**

g. Other operating expenses include:

Auditor's remuneration (excluding GST)		
Grant Thornton		
– Audit fees	78,000	54,116
– Other services – taxation	8,675	5,720
– Other services – compliance	-	4,335
– Other services – other	35,333	17,227
	122,008	**81,398**
Other Auditors		
– Audit fees	-	40,100
– Other services – taxation	-	3,602
– Other services – compliance	-	3,000
– Other services – other	-	5,732
	-	**52,434**

3. Income tax expense

a. The income tax expense comprises amounts set aside as:

Current tax provision	1,728,988	2,160,317
Adjustments for previous years	(68,068)	(73,172)
Total current income tax expense	**1,660,920**	**2,087,145**
Deferred tax		
Write-down and/or reversal of previous write-down of a deferred tax asset	(58,599)	20,388
Total movement in temporary differences	(58,599)	20,388
Total income tax expense in income statement	**1,602,321**	**2,107,533**

b. The prima facie tax payable on profit is reconciled to the income tax expense in the accounts as follows:

Profit	**5,768,627**	**7,144,359**
Prima facie tax payable on profit before income tax at 30%	1,730,588	2,143,307
Add tax effect of expenses not deductible	10,400	16,810
Less		
– Franking rebate	(49,430)	(58,501)
Total current year tax expense	**1,691,558**	**2,101,616**
Origination and reversal of temporary differences	37,430	58,701
Total current year tax provision	**1,728,988**	**2,160,317**
Less		
– Adjustments to deferred tax assets	(58,599)	20,388
– Over provision in prior year	(68,068)	(73,172)
Total income tax expense in statement of profit or loss	**1,602,321**	**2,107,533**

	2013 $	2012 $

4. Cash

Cash on hand	1,047,638	980,495
Deposits at call	5,362,900	12,519,173
	6,410,538	**13,499,668**

5. Liquid Investments

Receivables from financial institutions		
Deposits with industry bodies - Cuscal (refer Note 29)	35,948,633	38,000,000
Deposits with other societies	4,954,113	2,000,000
Deposits with banks	82,835,773	73,974,302
	123,738,519	**113,974,302**

6. Receivables

Interest receivable on deposits with other financial institutions	688,226	715,517
Prepayments	472,860	152,234
GST receivable	3,856	258,634
Sundry debtors and settlement accounts	1,512,089	798,463
Security deposit	1,537,422	1,966,355
	4,214,453	**3,891,203**

7. Loans to members

a. Amount due comprises:

Overdrafts and revolving credit	27,747,409	28,619,242
Term loans	595,144,345	515,223,164
Term loans held by the Athena Trust	59,960,139	66,498,506
Subtotal	**682,851,893**	**610,340,912**
Less:		
Unamortised loan origination fees	(201,742)	(138,187)
Subtotal	**682,650,151**	**610,202,725**
Less:		
Provision for impaired loans (Note 8)	(1,058,154)	(813,238)
	681,591,997	**609,389,487**

b. Credit quality - security held against loans

Secured by mortgage over real estate held in Athena trust	59,960,139	66,498,506
Secured by mortgage over real estate	509,346,076	416,274,648
Partly secured by goods mortgage	64,269,037	75,687,552
Wholly unsecured	49,276,641	51,880,206
	682,851,893	**610,340,912**

	2013 $	2012 $
It is not practicable to value all collateral as at the balance date due to the variety of assets and condition. A breakdown of the quality of the residential mortgage security on a portfolio basis is as follows:		
Security held as mortgage against real estate is on the basis of:		
- loan to valuation ratio of less than 80%	310,799,564	247,622,445
- loan to valuation ratio of more than 80% but mortgage insured	191,106,589	157,707,279
- loan to valuation ratio of more than 80% and not mortgage insured	7,439,922	10,944,924
Total	**509,346,075**	**416,274,648**

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

c. Concentration of loans

The values discussed below include on balance sheet values and off balance sheet undrawn facilities as described in Note 27.

	2013 $	2012 $
(i) Loans to individual or related groups of members which exceed 10% of reserves in aggregate.	-	-
Total	**-**	**-**

Loans to members are concentrated to individuals employed in the Australian Defence industry.

(ii) Geographical concentrations

Loans have been made to individuals in the Defence Forces throughout Australia. There are no concentrations of borrowers in any state or region.

(iii) Loans by purpose

	2013 $	2012 $
Loans to natural persons		
Residential loans and facilities	500,543,188	408,948,597
Personal loans and facilities	122,348,566	134,235,458
Business loans and facilities	-	658,351
Loans held by the Athena Trust	59,960,139	66,498,506
	682,851,893	**610,340,912**
Loans to corporations	**-**	**-**

d. Securitised loans

	2013 $	2012 $
The value of securitised loans which are not qualifying for derecognition as the conditions do not meet the criteria in AASB 139.	59,960,139	66,498,506
	59,960,139	**66,498,506**

During the year ended 30 June 2012, the Credit Union transferred mortgage loans to the Athena Trust under a securitisation arrangement.

Under the arrangements the Credit Union bears no credit risk in respect of these loans. The risks and rewards of ownership to which the entity remains exposed are the interest rate risk arising from the prepayment of the loans, and the Credit Union is the ultimate beneficiary of the trust net assets on winding up. Whilst these transfers satisfied all prudential requirements to obtain the benefits of capital relief, under the Accounting Standards the Athena Trust is deemed to be controlled by the Credit Union, and as a consequence these loans have continued to be disclosed as assets on the Statement of Financial Position for the consolidated group.

	2013 $	2012 $

8. Provision on impaired loans

a. Total provision comprises

	2013 $	2012 $
Collective provisions	1,058,154	813,238
Individual specific provisions	-	-
Total provision	**1,058,154**	**813,238**

b. Movement in the provision for impairment

	2013 $	2012 $
Balance at the beginning of year	813,238	758,122
Add (deduct):		
Transfers from (to) statement of profit or loss	244,916	55,116
Bad debts written off provision	-	-
Balance at end of year	**1,058,154**	**813,238**

Details of credit risk management is set out in Note 21.

c. Impaired loans written off

	2013 $	2012 $
Amounts written off against the provision for impaired loans	-	-
Amounts written off directly to expense	1,844,120	1,702,252
Total bad debts	**1,844,120**	**1,702,252**
Bad debts recovered in the period	433,813	375,385
	1,410,307	**1,326,867**

d. Analysis of loans that are impaired or potentially impaired by class

In the note below:
– carrying value is the amount recorded on the statement of financial position;
– impaired loans value is the 'on balance sheet' loan balances which are past due by 90 days or more; and
– provision for impairment is the amount of the impairment provision allocated to the class of impaired loans.

	2013 Carrying value $	2013 Value of impaired loans $	2013 Provision for impairment $	2012 Carrying value $	2012 Value of impaired loans $	2012 Provision for impairment $
Loans to members						
Mortgages held by Athena Trust	59,960,139	-	-	66,498,506	-	-
Mortgages	500,543,188	-	-	408,948,597	-	-
Personal	94,601,157	947,850	741,740	106,274,567	982,314	456,072
Credit cards and overdrafts	27,747,409	671,981	316,414	28,619,242	508,529	357,166
Total to natural persons	682,851,893	1,619,831	1,058,154	610,340,912	1,490,843	813,238
Corporate borrowers	-	-	-	-	-	-
Total	**682,851,893**	**1,619,831**	**1,058,154**	**610,340,912**	**1,490,843**	**813,238**

Past due value is the 'on balance sheet' loan balances which are past due by 90 days or more.
It is not practicable to determine the fair value of all the collateral as at the balance date due to the variety of assets and conditions.

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

	2013		2012	
	Carrying Value $	**Provision for impairment $**	**Carrying Value $**	**Provision for impairment $**
Non impaired up to 31 days	166,523	234,489	134,722	-
31 to 90 days in arrears	1,390,420	69,726	1,468,689	-
90 to 180 days in arrears	694,380	298,050	727,847	291,139
180 to 270 days in arrears	222,629	108,634	193,204	115,922
270 to 365 days in arrears	30,841	30,841	61,263	49,010
Over 365 days in arrears	-	-	-	-
Over limit facilities over 14 days	671,981	316,414	508,529	357,167
Total	**3,176,774**	**1,058,154**	**3,094,254**	**813,238**

f. Assets acquired by enforcement of security

There are no assets acquired by the credit union. The policy is to sell the assets via auction at the earliest opportunity after measures to assist the member to repay the debts have been exhausted.

g. Loans with repayments past due but not regarded as impaired

Loans with repayments past due but not impaired are in arrears as follows:

Loans members

	1-3 Months	3-6 Months	6-12 Months	> 1 Year	Total
2013					
Mortgage secured	-	-	-	-	-
Personal loans	1,390,420	-	-	-	1,390,420
Credit cards and overdrafts less than 14 days	166,523	-	-	-	166,523
Total	**1,556,943**	**-**	**-**	**-**	**1,556,943**
2012					
Mortgage secured	23,413	-	-	-	23,413
Personal loans	1,445,276	-	-	-	1,445,276
Credit cards and overdrafts less than 14 days	134,722	-	-	-	134,722
Total	**1,603,411**	**-**	**-**	**-**	**1,603,411**

h. Key assumptions in determining the provision for impairment

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

Period of impairment	% of balance
Up to 90 days	-
91 days to 180 days	40
181 days to 270 days	60
271 days to 36 days	80
Over 365 days	100

9. Available for sale investments

	2013 $	2012 $
Shares in unlisted companies – at cost		
– Cuscal Limited	907,097	907,154
Total value of investments	**907,097**	**907,154**

	2013 $	2012 $

Disclosures on shares held at cost

Cuscal Limited
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 – refer to Note 31. The shares are not able to be traded and are not redeemable.

The financial reports of Cuscal record net tangible asset backing of these shares exceeding their cost value. Based on the net assets of Cuscal, any fair value determination on these shares is likely to be greater than their cost value, but due to the absence of a ready market and restrictions on the ability to transfer the shares, a market value is not able to be determined readily.

The Credit Union is not intending, nor able to, dispose of these shares.

10. Property, plant and equipment

a. Fixed assets

	2013 $	2012 $
Plant and equipment - at cost	5,157,042	5,065,124
Less: provision for depreciation	(4,965,577)	(4,831,787)
	191,465	233,337
Capitalised leasehold improvements - at cost	2,064,753	2,060,748
Less: provision for amortisation	(1,867,304)	(1,772,387)
	197,449	288,361
	388,914	**521,698**

b. Movement in the assets balances during the year were:

	2013			2012		
	Plant & equipment $	Leasehold improvements $	Total $	Plant & equipment $	Leasehold improvements $	Total $
Balance at the beginning of the year	233,337	288,361	521,698	326,183	178,034	504,217
Purchases	92,920	4,005	96,925	82,777	205,279	288,056
Less:						
Assets disposed	(2,284)	-	(2,284)	-	-	-
Depreciation / Amortisation charge	(132,508)	(94,917)	(227,425)	(175,623)	(94,952)	(270,575)
Balance at the end of the year	**191,465**	**197,449**	**388,914**	**233,337**	**288,361**	**521,698**

11. Taxation assets

	2013 $	2012 $
Deferred tax assets	**888,145**	**829,547**
Deferred tax assets comprise:		
- Accrued expenses not deductible until incurred	24,840	13,890
- Provisions for impairment on loans	317,445	243,971
- Provisions for employee benefits	310,718	306,779
- Depreciation on fixed assets and intangible assets	235,142	264,907
	888,145	**829,547**

	2013 $	2012 $

12. Intangible assets

Computer software	3,449,225	3,314,497
Less provision for amortisation	(2,990,175)	(2,810,129)
	459,050	**504,368**
Movement in the assets balances during the year were:		
Opening balance	504,368	647,768
Purchases	134,763	167,807
Less:		
Amortisation charge	(180,081)	(311,207)
Balance at the end of the year	**459,050**	**504,368**

13. Short term borrowings

Borrowings from Westpac through the Athena Trust	61,304,470	68,196,053
Loans from other Authorised Deposit-taking Institutions (ADIs)	48,806,000	42,510,000
	110,110,470	**110,706,053**

There were no defaults on interest and capital payments on these liabilities in the current or prior year.

14. Deposits from members

Member deposits		
- at call	229,830,674	223,353,078
- term	313,285,937	295,193,241
Deposits from other financial institutions - term	76,230,000	32,000,000
Member withdrawable shares	93,354	93,234
	619,439,965	**550,639,553**

There were no defaults on interest and capital payments on these liabilities in the current or prior year.

Concentration of member deposits

(i) Significant individual member deposits which in aggregate represent more than 10% of the total liabilities;	-	-

Member deposits at balance date were received from individuals employed principally in the Australian Defence industry throughout Australia. There were no concentrations of depositors in any state or region.

15. Creditor accruals and settlement accounts

Annual leave	558,473	563,694
Creditors and accruals	1,650,741	795,274
Interest payable on borrowings	175,926	461,143
Interest payable on deposits	4,802,148	7,332,295
Sundry creditors	5,561,781	5,967,245
	12,749,069	**15,119,651**

	2013 $	2012 $

16. Taxation liabilities

Current income tax liability	**198,716**	**136,332**

Current income tax liability comprises:

Liability for income tax in current year	1,728,988	2,160,317
Less installments paid in current year	(1,530,272)	(2,023,985)
Balance at end of the year	**198,716**	**136,332**

17. Provisions

Long service leave	477,255	458,906
Total Provisions	**477,255**	**458,906**

18. Long Term Borrowings

Subordinated Debt

Balance at the beginning of the year		
Increase due to debt issued	5,000,000	-
Balance at the end of year	**5,000,000**	**-**

The credit union entered into an agreement to issue subordinated debt during the year which was approved by the Board.

19. Capital reserve account

Balance at the beginning of the year	106,166	98,450
Transfer from retained earnings on share redemptions*	6,026	7,716
Balance at the end of the year	**112,192**	**106,166**

***Share redemption**
The accounts represent the amount of redeemable preference shares redeemed by the Credit Union since 1 July 1999. The Corporations Act requires that the redemption of the shares be made out of profits. Since the value of the shares has been paid to members in accordance with the terms and conditions of the share issue, the account represents the amount of profits appropriated to the account.

20. General reserve for credit losses

General reserve for credit losses	1,506,419	1,060,545
	1,506,419	**1,060,545**

General reserve for credit losses
This reserve records amounts previously set aside as a general provision and is maintained to comply with the Prudential Standards set down by APRA.

Balance at the beginning of the year	1,060,545	1,060,545
Add: transfer from retained earnings	445,874	-
Balance at the end of the year	**1,506,419**	**1,060,545**

21. 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 Risk Committee and the Audit Committee which are both integral to the management of risk. 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.

Risk Committee: This is a key body in the control of risk. It has representatives from the Board and is supported by management. The Risk Committee does not form a view on the acceptability of risks but instead reviews risks and controls that are used to mitigate those risks. The Risk Committee confirms whether risks are within the parameters outlined by the Board. The Risk Committee confirms there is a regular review of all operational areas to ensure that operational risks are being properly controlled and reported. It also ensures that contingency plans are in place to achieve business continuity in the event of serious disruptions to business operations. The Risk Committee monitors compliance with the framework laid out in policy on a quarterly basis and reports in turn to the Board, where actual exposures to risks are measured against prescribed limits.

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

Asset & Liability Committee (ALCO): This committee of senior management meets at least monthly and has responsibility for managing and reporting credit, liquidity, market and capital risk exposure. It scrutinises operational reports and monitors exposures against limits determined by the Board.

Operational Risk Management Committee (ORMC): This committee of senior management meets monthly and is responsible for enabling Executive Management and the Board to implement an effective operational risk management framework and to ensure that the Board receives regular reporting and updates relating to operational risk management matters, thereby fulfilling the Board's oversight responsibilities in respect of operational risk management. The committee facilitates regular risk assessment reviews for all business units within the Credit Union to identify operational risks, appropriate controls to mitigate the risks and assess the residual risk position. The committee meets monthly to review and interrogate risk monitoring information managed within the Credit Union's operational risk management system and report to the Executive, Board and Risk Committee on the key issues.

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

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

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

- Risk Management Policy
- Liquidity Risk Management Plan
- Capital Management Plan
- Market Risk Management Plan
- Funding Plan
- Credit Risk Management Policy
- Collections Policy
- Operational Risk Management Policy, which has a number of related documents, including the Compliance Program, AML/CTF Program, Data Risk Management Policy and other operational risk management policy documents.
- Internal Capital Adequacy Assessment Process Plan

The Credit Union has undertaken the following strategies to minimise the risks arising from financial instruments:

a. Market Risk

The objective of the Credit Union's market risk management is to manage and control market risk exposures in order to reduce risk and optimise return. Market risk is the risk that changes in interest rates, foreign exchange rates or other prices and volatilities will have an adverse effect on the Credit Union's financial condition or results. The Credit Union is not exposed to currency risk, and other significant price risk. The Credit Union does not trade in the financial instruments it holds on its books. The Credit Union is exposed only to interest rate risk arising from changes in market interest rates. The management of market risk is the responsibility of the ALCO, which reports directly to the Board.

Interest rate risk

Interest rate risk is the risk of variability of the fair value of future cash flows arising from financial instruments due to the changes in interest rates. Most banks are exposed to interest rate risk within their treasury operations. The Credit Union does not have a treasury operation and does not trade in financial instruments.

Interest rate risk in the banking book

The Credit Union is exposed to interest rate risk in its banking book due to mismatches between the repricing dates of assets and liabilities. The level of mismatch on the banking book is set out in Note 24 below. This note displays the period that each asset and liability will reprice as at the balance date. 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 the risk of sensitivity should interest rates change. This risk is not considered sufficiently significant to warrant the use of derivatives to mitigate it.

Method of managing risk

The Credit Union manages its interest rate risk by the use of a value at risk (VaR) model. An independent review of the interest rate risk profile is conducted on a quarterly basis by Protecht Advisory Pty Ltd, an independent risk management consultancy company. The Board monitors interest rate risk through the management reporting process.

Value at Risk (VaR)

The Credit Union's exposure to market risk is measured and monitored using the VaR methodology of estimating potential losses. VaR is a technique which estimates the potential losses that could occur on risk positions taken due to movements in market rates and prices over a specified time period to a given level of confidence. VaR, as set out below, has been calculated using historical simulations, using movements in market rates and prices, a 99% confidence level and taking into account historical correlations between different markets and rates. The VaR on the non-trading book was as follows:

	2013	2012
VaR	$273,997	$464,653

The Credit Union is therefore confident within a 99 per cent confidence level that, given the risks as at 30 June 2013, it will not incur a one day loss on its non-trading book of more than the amount calculated above, based on the VaR model used. Although the use of VaR models calculates the interest rate sensitivity on the banking book, this is not reflected in the Pillar 1 capital requirement. The Credit Union's exposure to banking book interest rate risk is not expected to change materially in the next year so existing capital requirements are considered to be an accurate measurement of capital needed to mitigate interest rate risk.

b. Liquidity Risk

Liquidity risk is the risk that the Credit Union may encounter difficulties raising funds to meet commitments associated with financial instruments e.g. borrowing repayments or member withdrawal demands. It is the policy of the Board of Directors that the Credit Union maintains adequate cash reserves and committed credit facilities so as to meet 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;
- Monitoring the prudential liquidity ratio daily;
- Transferring loans to the Athena trust or to the Integris securitisation scheme when there are insufficient liquid funds to meet loan demand (see Note 33).

The Credit Union has a longstanding arrangement with the industry liquidity support scheme Credit Union Financial Support Services (CUFSS) which can access industry funds to provide support to the Credit Union should this be necessary. 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's policy is to operate within the range of 16% to 19% 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 range 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 28 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 assets and liabilities, based on the contractual repayment terms are set out in Note 23. The ratio of liquid funds over the past year is set out below:

Liquid funds to total adjusted liabilities

	2013	2012
Prescribed liquidity %	9.00%	9.00%
As at 30 June	17.33%	19.04%
Average for the year	18.95%	18.64%
Minimum during the year	16.91%	16.11%

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 loss. Credit risk arises principally from the Credit Union's loan book and investment assets.

(i) Credit Risk – Loans

The analysis of the Credit Union's loans by class, is as follows:

	2013			2012		
Loan type	**Carrying value $**	**Commitments $**	**Maximum exposure $**	**Carrying value $**	**Commitments $**	**Maximum exposure $**
Mortgages held by Athena Trust	59,960,139	-	59,960,139	66,498,506	-	66,498,506
Mortgages	500,543,188	38,909,278	539,452,466	408,948,597	31,529,093	440,477,690
Personal	94,601,157	5,600,950	100,202,107	106,274,567	6,486,395	112,760,962
Credit cards and overdrafts	27,747,409	22,409,602	50,157,011	28,619,242	21,271,901	49,891,143
Total to natural persons	**682,851,893**	**66,919,830**	**749,771,723**	**610,340,912**	**59,287,389**	**669,628,301**
Corporate borrowers	-	-	-	-	-	-
Total	**682,851,893**	**66,919,830**	**749,771,723**	**610,340,912**	**59,287,389**	**669,628,301**

Carrying value is the value on the statement of financial position. Maximum exposure is the value on the statement of financial position plus the undrawn facilities (loans approved not advanced, redraw facilities; line of credit facilities; overdraft facilities; credit cards limits). The details are shown in Note 27 and a summary is in Note 7. All loans and facilities are within Australia. The geographic distribution is not analysed into significant areas within Australia as the exposure classes are not considered material. Concentrations are described in Note 7. 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 Risk Management 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, responsible lending regulations and security requirements;
- limits of acceptable exposure to individual borrowers, non mortgage secured loans, commercial lending and concentrations to geographic and industry groups considered at high risk of default;
- reassessing and review of the credit exposures on loans and facilities;
- establishing appropriate provisions to recognise the impairment of loans and facilities;
- debt recovery procedures; and
- review of compliance with the above policies.

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

Past due and impaired

A financial asset is past due when the counterparty has failed to make a payment when contractually due. As an example, a member enters into a lending agreement with the Credit Union that requires interest and a portion of the principal to be paid every month. On the first day of the next month, if the agreed repayment amount has not been paid, the loan is past due. Past due does not mean that 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 loan 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. For loans where repayments are doubtful, external consultants are engaged to conduct recovery action once the loan is over 90 days in arrears. The exposure to losses arise predominantly with personal loans and facilities not secured by registered mortgage over real estate. If evidence of impairment exists, the estimated recoverable amount of the asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised in the profit or loss. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral. In addition to specific provisions against individually significant financial assets, the Credit Union makes collective assessments for each financial asset portfolio segmented by similar risk characteristics. Statement of financial position provisions are maintained at a level that management deems sufficient to absorb probable incurred losses in the Credit Union's loan portfolio from homogenous portfolios of assets and individually identified loans. A provision for incurred losses is established on all past due loans after a specified period of repayment default where it is probable that some of the capital will not be repaid or recovered. Specific loans and portfolios of assets are provided against depending on a number of factors including changes in a counterparty's industry and 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 set out in Note 8.

Bad debts

Amounts are written off when collection of the loan or advance is considered to be remote. All write-offs are assessed on a case by case basis, taking account of the exposure at the date of the write-off. On secured loans, the write-off takes place on ultimate realisation of collateral value, or from claims on any lenders' mortgage insurance. A reconciliation in the movement of both past due and impaired exposure provisions is provided in Note 8.

Collateral securing loans

A sizeable portfolio of the loan book is secured on residential property in Australia. Therefore, the Credit Union is exposed should the property market be subject to a decline. The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken. Note 7.b 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 group of related parties). If prudential limits are exceeded as a proportion of the Credit Union's regulatory capital a large exposure is considered to exist. No capital is required to be held against these but APRA must be informed. APRA may impose additional capital requirements if it considers the aggregate exposure to all loans over the 10% capital benchmark to be higher than acceptable. The aggregate value of large exposure loans are set out in note 7.c. 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 no more than 80% and bi-annual reviews of compliance with this policy are conducted.

Concentration risk – industry

The Credit Union has a concentration in the retail lending for members who comprise employees and family in the Defence industry. 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 and industry concentrations are set out in Note 7.c.

(ii) 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 occurs when a debtor fails to settle their obligations owing to the Credit Union. The credit policy is that investments are only made to institutions that are credit worthy based on the assessment of independent credit rating agencies. The risk of losses from liquid investments is reduced by the nature and quality of the financial institutions used and limits to the concentration and amount of individual investments with an institution. There is a concentration of credit risk with respect to investment receivables with the placement of investments with Cuscal (a company set up to support member credit unions and which has a A+ rating).

External credit assessment for institution investments
The Credit Union uses the ratings of reputable ratings agencies to assess the credit quality of all investment exposure, where applicable, using the credit quality assessment scale in APRA Prudential Standard APS 112. The credit quality assessment scale within this standard has been complied with. The exposure values associated with each credit quality step are as follows:

	2013			2012		
Investments with:	**Carrying value $**	**Past due value $**	**Provision $**	**Carrying value $**	**Past due value $**	**Provision $**
Cuscal – rated A+	35,811,533	-	-	43,519,256	-	-
Banks - rated AA and above	9,288,000	-	-	16,302,335	-	-
Banks - rated below AA	84,001,886	-	-	64,671,884	-	-
Credit Unions - rated below AA	-	-	-	2,000,000	-	-
Total	**129,101,419**	**-**	**-**	**126,493,475**	**-**	**-**

d. Capital Management

The capital levels are prescribed by APRA. Under the APRA Prudential Standards capital is determined in three components:

- Credit risk;
- Market risk (trading book); and
- Operational risk.

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

Capital resources
Tier 1 Capital
The vast majority of tier 1 capital comprises:

- Retained profits; and
- Realised reserves.

Additional Tier 1 Capital
This is a new classification of capital and includes:

- Preference share capital approved by APRA and qualifying 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:

- General reserve for credit losses.
- Tier 2 capital instruments – subordinated debt.

Capital in the Credit Union is made up of the following:

	2013 $	**2012 $**
Tier 1 Common Equity		
Capital reserve	112,192	106,166
Retained earnings	69,004,627	65,290,221
	69,116,819	**65,396,387**
Less prescribed deductions	(1,800,744)	(1,787,492)
Net Tier 1 Common Equity	**67,316,075**	**63,608,895**
Tier 1 Additional Equity		
Additional Tier 1 Capital Instruments	**-**	**-**
Net Tier 1 Capital	**67,316,075**	**63,608,895**
Tier 2 Capital		
Tier 2 Capital Instruments	4,500,000	**-**
Reserve for credit losses	1,506,419	1,060,545
	6,006,419	**1,060,545**
Less prescribed deductions/adjustments	(453,499)	(453,577)
Net Tier 2 Capital	**5,552,920**	**606,968**
Total Capital	**72,868,995**	**64,215,863**

Under the APRA Prudential Standards, the Credit Union is required to maintain a minimum capital level of 8% as compared to the risk weighted assets at any given time. The risk weights attached to each asset are based on the weights prescribed by APRA in APS 112. The general rules apply the risk weights according to the level of underlying security.

	Risk Weight	Carrying Value 2013	Risk Weighted Value 2013	Carrying Value 2012	Risk Weighted Value 2012
Cash on hand	0%	1,047,638	-	980,495	-
Deposits at call	20%	5,362,900	1,072,580	12,519,173	2,503,835
Liquid Investments	20% - 50%	123,738,519	33,044,011	113,974,302	39,531,454
Standard loans secured against eligible residential mortgages up to 80% LVR or up to 90% LVR with mortgage insurance	35%	410,071,022	143,524,859	324,915,228	113,720,330
Standard loans secured against eligible residential mortgages over 80% LVR with no mortgage insurance or over 90% LVR with mortgage insurance	50%-100%	99,275,055	50,020,261	91,180,102	45,910,309
Other loans	100%	112,537,566	112,537,566	128,366,320	128,366,320
Other assets	0% -100%	6,605,875	4,068,675	5,083,301	1,536,248
Term loans held by the Athena Trust	0%	59,960,138	-	66,498,506	-
Total on statement of financial position assets		**818,598,713**	**344,267,952**	**743,517,427**	**322,568,496**
Total commitments undrawn		66,919,831	11,534,199	59,287,389	9,546,903
Total risk weighted assets for credit risk		**885,518,544**	**355,802,151**	**802,804,816**	**332,115,399**

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

2013	2012	2011	2010	2009
Basel III	**Basel II**	**Basel II**	**Basel II**	**Basel II**
18.21%	17.18%	15.81%	14.72%	14.98%

The level of the capital ratio can be affected by growth in the Credit Union's asset base relative to growth in reserves and by changes in the mix of assets. To manage capital the Credit Union reviews the capital ratio monthly and monitors major movements in the asset levels. Policies have been implemented to require reporting to the Board and the regulator if the capital ratio falls below certain trigger levels. Further, a 3 year capital budget projection of the capital levels is maintained annually to address how strategic decisions or trends may impact on the capital level.

Pillar 2 capital on operational risk

This capital component was introduced effective 1 January 2008 and coincided with changes in the asset risk weightings for specified loans and liquid investments. Previously no operational charge was prescribed.

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

Based on this approach, the Credit Union's operational risk requirement is as follows:

- Operational risk capital $3,596,493 (2012: $3,329,789)

It is considered that the standardised approach accurately reflects the Credit Union's operational risk other than for the specific items set out below.

Internal capital adequacy management

The Credit Union manages its internal capital levels for both current and future activities through a combination of the various committees. The outputs of the individual committees are reviewed by the Board in its capacity as the primary governing body. The capital required for any change in the Credit Union's forecasts for asset growth, or unforeseen circumstances, are assessed by the Board. The finance business unit then update the forecast capital resources models produced and the impact upon the overall capital position of the Credit Union is reassessed.

In relation to the operational risks, the major measurements for additional capital are fraud and system security risks. The optional additional capital charge recognised by the Board equates to $670,000.

The Credit Union is also able to transfer loans to the Athena Trust and the Integris securitisation vehicle, to assist with capital management.

22. Categories of financial instruments

The following information classifies the financial instruments into measurement classes.

	Note	2013 $	2012 $
FINANCIAL ASSETS - carried at amortised cost			
Cash	4	6,410,538	13,499,668
Receivables	6	2,225,649	2,681,872
Receivables from financial institutions	5	123,738,519	113,974,302
Loans to members	7 & 8	621,631,858	542,890,981
Loans held by Athena Trust	7 & 8	59,960,139	66,498,506
Total loans and receivables carried at amortised cost		**813,966,703**	**739,545,329**
Available for sale investments - carried at cost	9	907,097	907,154
Total available for sale investments		**907,097**	**907,154**
Total financial assets		**814,873,800**	**740,452,483**
FINANCIAL LIABILITIES			
Short term borrowings	13	48,806,000	42,510,000
Creditors		6,628,814	8,588,712
Deposits from other institutions	14	76,230,000	32,000,000
Securitisation Facility – Athena Trust	13	61,304,470	68,196,053
Deposits from members	14	543,209,965	518,639,553
Long term borrowings	18	5,000,000	-
Total carried at amortised cost		**741,179,249**	**669,934,318**
Total financial liabilities		**741,179,249**	**669,934,318**

Assets measured at fair value through profit or loss

	2013 Level 3 $	Total $	2012 Level 3 $	Total $
Availability for sale	907,097	907,097	907,154	907,154

The fair value hierarchy has the following levels:

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

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

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

The Level 3 investments are held at cost and relate to the shares in the trade association body CUSCAL Limited. These shares are held to maintain services for the settlement with other financial institutions, treasury, and support services. They are not readily realisable by way of sale or transfer.

23. Maturity profile of financial assets and liabilities

Monetary assets and liabilities have differing maturity profiles depending on the contractual term, and in the case of loans the repayment amount and frequency. The table below shows the period in which different monetary assets and liabilities held will mature and be eligible for renegotiation or withdrawal. In the case of loans, the table shows the period over which the principal outstanding will be repaid based on the remaining period to the repayment date assuming contractual repayments are maintained, 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.

2013	Book value $000	Up to 3 months $000	3 – 12 months $000	1 – 5 years $000	After 5 years $000	No maturity $000	Total $000
ASSETS							
Cash	6,411	5,363	-	-	-	1,048	6,411
Liquid Investments	123,739	73,828	17,980	35,501	-	-	127,309
Loans & advances	622,891	19,347	58,218	232,304	751,103	-	1,060,972
Loans & advances - Athena Trust	59,960	1,297	3,960	19,505	83,563	-	108,325
Total Financial Assets	**813,001**	**99,835**	**80,158**	**287,310**	**834,666**	**1,048**	**1,303,017**
LIABILITIES							
Borrowings	48,806	35,613	13,750	-	-	-	49,363
Borrowings - Securitisation facility	61,304	-	-	-	61,304	-	61,304
Creditors	1,651	1,651	-	-	-	-	1,651
Deposits from other financial institutions	76,230	71,134	5,603	-	-	-	76,737
Deposits from members-at call	229,924	229,924	-	-	-	93	230,017
Deposits from members- term	313,286	143,962	167,794	6,187	-	-	317,943
Subordinated debt	5,000	-	-	-	9,098	-	9,098
On Balance Sheet	**736,201**	**482,284**	**187,147**	**6,187**	**70,402**	**93**	**746,113**
Undrawn commitments	66,920	66,920	-	-	-	-	66,920
Total Financial Liabilities	**803,121**	**549,204**	**187,147**	**6,187**	**70,402**	**93**	**813,033**

2012	Book value $000	Up to 3 months $000	3 – 12 months $000	1 – 5 years $000	After 5 years $000	No maturity $000	Total $000
ASSETS							
Cash	13,500	12,520	-	-	-	980	13,500
Liquid Investments	113,974	63,123	16,307	38,426	-	-	117,856
Loans & advances	543,842	19,616	59,263	232,426	701,210	-	1,012,515
Loans & advances - Athena Trust	66,499	1,349	4,111	20,268	87,414	-	113,142
Total Financial Assets	**737,815**	**96,608**	**79,681**	**291,120**	**788,624**	**980**	**1,257,013**
LIABILITIES							
Borrowings	42,510	28,619	14,578	-	-	-	43,197
Borrowings - Securitisation facility	68,196	-	-	-	68,196	-	68,196
Creditors	795	795	-	-	-	-	795
Deposits from other financial institutions	32,000	30,161	2,034	-	-	-	32,195
Deposits from members - at call	223,446	223,353			-	93	223,446
Deposits from members - term	295,194	144,988	149,292	6,048	-	-	300,328
Subordinated debt	-	-	-	-	-	-	-
On Balance Sheet	**662,141**	**427,916**	**165,904**	**6,048**	**68,196**	**93**	**668,157**
Undrawn commitments	59,287	59,287	-	-	-	-	59,287
Total Financial Liabilities	**721,428**	**487,203**	**165,904**	**6,048**	**68,196**	**93**	**727,444**

24. Current and non-current profile of financial assets and liabilities

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

	2013			2012		
	Within 12 months	After 12 months	Total	Within 12 months	After 12 months	Total
	$	$	$	$	$	$
FINANCIAL ASSETS						
Cash	6,411		6,411	13,500		13,500
Liquid Investments	87,890	35,849	123,739	78,896	35,078	113,974
Loans & advances	32,643	590,248	622,891	31,446	512,396	543,842
Loans & advances – Athena Trust	-	59,960	59,960	-	66,499	66,499
Total financial assets	**126,944**	**686,057**	**813,001**	**123,842**	613,973	737,814
FINANCIAL LIABILITIES						
Borrowings	48,806	-	48,806	42,510	-	42,510
Borrowings - Securitisation facility	-	61,304	61,304	-	68,196	68,196
Creditors	1,651	-	1,651	795	-	795
Deposits from other financial institutions	76,230	-	76,230	32,000	-	32,000
Deposits from members-at call	229,924	-	229,924	223,446	-	223,446
Deposits from members - term	308,535	4,751	313,286	289,701	5,492	295,194
Subordinated debt	-	5,000	5,000	-	-	-
Total Financial Liabilities	**665,146**	**71,055**	**736,201**	**588,452**	73,688	**662,140**

25. Interest rate change of profile of financial assets and liabilities

Financial assets and liabilities have conditions which allow interest rates to be amended either on maturity (term deposits and term investments) or after adequate notice is given (loans and savings). The table below shows the respective value of funds where interest rates are capable of being altered within the prescribed time bands, being the earlier of contractual repricing date, or maturity date.

2013	Within 1 month $000	1 – 3 months $000	3 – 12 months $000	1 – 5 years $000	After 5 years $000	Non interest bearing $000	Total $000
ASSETS							
Cash	5,363	-	-	-	-	1,048	6,411
Receivables	1,537	-	-	-	-	688	2,225
Liquid Investments	41,433	73,779	2,512	6,014	-	-	123,738
Loans & advances	571,706	673	6,709	43,804	-	-	622,892
Loans & advances - Athena Trust	59,960	-	-	-	-	-	59,960
Total Financial Assets	**679,999**	**74,452**	**9,221**	**49,818**	**-**	**1,736**	**815,226**
LIABILITIES							
Borrowings - Securitisation facility	15,768	45,536	-	-	-	-	61,304
Borrowings - other ADIs	24,707	23,278	1,028	-	-	-	49,013
Creditors	-	-	-	-	-	6,629	6,629
Deposits from other financial institutions	21,500	49,230	5,500	-	-	-	76,230
Deposits from members-at call	229,831	-	-	-	-	93	229,924
Deposits from members-term	56,273	86,923	164,255	5,835			313,286
Subordinated debt	-	5,000	-	-	-	-	5,000
On Balance Sheet	**348,079**	**209,967**	**170,783**	**5,835**	**-**	**6,722**	**741,386**
Undrawn commitments	66,920						66,920
Total Financial Liabilities	**414,999**	**209,967**	**170,783**	**5,835**	**-**	**6,722**	**808,306**

2012	Within 1 month $000	1 – 3 months $000	3 – 12 months $000	1 – 5 years $000	After 5 years $000	Non interest bearing $000	Total $000
ASSETS							
Cash	12,520	-	-	-	-	980	13,500
Receivables	1,966	-	-	-	-	716	2,682
Liquid Investments	44,464	54,201	10,000	5,309	-	-	113,974
Loans & advances	472,884	7,444	21,607	41,907	-	-	543,842
Loans & advances - Athena Trust	66,499	-	-	-	-	-	66,499
Total Financial Assets	**598,333**	**61,645**	**31,607**	**47,216**	**-**	**1,696**	**740,497**
LIABILITIES							
Borrowings - Securitisation facility	5,820	62,376	-	-	-	-	68,196
Borrowings - other ADIs	18,704	23,806	-	-	-	-	42,510
Creditors	-	-	-	-	-	8,589	8,589
Deposits from other financial institutions	12,500	17,500	2,000	-	-	-	32,000
Deposits from members-at call	223,353	-	-	-	-	93	223,446
Deposits from members-term	49,600	94,384	145,585	5,625	-	-	295,194
Subordinated debt	-	-	-	-	-	-	-
On Balance Sheet	**309,977**	**198,066**	**147,585**	**5,625**	**-**	**8,682**	**669,935**
Undrawn commitments	59,287						59,287
Total Financial Liabilities	**369,264**	**198,066**	**147,585**	**5,625**	**-**	**8,682**	**729,222**

26. Fair value of financial assets and liabilities

Fair value has been determined on the basis of the present value of expected future cash flows under the terms and conditions of each financial asset and financial liability. Significant assumptions used in determining the cash flows are that the cash flows will be consistent with the contracted cash flows under the respective contracts.

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

The values reported have not been adjusted for the changes in credit ratings of the assets.

The calculation reflects the interest rate applicable for the remaining term to maturity, not the rate applicable to the original term.

	2013			2012		
	Fair value $	Carrying value $	Variance $	Fair value $	Carrying value $	Variance $
FINANCIAL ASSETS						
Cash	6,410,538	6,410,538	-	13,499,668	13,499,668	-
Liquid Investments	124,789,306	123,738,519	1,050,787	115,219,451	113,974,302	1,245,149
Receivables[1]	2,225,649	2,225,649	-	2,681,872	2,681,872	-
Loans & advances	621,904,744	621,631,858	272,886	542,912,459	542,890,981	21,478
Loans & advances – Athena Trust	59,960,139	59,960,139	-	66,498,506	66,498,506	-
Investments	907,097	907,097	-	907,154	907,154	-
Total financial assets	**816,197,473**	**814,873,800**	**1,323,673**	**741,719,110**	**740,452,483**	**1,266,627**
FINANCIAL LIABILITIES						
Borrowings	55,028,577	48,806,000	6,222,577	42,725,769	42,510,000	215,769
Securitisation facility	61,304,470	61,304,470	-	68,196,053	68,196,053	-
Deposits from other financial institutions	76,388,909	76,230,000	158,909	32,075,039	32,000,000	75,039
Deposits from members						
- Call	229,830,674	229,830,674	-	223,353,078	223,353,078	-
- Term	314,960,189	313,285,937	1,674,252	329,259,392	327,193,241	2,066,151
Creditors[1]	6,628,814	6,628,814	-	8,588,712	8,588,712	-
Total financial liabilities	**744,141,633**	**736,085,895**	**8,055,738**	**704,198,043**	**701,841,084**	**2,356,959**

[1] For these assets and liabilities the carrying value approximates fair value.

Assets where the fair value is lower than the book value have not been written down in the accounts of the Credit Union on the basis that they are to be held to maturity, or in the case of loans, all amounts due are expected to be recovered in full.

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

Liquid assets and receivables from other financial institutions

The carrying values of cash and liquid assets and receivables due from other financial institutions redeemable within 12 months approximate their fair value as they are short term in nature or are receivable on demand.

Loans and advances

The carrying value of loans and advances is net of unearned income and both general and specific provisions for doubtful debts. For variable rate loans, (excluding impaired loans) the amount shown in the balance sheet is considered to be a reasonable estimate of fair value. The fair value for fixed rate loans is calculated by utilising discounted cash flow models (i.e. the net present value of the portfolio future principal and interest cash flows), based on the period to maturity of the loans. The discount rates applied were based on the current applicable rate offered for the average remaining term of the portfolio. The fair value of impaired loans was calculated by discounting expected cash flows using a rate which includes a premium for the uncertainty of the flows.

Deposits from members

The fair value of call and variable rate deposits, and fixed rate deposits repricing within 12 months, is the amount shown in the statement of financial position. Discounted cash flows were used to calculate the fair value of other term deposits, based upon the deposit type and the rate applicable to its related maturity.

Short term borrowings

The carrying value of payables due to other financial institutions approximate their fair value as they are short term in nature and reprice frequently.

27. Financial commitments

	2013 $	2012 $
a. Outstanding loan commitments		
Loans approved but not funded	**16,613,334**	**12,361,083**
b. Loan redraw facilities		
Loan redraw facilities available	**27,896,894**	**25,654,405**
c. Undrawn loan facilities		
Loan facilities available to members for overdrafts and line of credit loans are as follows:		
Total value of facilities approved	47,661,315	47,515,064
Less: Amount advanced	(25,251,712)	(26,243,163)
Net undrawn value	**22,409,603**	**21,271,901**
These commitments are contingent on members maintaining credit standards and ongoing repayment terms on amounts drawn.		
Total financial commitments	**66,919,831**	**59,287,389**
d. Computer expenditure commitments		
The costs committed under contracts with TAS and Ultradata are as follows:		
Not later than 1 year	1,539,315	1,042,986
Later than 1 year but not 2 years	1,585,495	1,031,174
Later than 2 years but not 5 years	1,574,657	1,062,109
Later than 5 years	-	-
	4,699,467	**3,136,269**
e. Lease expense commitments for operating leases on property occupied by the Credit Union		
Not later than 1 year	825,870	673,419
Later than 1 year but not 2 years	865,382	156,095
Later than 2 years but not 5 years	2,910,859	162,340
Later than 5 years	6,074,399	-
	10,676,510	**991,854**

The Credit Union entered into a property lease for its head office at 45 Clarence Street, Sydney, covering the period 1 July 2013 to 30 June 2023 with an option to renew for a period of 5 years. The rent for the term has been agreed and the lease allows for an increase in rent of 4% for each year. Other operating leases are in respect of property used for providing branch services to members, for periods up to 5 years and rent is subject to agreed escalation clauses.

There are no restrictions imposed on the Credit Union so as to limit the ability to undertake further leases, borrow funds or issue dividends.

28. Standby borrowing facilities

The Credit Union has a number of borrowing facilities.

	Gross $	Current borrowing $	Net available $
2013			
Committed loan facility - Cuscal	25,000,000	-	25,000,000
Loan facility - Cuscal	40,000,000	10,000,000	30,000,000
Loan facility - other	40,000,000	38,806,000	1,194,000
Overdraft facility	5,000,000	207,100	4,792,900
Athena - Westpac committed facility	125,000,000	61,304,470	63,695,530
Total standby borrowing facilities	**235,000,000**	**110,317,570**	**124,682,430**
2012			
Committed loan facility - Cuscal	25,000,000	-	25,000,000
Loan facility - Cuscal	40,000,000	10,000,000	30,000,000
Loan facility - Other	40,000,000	32,510,000	7,490,000
Overdraft facility - Cuscal	5,000,000	-	5,000,000
Athena - Westpac committed facility	125,000,000	68,196,053	56,803,947
Total standby borrowing facilities	**235,000,000**	**110,706,053**	**124,293,947**

Withdrawal of the loan facility is subject to the availability of funds at Cuscal.

Cuscal holds an equitable mortgage charge over all of the assets of the Credit Union as security against loan and overdraft amounts drawn under the facility arrangements.

29. Contingent liabilities

Liquidity Support Scheme

The Credit Union is a member of the Credit Union Financial Support Scheme Limited (CUFSS) a company limited by guarantee, established to provide financial support to member credit unions in the event of a liquidity or capital problem.

As a member, the Credit Union is committed to maintaining 3.2% of the total assets as deposits with Cuscal Limited. Under the terms of the Industry Support Contract (ISC), the maximum call for each participating credit union would be 3.2% of the credit union's total assets (3% under loans and facilities and 0.2% under the cap on contributions to permanent loans).

This amount represents the participating credit union's irrevocable commitment under the ISC. At balance date there were no loans issued under this arrangement.

30. Disclosures on Key Management Persons

a. Remuneration of Key Management Persons [KMP]

Key management persons are those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, directly or indirectly, including any Director (whether executive or otherwise) of that credit union.

Control is the power to govern the financial and operating policies of a credit union so as to obtain benefits from its activities.

KMP have been taken to comprise the Directors and the 2 members of the Executive Management responsible for the day-to-day financial and operational management of the Credit Union.

The aggregate compensation of **KMP** during the year comprising amounts paid or payable or provided for was as follows:

	2013 **$**	**2012** **$**
(a) short-term employee benefits	1,183,265	881,284
(b) post-employment benefits – superannuation contributions	110,163	80,059
(c) other long-term benefits	-	-
(d) termination benefits	-	-
(e) share-based payment	-	-
Total	**1,293,428**	**961,343**

In the previous table, remuneration shown as short term benefits means (where applicable) wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses, value of fringe benefits received, but excludes out of pocket expense reimbursements.
All remuneration to Directors was approved by the members at the previous Annual General Meeting of the Credit Union. The amount approved for 2013 was $345,000 [2012 $303,600].

b. Loans to KMP

	2013 $	2012 $
(i) The aggregate value of loans to Directors and other KMP as at balance date amounted to	**-**	**459**
(ii) The total value of revolving credit facilities to Directors and other KMP, as at balance date amounted to	-	18,000
Less amounts drawn down and included in (i)	-	18,000
Net balance available	-	**-**
(iii) During the year the aggregate value of loans disbursed to KMP amounted to:		
Revolving credit facilities	-	-
Personal loans	-	-
Term loans	-	-
	-	-
(iv) During the year the aggregate value of revolving credit facility limits granted or increased to KMP amounted to	-	-
(v) Interest and other revenue earned on loans and revolving credit facilities to KMP	**-**	**229**

The Credit Union's policy for lending to KMP is that all loans are approved and deposits accepted on the same terms and conditions which applied to members for each class of loan or deposit with the exception of personal loans to KMP who are not Directors.

There are no loans which are impaired in relation to the loan balances with KMP or their close family relatives.

There are no benefits or concessional terms and conditions applicable to KMP or their close family members.

Other transactions between related parties include deposits from KMP are:

	2013 $	2012 $
Total value term and savings deposits from KMP	**160,510**	**142,348**
Total interest paid on deposits to KMP	**5,026**	**26,441**

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

c. Transactions with other related parties

Other transactions between related parties include deposits from related entities or close family members of KMP.

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

There are no benefits paid or payable to the close family members of the KMP.

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

31. Outsourcing Arrangements

The Credit Union has arrangements with other organisations to facilitate the supply of services to members.

a. Cuscal Limited

Cuscal is an Approved Deposit Taking Institution registered under the Corporations Act 2001 and the Banking Act. The Credit Union has equity in the company. This organisation:

(i) provides the license rights to Visa Card in Australia and settlement with other institutions for ATM, Visa Card and cheque transactions, direct entry transactions, as well as the production of Visa and Redicards for use by members;

(ii) operates the computer network used to link Redicards and Visa Cards operated through rediATMs and other approved ATM providers to the Credit Union's EDP systems.

(ii) provides treasury and money market facilities to the Credit Union. The Credit Union invests a significant part of its liquid assets with Cuscal to maximise return on funds, and to comply with the Liquidity Support Scheme requirements.

b. Ultradata Australia Pty Limited

This organisation provides and maintains the application software utilised by the Credit Union.

c. Transaction Solutions Pty Limited

This entity operates the computer facility on behalf of the Credit Union in conjunction with other credit unions. The Credit Union has a management contract with the company to supply computer support staff and services to meet the day-to-day needs of the Credit Union and compliance with the relevant Prudential Standards.

32. Superannuation Liabilities

The Credit Union contributes to the NGS Super Plan for the purpose of superannuation guarantee payments and payment of other superannuation benefits on behalf of employees. The plan is administered by an independent corporate trustee. The Credit Union has no interest in the superannuation plan (other than as a contributor) and is not liable for the performance of the plan, or the obligations of the plan.

33. Transfer of financial assets

The Credit Union has established arrangements for the transfer of loan contractual benefits of interest and repayments to support ongoing liquidity facilities. These arrangements are with:

i) Athena Trust which supports the independent financing of the loans. These loans are not de-recognised as the Credit Union retains the benefits of the trust net income.

ii) The Integris securitisation vehicle where the Credit Union acts as agent for the trust in arranging loans on behalf of Integris, and/or can transfer the contractual rights to the trust of pre-existing loans at market value.

Only residential mortgage-backed securities (RMBS) that meet specified criteria, are eligible to be transferred in each of the above situations.

a. Securitised loans retained on the balance sheet

The values of securitised loans which are not qualifying for de-recognition as the conditions do not meet the criteria in the accounting standards are set out below. In each case the loans are variable interest rate loans, hence the book value of the loans transferred equates to the fair value of those loans.

The associated liabilities are equivalent to the book value of the loans reported.

	2013 $	2012 $
Balance sheet values		
Loans and receivables		
Athena Trust	**59,960,139**	**66,498,506**
Fair value of associated liabilities		
Borrowings from other financial institutions	61,304,470	68,196,053
Net	**(1,344,331)**	**(1,697,547)**

	2013 $	2012 $
Off Balance Sheet commitments (redraws)		
Financial Commitments		
Athena Trust	4,284,613	5,009,012
Carrying amount of the loans as at the time of transfer		
Athena Trust	-	21,094,870

b. Securitised loans not on the balance sheet

The values of securitised loans which are qualifying for de-recognition arising from transfer of interest in the loans, as the conditions meet the criteria in the accounting standards. In each case the loans are variable interest rate loans, hence the book value of the loans transferred equates to the fair value of those loans.

The associated liabilities are equivalent to the book value of the loans reported.

	2013 $	2012 $
Carrying amount		
Integris securitisation vehicle (bulk sale items only)	**99,642,637**	**114,424,250**
Fair value of continuing involvement in assets	-	-
Fair value of liabilities that represent continuing involvement in loans	-	-
Undiscounted cash outflows required to repurchase loans under an option agreement	-	-
The maximum exposure to loss from continuing involvement is	-	-
The gain or loss on the transfer of assets in the current years is	-	-
The net income received from the continuing involvement current year	648,320	353,143
The net income received from the continuing involvement – cumulatively	648,320	353,143
The total proceeds received in the year from transfer of bulk sale loans to Integris	-	-

The values of above securitised loans are qualifying for de-recognition as they meet the criteria in accounting standard AASB 139, where the credit union assumes the contractual obligation to pay all cash flows it received on the loans to the trust, but receives no benefit from the net gains or losses in the trust.

Nature of relationship and any continuing involvement
Integris Securitisation Services Pty Limited
The Trust is an independent securitisation vehicle established by the peak credit union body Cuscal.

The Credit Union has an arrangement with Integris Securitisation Services Pty Limited whereby it acts as an agent to promote and complete loans on their behalf, for on sale to an investment trust. The Credit Union also manages the loans portfolio on behalf of the trust. The Credit Union bears no risk exposure in respect of these loans. The Credit Union receives a management fee to recover the costs of administration of the processing of the loan repayments and the issue of statements to the members.

In addition the Credit Union is able to assign mortgage secured loans to Integris at the book value of the loans, subject to acceptable documentation criteria. During the year the Credit Union did not assign any loans to Integris. These loans qualify for de-recognition on the basis that the assignment transfers all the risks and rewards to Integris and there is no residual benefits to the Credit Union. The Credit Union receives a management fee to recover the costs of on-going administration of the processing of the loan repayments and the issue of statements to the members.

The Credit Union does not have any obligations in connection with performance or impairment guarantees, or call options to repurchase the loans.

Maturity analysis for undiscounted cash outflows to repurchase transferred assets derecognised in their entirety

The Credit Union has no obligations for cash flows that are required to be paid (e.g. forward contracts), or cash flows that may be required to pay (e.g. written put options).

The Credit Union may choose to pay to purchase the loans in a call option, but only with the consent of the trustees, and the Credit Union has no intention to make such payments at this time.

34. Notes to cash flow statement

a. Reconciliation of cash

	2013 $	2012 $
Cash includes cash on hand, and deposits at call with other financial institutions and comprises:		
Cash on hand	1,047,638	980,495
Deposits at call	5,362,900	12,519,173
Total cash	**6,410,538**	**13,499,668**

b. Reconciliation of cash from operations to accounting profit

	2013 $	2012 $
The net cash increase/(decrease) from operating activities is reconciled to the profit after tax.		
Profit after income tax	4,166,306	5,036,826
Add (Deduct):		
Bad debts written off	1,844,120	1,702,252
Depreciation expense	407,505	581,782
Increase/(Decrease) in amortised fees on loans	63,556	(71,089)
Increase in provision for long service leave	18,349	43,772
Increase/(Decrease) in provision for income tax	62,384	(1,144,887)
Increase in provision for impaired loans	244,916	55,116
Increase/(Decrease) in accrued expenses	850,245	(503,183)
Increase/(Decrease) in interest payable	(2,815,365)	951,697
Gain on sale of assets	(3,661)	-
Decrease/(Increase) in prepayments	(320,626)	6,233
(Increase)/Decrease in deferred tax assets	(58,599)	20,387
(Increase)/Decrease in GST receivable	254,779	(206,553)
Decrease in interest receivable	27,294	177,479
Net cash from revenue activities	**4,741,203**	**6,649,832**

35. Corporate information

The Credit Union is a company limited by shares, and is registered under the Corporations Act 2001.

The address of the registered office is:

Level 18, 45 Clarence Street, Sydney NSW 2000.

The address of the principal place of business is:

Level 18, 45 Clarence Street, Sydney NSW 2000.

The nature of the operations and its principal activities are the provision of deposit taking facilities and loan facilities to the members of the Credit Union.

Australian Defence Credit Union
ABN 48 087 649 741 AFSL No. 237 988
Australian credit licence number 237 988

Images index

These images are courtesy of the Australian War Memorial, www.awm.gov.au.

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Happy sailors aboard HMAS Canberra during training at sea. (Negative by Damien Parer)

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A group of unidentified gunners in a trench on the Gallipoli Peninsula.

Page 16
Unidentified members of No 9 Squadron, RAAF, Iroquois helicopters in Vietnam, hoist 316951 Flight Lieutenant (Flt Lt) Robert Alec Charles (Bob) Kendell, DFC, pilot, of Maffra, Vic, on to their shoulders to celebrate his 25 years of flying, and the end of his tour of duty in Vietnam.

we understand you!

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