52nd

ADCU
Australian Defence Credit Union

Annual Report 2011

Contents

2011 Directors' Report

With another financial year having come to a close, I am pleased to report that amidst the challenges in the global financial markets over the last 12 months, Australian Defence Credit Union (ADCU) has once again managed to build on our success of the last few years.

Chairman's summary

As a result of good strategic planning and well executed management strategies we were able to once again achieve sound growth for both our loan and deposit portfolios. This delivered significant benefits in the form of efficiency and scale which, in turn, contributed to a healthy increase in our revenue base. This strong financial position has allowed us to reinvest back into our credit union so that we may add to its strength and security. This investment is part of your Board's continuing efforts towards our aim to provide increasing value to our members. We do this by paying close attention to the environment in which we operate and by avoiding the many distractions in these troubled economic times to remain focused on the joint requirements of balanced growth and member security.

This is shown through our continuing commitment to maintaining the competitiveness and relevance of our products and our renewed focus on the electronic banking channel. Over the past 12 months we have reviewed and relaunched our personal and car loan products making them simpler to understand and even more competitive. In addition to maintaining a competitive range of products we also introduced eStatements and invested significantly in new website and mobile banking technologies to improve our service delivery to members.

During this past year my fellow Directors have shown that they are certainly up to the task of dealing with the challenges presented by the ongoing upheaval in the global financial markets as they work tirelessly in support of your Credit Union. They have served ADCU well and have shown great cohesiveness and professionalism and I thank them for their continuing efforts.

I would also like to thank the Chief Executive Officer, his management team and all ADCU staff for their continued dedication to demonstrating our values of professionalism, friendliness, understanding, enthusiasm and passion in everything they do. It is this dedication to helping our members make the most of their finances that makes ADCU the successful mutual banking services organisation it is today.

John Wood
Chairman
22 September 2011

The Directors present their report on Australian Defence Credit Union Limited (the Credit Union) for the financial year ended 30 June 2011.

Corporate governance

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

Legislative and regulatory requirements

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

The Credit Union is primarily regulated as:

- an Authorised Deposit Taking Institution by the Australian Prudential Regulatory Authority (APRA) (via Australian Prudential Standards and the Banking Act 1959);
- an Australian Financial Services Licence holder by the Australian Securities and Investment Commission (ASIC) (via the Financial Services Regulatory 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 2010); 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).

The Credit Union'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 APS 510 Governance as they apply to the Credit Union.

Role of the Board

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

The Board has delegated responsibility for the operation and administration of the Credit Union 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 start of the third Annual General Meeting after the Director was last elected, 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 start of the next Annual General Meeting.

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, business 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 would 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 Credit Union's Corporate Governance, Fit and Proper, Board Renewal and Performance Evaluation policies and initiate and conduct the procedures 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 Human Resources and Premises Manager.

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 the Credit Union's risk appetite and strategy, develop policies and plans to ensure the Credit Union's 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 Compliance Manager.

Remuneration Committee

The Remuneration Committee is responsible for overseeing the establishment and regular review of the Credit Union's 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 Credit Union's operational risk management system.

Strategic planning

The Board and Executive Management meet twice a year (December and May) to plan the strategic direction of the Credit Union 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 the Credit Union 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 the Credit Union.

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 the Credit Union and declarations are made at the start of each Board and Board Committee meeting.

Code of conduct

The Directors are expected to abide by the Credit Union'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 Credit Union's website, www.adcu.com.au. Additionally, members receive a quarterly newsletter Communiqué 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 Credit Union's strategic direction and performance. 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 posted on our website. The Board ensures that the Annual Report includes all relevant information about the operation of the Credit Union 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 (L to R):

Standing: Clinton Thomas, Jane Spalding, John Brooks and Michael Pike. Sitting: Graham Weber, John Wood (Chairman) and Warren Thomas.

Office bearers

The names of Directors and Company Secretaries in office during the financial year were:

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
Member RAN Reserve
Credit Union Director for 14 years and Chairman from 2001
Chairman of Board and Chair of Board Executive Committee
Member of the 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 11 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
Fellow Corporate Directors' Association
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 CD

Experience and Responsibilities

28 years service in the Royal Australian Navy (Supply Branch)
Active Naval Reservist
Credit Union Director for 18 years
Chair of the Renewal Committee
Member of the Remuneration and Audit Committees

Colonel Jane Maree Spalding

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

28 years in the Australian Regular Army
Currently Director Strategic Reform Program – Army
Credit Union Director for 4 years
Chair of the Audit Committee

Commodore 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 CD 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 and Logistics) (MGSM)

Experience and Responsibilities

36 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)

Chairman of the RAN Australian Football Association (7 years)

Chairman of the RAN Central Canteens Board

Currently the Director General Logistics – Navy

Credit Union Director for 11 years

Chair of the Risk Committee

Warren Raymond Thomas

Qualifications

Accountancy Certificate

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 and 20 years in financial management in various Navy and Army Commands

President of Cronulla RSL sub-branch

Director of Cronulla RSL Memorial Club

Credit Union Director for 15 years

Deputy Chairman of the Board

Past Member of the Audit Committee (6 years as Chairman)

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

Experience and Responsibilities

5 years in Accounting Firms and Advisory Services

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

Currently Director General – Budgets and Treasury

Credit Union Director for 3 years

Member of the Risk Committee

Ian Neville Doyle

Qualifications

Fellow of the Institute of Public Accountants

Fellow of the Financial Services Institute of Australasia

Graduate Management Qualification - AGSM

Management Development Program - Mt. Eliza Australian Management College

Member of the Australasian Mutuals Institute

Experience and Responsibilities

Over 30 years experience in the Banking and Finance Industry

Chief Executive Officer

Company Secretary

Meetings attended

	Board meetings		Board Committee Meetings											
			Executive		Audit		Risk		Renewal		Remuneration		Joint Risk/Audit	
Directors	H	A	H	A	H	A	H	A	H	A	H	A	H	A
John Wood	11	10	12	10	-	-	-	-	5	4	4	3	-	-
John Brooks	11	10	-	-	2	2	3	3	-	-	-	-	1	1
Michael Pike	11	9	-	-	6	5	-	-	5	5	4	4	1	1
Jane Spalding	11	8	-	-	6	4	-	-	-	-	-	-	1	1
Clinton Thomas	11	10	-	-	-	-	6	5	-	-	-	-	1	-
Warren Thomas	11	10	12	10	4	4	3	2	-	-	4	4	1	1
Graham Weber	11	11	-	-	-	-	6	6	-	-	-	-	1	1

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 the Credit Union. As at 30 June 2011, no Director has received or become entitled to receive any such benefit.

Indemnity of Directors and Officers

The Credit Union 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 Credit Union's auditors, BDO Audit (NSW-VIC) Pty Ltd.

Principal activities

The principal activities of the Credit Union 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 accommodation 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) the Credit Union has continued to experience sound growth in mortgage loans and associated products during the year ended 30 June 2011.

Operating and financial review

Operating results

The Credit Union earned a total net profit after tax of $6.19m compared to $5.81m for the previous year. This increase in profitability was largely driven by the growth experienced in the preceding financial years as a result of the Credit Union's inclusion as a Home Loan Provider in DHOAS. The high level of growth has allowed the Credit Union to realise economies of scale.

During the financial year, the Credit Union continued to grow steadily, with total on and off balance sheet assets increasing by $47m (or 5.91%) to $833m. This growth continued to be predominately sourced from quality growth in the Credit Union'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, the Credit Union successfully grew deposits by $35m (or 7%) and this provided a stable base to fund our loan growth.

Non interest income continued to perform, increasing by $514k to $9.5m. This was mainly attributable to the continuing success in promoting our extensive range of good value insurance products to members, which has helped the Credit Union meet our commitment to provide products and services to meet the financial needs of our members.

Over the past year, scale has allowed the Credit Union to maintain non interest expenses relatively static. It is pleasing to note that the efficiencies associated with our growth are now visible and are directly contributing to the growth in our total member's equity.

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 the Credit Union.

Significant changes in state of affairs

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

Regulatory snapshot

During the year we implemented changes to our lending processes to comply with the National Consumer Credit Protection Act which replaced the State-based Uniform Consumer Credit Codes in 2010.

The largest legislative change for 2011 is the Competitive and Sustainable Banking System reforms to be implemented in 2012. The first phase of these reforms is to implement home loan key fact sheets generated on the Credit Union website so consumers can obtain information about our home loan products and make comparisons with other providers in the market. This change is required to be implemented by 1 January 2012.

The second phase of these reforms relates to credit cards, with a wide range of requirements to be released in the later part of 2011 for implementation by 1 July 2012. These reforms are being closely monitored for potential process changes relating to the Credit Union's Low Rate Visa Card.

Another key legislative change relates to the new Personal Properties Securities Act. Under this new Act, the previously State based diverse registers recording various types of securities are being centralised into one National register. Management are implementing changes to personal loan processes to meet the requirements by the 30 January 2012 commencement.

The Board strongly supports the changes to lending and will work closely with Management to ensure that the changes required are completed by the commencement dates.

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 the Credit Union.

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 the Credit Union;
- results of these operations; or
- state of affairs of the Credit Union;

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
22 September 2011

Warren Thomas
Deputy Chairman

Declaration of independence

By Neville Sinclair to the Directors of Australian Defence Credit Union Limited.

As lead auditor of Australian Defence Credit Union Limited for the year ended 30 June 2011, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Neville Sinclair
Director, BDO Audit (NSW-VIC) Pty Ltd.
22 September 2011

Directors' declaration

The Directors of Australian Defence Credit Union Limited declare that:

The financial statements comprising Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows, accompanying notes and notes related thereto, are in accordance with the Corporations Act 2001, and:

(a) comply with Accounting Standards; and

(b) give a true and fair view of the financial position of the Credit Union as at 30 June 2011 and performance for the year ended on that date.

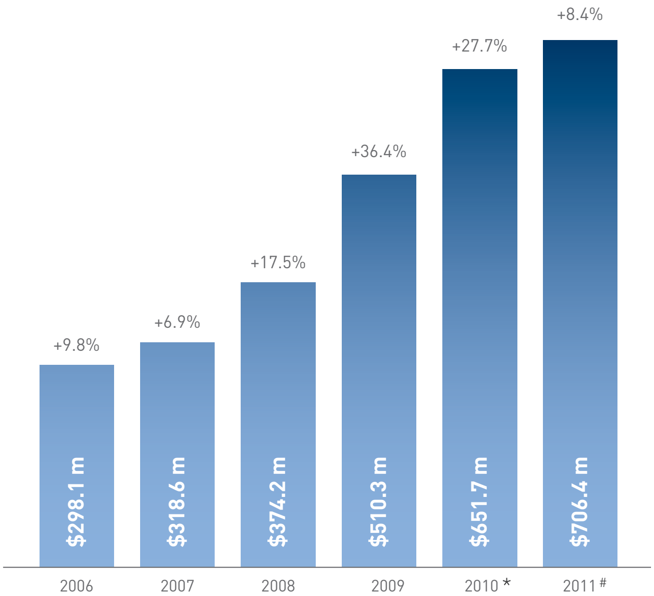
The company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.

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

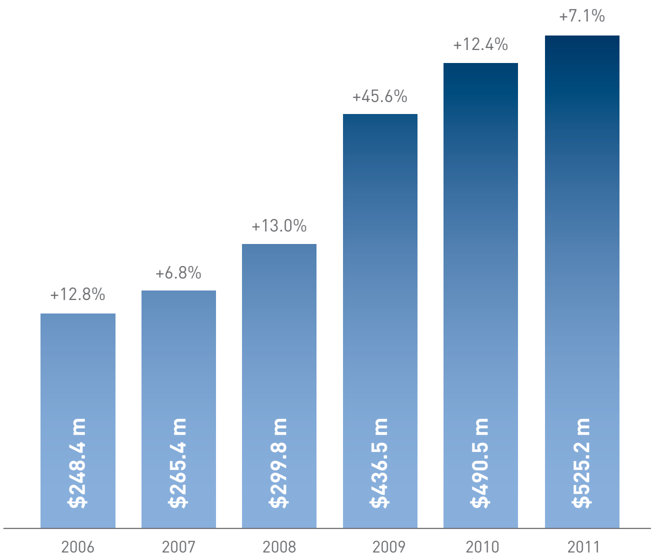
This declaration is made in accordance with a resolution of the Board of Directors.

John Wood
Chairman
22 September 2011

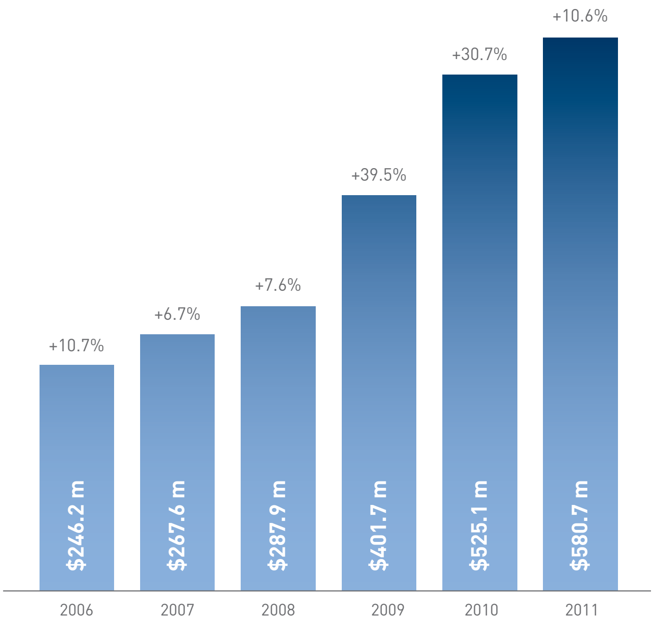
Key Performance Measures



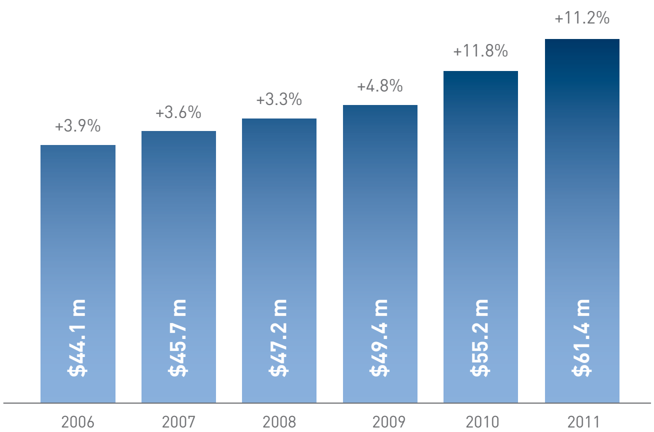
Balance Sheet Assets



Deposits



Net Balance Sheet Loans



Members Equity

* Includes $56,366,795 in loans securitised through Athena Trust.

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

2011 Chief Executive's Report

Despite the uncertainty and upheaval that continued in the financial industry throughout the year, ADCU again proved its resilience and core strength by delivering another year of strong performance.

Whilst the turbulence and uncertainty of the global economy has continued to create significant challenges within the financial industry throughout the year, ADCU has again demonstrated its stability and core strength by delivering another year of strong performance.

This achievement was underpinned by sound strategies which were diligently implemented by the Board, management and staff. This success can only be achieved through the collective efforts of our dedicated staff delivering many things done well across the organisation in order to continually meet the needs of our members and serve the broader Defence community.

ADCU has continued to invest our profits back into the business for our members by continuing to develop and implement a combination of well-balanced and well-executed strategies to improve our highly competitive product range and fulfil our commitment to providing financial services to members throughout their lives. These strategies spanned all areas of our organisation, including new product development, business processes, policies, human resources and technology, in order to strengthen the internal and external workings of ADCU and ultimately deliver the best service possible to our members. Managing ADCU to this level of performance through this prolonged period of economic uncertainty required significant operational focus from the Board and management; however, we have continued to invest soundly and strategically to ensure sustainable growth in our business and earnings not just for the present, but for the medium-to-long term as well. It is important to note that improving our earnings and strengthening our balance sheet is critical to ensure we maintain our excellent prudential position and to allow us to support the future growth of our business for our members.

Some important steps that we have taken in support of the above over the past twelve months include:

New products and services

A range of new products and services were introduced to members throughout the year to help them better manage their finances in these times of economic uncertainty. We completely rebuilt and simplified our personal loan and car loan products and relaunched some of the most competitive consumer loan products in the market today to meet the needs of our members.

A number of other new services were rolled out including the launch of eStatements to provide our members with a secure, efficient and convenient method of obtaining their statements online. In addition to enhancing member service we have also contributed to our green strategy by reducing our paper based statements and our carbon footprint. This service has been so successful we have over a third of our members using eStatements after just a few months. We also launched an improved version of Verified by Visa, which is a global authentication solution that provides a higher level of security for online transactions for our members by confirming the identity of the cardholder. Registration is automated for all cardholders and the service leads to reduced online fraud.

As part of our eCommerce strategy we have invested significantly in the development of a new ADCU website with mobile phone banking capability to improve the delivery of information and service to our existing and potential members.

Our people and processes

At ADCU we recognise that our staff are our greatest asset in the way we do business and how we can best serve our members. We are committed to providing a work environment and culture that allows them to thrive by recognising their individual talents and skills and by fostering a team spirit supported by a strong commitment to training.

Much of this year's success came from behind-the-scenes projects aimed at better engaging staff, increasing efficiency and providing a challenging and rewarding environment where our employees can make a difference. In the past year we continued to develop the Knowledge Centre, an online system to help the organisation manage information and procedures, and the Electronic Learning Management System (ELMS), an online training and development system. These online systems have been instrumental in providing our staff across the nation with access to the same quality information, training and development material.

We also introduced an Employee Service Portal (ESP) which enables our staff to maintain their personal details and access information in relation to their salary, leave entitlements and also apply for leave via a self-service online portal.

These tools are making it easier and quicker for staff across the country to access the information they need to manage their career and complete their duties.

Prudential standards and regulation

As an Authorised Deposit Taking Institution (ADI), ADCU continues to operate under strict regulations and monitoring imposed by the Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulatory Authority (APRA). ADCU strictly adheres to these prudential requirements and regulations.

We also operate under, and comply with, the following:

- Mutual Banking Code of Practice, which came into effect on 1 July 2009 which addresses the fair and ethical treatment of all our members and transparency in our dealings with members, whilst focusing on high customer service standards.
- National Privacy Principles, which provides guidelines for the protection of our members' privacy.
- Competition and Consumer Act 2010, which provides safeguards for consumer rights, together with fair and ethical trading.
- The National Consumer Credit Protection Act 2010, which regulates consumer credit and conduct in relation to lending services.
- Anti-Money Laundering and Counter-Terrorism Financing Act 2006, which is aimed at preventing and detecting money laundering and terrorism financing and imposes requirements relating to customer identification, due diligence and maintenance of an AML/CTF Program.

High priority is given to compliance and corporate governance within the Credit Union and compliance with our policies and procedures is continually under review by our internal and external audit processes. We have a sophisticated online compliance framework for monitoring and reporting performance to ensure we maintain the highest level of corporate governance.

Financial education

A career in the Australian Defence Force offers members an opportunity to save for the future, provided goals are put in place early. To this end, ADCU continued to run a host of financial education initiatives for our members to help them grow their personal wealth and create financial stability. Education topics have included Budgeting, Pre-deployment Planning, Buying a Motor Vehicle, Understanding Credit, as well as many others and will continue to be a priority as the need for good financial management continues to grow.

The Executive Management Team (L to R):

Mike Lanzing,
Head of Business Development

Ian Doyle,
Chief Executive Officer

Bob McGregor,
Head of Credit

Christina Imada,
Marketing Manager

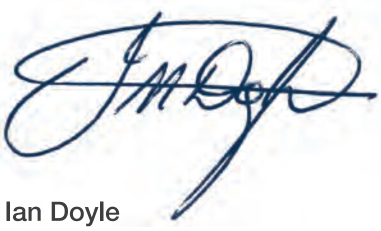
Martin Elwell,
Information Technology Manager

Supporting our communities

As we've done throughout our 52 year history, ADCU continued to play an active role in Defence life across Australia over the past year. ADCU supported a wide range of activities and organisations through sponsorships, donations and spirited participation at events from Stirling to Lavarack and at virtually every base in between. As with previous years, we worked with the National and many of the State Returned and Services Leagues to show our support and help further their cause including raising funds through ANZAC badge sales. This year ADCU also became a gold supporter of Credit Union Foundation Australia (CUFA) which is the development agency for the Australian Credit Union Movement. CUFA has both a domestic and international development focus in its activities to promote financial and social well-being in communities. CUFA develops community access to affordable financial services in the Asia Pacific region, working cooperatively at grass-roots through to government levels, building capacity in emerging credit union movements to create sustainability, improve lives and relieve poverty.

We continue to be extremely proud of our mutual structure and the benefits it provides to our members in the form of competitive interest rates, fairer fees, great products and services and our Relationship Reward. Our mutuality is a strength that differentiates us from the big banks and enables us to give back to our members. As a keen supporter of the Credit Union movement, ADCU were proud to be an active participant in the awareness-building campaign created by Abacus on behalf of the industry to promote that "It all comes back to our Members".

Finally, I would like to thank you, our loyal members, our dedicated staff and our Board of Directors for your on-going support this year and for the years ahead.



Ian Doyle
Chief Executive Officer
22 September 2011

International Women's Day 2011, Garden Island (L to R) CO Christine Clark and Ann Roach, ADCU Regional Manager, Inner Sydney.

ADFA Graduation Ball, 2010, ADFA (L to R) Colonel Paul Peterson, Andrew Moebus, ADCU Regional Manager, Hume and Commodore Bruce Kafer.

Geckos, Townsville (L to R) Jen Neal, ADCU Regional Manager, North QLD and WO2 Kim Loadsman, Geckos.

National RSL (L to R) Andrew Moebus, ADCU Regional Manager, Hume and National RSL's Dawn Kitchener and Mr Derek Robson, AM, National Secretary.

2011 Independent Auditor's Report

To the members of Australian Defence Credit Union Limited

Report on the complete set of financial statements

We have audited the accompanying financial report of Australian Defence Credit Union Limited (the Credit Union), which comprises the statement of financial position as at 30 June 2011 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the Directors' declaration for consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the complete set of financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report.

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

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

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001 provided to the Directors of Australian Defence Credit Union Limited, would be in the same terms if provided to the Directors at the time that this auditor's report was made.

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 and consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

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

b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Neville Sinclair
Director, BDO Audit (NSW-VIC) Pty Ltd.
27 September 2011

Statement of Comprehensive Income for the year ended 30 June 2011

	Note	2011 $	2010 $
Interest revenue	2.a	53,964,261	43,320,731
Interest expense	2.c	(29,353,104)	(20,312,650)
Net interest income		**24,611,157**	**23,008,081**
Fee commission and other income	2.b	9,523,921	9,009,790
		34,135,078	**32,017,871**
Less non interest expenses			
Impairment losses on loans receivable from members	2.d	1,511,826	1,561,586
Fee and commission expenses		3,416,828	3,409,293
General administration expenses			
- Employees compensation and benefits		11,876,523	10,597,621
- Depreciation and amortisation	2.e	838,187	788,732
- Information technology		2,159,635	1,919,645
- Office occupancy	2.f	856,853	856,933
- Other administration		2,295,860	2,605,989
Other operating expenses		2,536,486	2,020,172
Total non interest expenses		**25,492,198**	**23,759,972**
Profit before income tax		**8,642,880**	**8,257,899**
Income tax expense	3	2,456,532	2,446,275
Profit after income tax		**6,186,348**	**5,811,624**

Statement of Changes In Member's Equity for the year ended 30 June 2011

	Capital reserve $	Reserve for credit losses $	Retained earnings $	Total $
Total as at 1 July 2009	85,286	1,060,545	48,276,303	49,422,134
Profit for the year	–	–	5,811,624	5,811,624
Transfer to reserve for credit losses in the year	–	–	–	–
Transfer to capital account on redemption of shares	5,982	–	(5,982)	–
Total as at 30 June 2010	**91,268**	**1,060,545**	**54,081,945**	**55,233,758**
Profit for the year	–	–	6,186,348	6,186,348
Transfer to reserve for credit losses in the year	–	–	–	–
Transfer to capital account on redemption of shares	7,182	–	(7,182)	–
Total as at 30 June 2011	**98,450**	**1,060,545**	**60,261,111**	**61,420,106**

Statement of Financial Position as at 30 June 2011

	Note	2011 $	2010 $
Assets			
Cash	4	12,438,261	13,520,374
Receivables from financial institutions	5	107,426,984	107,500,000
Receivables	6	2,972,963	2,331,429
Loans to members	7.a	580,656,340	525,122,557
Available for sale investments	9	907,154	907,154
Property, plant and equipment	10	504,217	694,205
Taxation assets	11	849,934	848,110
Intangible assets	12	647,768	809,163
Total assets		**706,403,621**	**651,732,992**
Liabilities			
Short term borrowings	13	106,877,357	96,366,795
Deposits from members	14	525,247,101	490,496,935
Creditor accruals and settlement accounts	15	11,162,705	7,283,645
Taxation liabilities	16	1,281,219	1,957,145
Provisions	17	415,133	394,714
Total liabilities		**644,983,515**	**596,499,234**
Net assets		**61,420,106**	**55,233,758**
Members' equity			
Capital reserve account	18	98,450	91,268
General reserve for credit losses	19	1,060,545	1,060,545
Retained earnings		60,261,111	54,081,945
Total members' equity		**61,420,106**	**55,233,758**

Statement of Cash Flows for the year ended 30 June 2011

	Note	2011 $	2010 $
Operating activities			
Revenue inflows and (outflows)			
Interest received		54,428,121	42,493,022
Fees and commissions received		8,549,661	8,413,036
Dividends received		483,804	113,373
Other income		400,664	440,310
Interest paid		(26,573,533)	(20,738,286)
Payments to suppliers and employees		(22,659,420)	(21,013,509)
Income taxes paid		(3,134,282)	(765,413)
Net cash from revenue activities	32.b	**11,495,015**	**8,942,533**
Inflows (outflows) from other operating activities			
Increase in member loans (net movement)		(56,961,065)	(125,050,198)
Increase in member deposits and shares (net movement)		35,487,263	55,653,542
Increase in deposits to other financial institutions (net movement)		73,016	(6,000,000)
Net cash used in operating activities		**(9,905,771)**	**(66,454,123)**
Investing activities			
Proceeds on sale of property, plant and equipment		15,000	5,578
Purchase of property plant and equipment		(251,712)	(279,339)
Purchase of intangible assets		(244,845)	(270,784)
Money placed on security deposit		(1,205,347)	–
Net cash used in investing activities		**(1,686,904)**	**(544,545)**
Financing activities			
Increase in borrowings (net movement)		10,510,562	81,279,795
Net cash provided by financing activities		**10,510,562**	**81,279,795**
Total net cash increase/(decrease)		(1,082,113)	14,281,127
Cash at beginning of year		13,520,374	(760,753)
Cash at end of year	32.a	**12,438,261**	**13,520,374**

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 2011. The report was authorised for issue on 22 September 2011 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 *Australian equivalents to International Financial Reporting Standards* (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*. Compliance with AIFRS ensures the financial statements and notes comply with the *International Financial Reporting Standards* (IFRS).

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. 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 income statement 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 – the interest is calculated initially on the basis of the daily balance outstanding and is charged in arrears to a member's account 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.

c. 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 critical assumptions used in the calculation are as set out in Note 8. Note 20 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.

d. 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.

e. 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.

f. 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. However, the Government Guarantee protects the first $1 million deposited with each Financial Institution. 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 balance sheet.

g. Equity investments and other securities

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

Investments in shares which do not have a ready market and are not capable of being reliably valued are recorded at the lower of cost or recoverable amount.

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

All investments are in Australian currency.

h. Member deposits

(i) Basis for measurement

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

(ii) Interest payable

Interest on savings is calculated 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.

i. 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 income statement over the period of the loans and borrowings using the effective interest method.

j. 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 creditors accruals and settlement accounts.

Contributions are made by the Credit Union to an employee's superannuation fund and are charged to the income statement as incurred.

k. 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 income statement on a straight-line basis over the period of the lease.

l. Income tax

The income tax expense shown in the income statement 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 balance sheet 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 assessed at 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.

m. 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.

n. 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 Tax 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 balance sheet. 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 Australian Taxation Office are classified as operating cash flows.

o. 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.

p. 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 income statement 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.

q. 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.

r. New standards applicable for the current year

The Credit Union applies the current revised accounting standards applicable for financial years commencing 1 July 2010. There are no new mandatory standards for the current financial year. Some amendments have been made to standards that have been adopted early by the Credit Union, as follows:

AASB reference	Nature of change	Application date	Impact on initial application
AASB 7	Deletes various disclosures relating to credit risk, renegotiated loans and receivables and the fair value of collateral held.	Mandatory for Periods commencing on or after 1 January 2011.	There will be no impact on initial adoption to amounts recognised in the financial statement as the amendments result in fewer disclosures only.

s. New or emerging standards not yet mandatory

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2011 reporting periods. The company's assessment of the impact of these new standards and interpretations is set out below. Changes that are not likely to impact the financial report of the Credit Union have not been reported.

AASB reference	Nature of change	Application date	Impact on initial application
AASB 2010-6 (issued November 2010)	Additional disclosures required for entities that transfer financial assets, including information about the nature of financial assets involved and the risks associated with them.	Annual reporting periods commencing on or after 1 July 2011	As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements.
AASB 9 (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 2013	The entity 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 (issued August 2011)	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 entity already consolidates its Special Purpose Entity, Athena Trust.
AASB 13 (issued September 2011)	Currently, fair value measurement requirements are included in several Accounting Standards. AASB 13 establishes a single framework for measuring fair value of financial	Annual reporting periods commencing on or after 1 January 2013	Due to the recent release of this standard, the entity has yet to conduct a detailed analysis of the differences between the current fair valuation methodologies used and those required by

AASB reference	Nature of change	Application date	Impact on initial application
AASB 13 (issued September 2011) cont.	and non-financial items recognised at fair value in the statement of financial position or disclosed in the notes in the financial statements.		AASB 13. However, 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.
AASB 2011-9 (issued September 2011)	Amendments to align the presentation of items of other comprehensive income (OCI) with US GAAP. Various name changes of statements in AASB 101 as follows: • Statement of comprehensive income – to be referred to as 'statement of profit or loss and other comprehensive income'. OCI items must be grouped together into two sections; those that could subsequently be reclassified into profit or loss and those that cannot.	Annual periods commencing on or after 1 July 2012	When this standard is first adopted for the year ended 30 June 2013, there will be no impact on amounts recognised for transactions and balances for 30 June 2013 (and comparatives). However, the statement of comprehensive income will include name changes and include subtotals for items of OCI that can subsequently be reclassified to profit or loss in future (e.g. foreign currency translation reserves) and those that cannot subsequently be reclassified (e.g. fixed asset revaluation surpluses).
AASB 12 (issued August 2011)	Combines existing disclosures from AASB 127 Consolidated and Separate Financial Statements, AASB 128 Investments in Associates and AASB 131 Interests in Joint Ventures. Introduces new disclosure requirements for interests in associates and joint arrangements, as well as new requirements for unconsolidated structured entities.	Annual reporting periods commencing on or after 1 January 2013	As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements. However, additional disclosures will be required for interests in associates and joint arrangements, as well as for unconsolidated structured entities.

t. Reclassification of prior year expenses

For a better and more transparent representation of the Credit Union's expense base, certain items have been reclassified within the Statement of Comprehensive Income. For enhanced comparability, these reclassifications have been applied retrospectively. The reclassifications have had no effect on the net profit or net assets of the Credit Union.

	2010 published $	Reclassification of expenses $	2010 reclassified $
Interest expense	20,640,219	(327,569)	20,312,650
Fee and commission expenses	2,387,702	1,021,591	3,409,293
Information technology	1,898,402	21,243	1,919,645
Other operating expenses	2,735,438	(715,266)	2,020,172

2. Income statement

	2011 $	2010 $
a. Analysis of interest revenue		
Interest revenue on assets carried at amortised cost		
Cash – deposits at call	274,856	240,892
Receivables from financial institutions	6,705,223	5,262,596
Loans to members	46,984,182	37,817,243
Total interest revenue	**53,964,261**	**43,320,731**
b. Fee, commission and other income		
Fee and commission revenue		
Fee income on loans – other than loan origination fees	1,810,914	1,763,215
Other fee income	4,817,350	4,545,564
Insurance commissions	1,394,824	1,479,132
Other commissions	611,118	625,125
Total fee and commission revenue	**8,634,206**	**8,413,036**
Other income		
Dividends received on available for sale assets	483,804	113,373
Bad debts recovered	383,658	478,677
Gain on disposal of assets		
– Property, plant and equipment	5,247	4,212
Miscellaneous revenue	17,006	492
Total other income	**889,715**	**596,754**
Total fee, commission and other income	**9,523,921**	**9,009,790**
c. Interest expenses		
Interest expense on liabilities carried at amortised cost		
Short term borrowings	2,757,941	2,205,947
Deposits from members	22,841,950	18,106,703
Borrowings from Westpac - Athena Trust	3,753,213	–
Total interest expense	**29,353,104**	**20,312,650**
d. Impairment losses		
Loans and advances		
(Decrease)/Increase in provision for impairment	(159,658)	44,660
Bad debts written off directly against profit	1,671,484	1,516,926
Total impairment losses	**1,511,826**	**1,561,586**
e. Other prescribed disclosures		
General administration – depreciation expense includes:		
– Plant and equipment	297,472	306,363
– Leasehold improvements	134,475	173,107
– Amortisation of software	406,240	309,262
	838,187	**788,732**

	2011 $	2010 $

f. General administration – office occupancy costs include:

Property operating lease payments	**734,883**	**743,599**

g. Other operating expenses include:

Auditor's remuneration (excluding GST)		
– Audit fees	95,210	91,320
– Other services – taxation	5,500	5,000
– Other services – compliance	6,090	5,800
– Other services – other	865	10,000
	107,665	**112,120**

3. Income tax expense

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

Profit	**8,642,880**	**8,257,899**
Prima facie tax payable on profit before income tax at 30%	2,592,864	2,477,370
Add tax effect of expenses not deductible	16,619	15,862
Less		
– Investment allowance	–	(3,206)
– Franking rebate	(145,141)	(34,012)
Total current year tax expense	**2,464,342**	**2,456,014**
Origination and reversal of temporary differences	1,798	71,310
Total current year tax provision	**2,466,140**	**2,527,324**
Less		
– Over provision in prior year	(9,608)	(81,049)
Total income tax expense in statement of comprehensive income	**2,456,532**	**2,446,275**

4. Cash

Cash on hand	1,008,465	1,077,497
Deposits at call	11,429,796	12,442,877
	12,438,261	**13,520,374**

5. Receivables from financial institutions

Deposits with industry bodies - Cuscal (refer Note 29)	42,000,000	36,000,000
Deposits with other societies	4,923,449	–
Deposits with banks	60,503,535	71,500,000
	107,426,984	**107,500,000**

	2011 $	2010 $

6. Receivables

Interest receivable on deposits with other financial institutions	892,996	1,356,856
Prepayments	158,467	257,616
GST receivable	52,081	–
Sundry debtors and settlement accounts	664,072	716,957
Security deposit	1,205,347	–
	2,972,963	**2,331,429**

7. Loans to members

a. Amount due comprises:

Overdrafts and revolving credit	28,290,009	25,867,710
Term loans	497,035,684	444,099,653
Term loans held by the Athena Trust	56,298,045	56,366,795
Subtotal	**581,623,738**	**526,334,158**
Less:		
Unamortised loan origination fees	(209,276)	(293,821)
Subtotal	**581,414,462**	**526,040,337**
Less:		
Provision for impaired loans (Note 8)	(758,122)	(917,780)
	580,656,340	**525,122,557**

b. Credit quality – security held against loans

Secured by mortgage over real estate held in Athena Trust	56,298,045	56,366,795
Secured by mortgage over real estate	382,025,650	316,461,676
Partly secured by goods mortgage	88,243,330	96,491,453
Wholly unsecured	55,056,713	57,014,234
	581,623,738	**526,334,158**

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%	231,677,030	191,624,027
– loan to valuation ratio of more than 80% but mortgage insured	139,488,909	108,678,645
– loan to valuation ratio of more than 80% and not mortgage insured	10,859,711	16,159,004
Total	**382,025,650**	**316,461,676**

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

	2011 $	2010 $

c. Concentration of loans

The values discussed below include on balance sheet values and off balance sheet undrawn facilities as described in Note 25.

	2011 $	2010 $
(i) Loans to individual or related groups of members which exceed 10% of reserves in aggregate.	–	–
Total	–	–

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

(iii) 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.

(iv) Loans by purpose

	2011 $	2010 $
Loans to natural persons		
Residential loans and facilities	377,020,009	316,381,401
Personal loans and facilities	147,598,567	152,870,037
Business loans and facilities	707,117	715,925
Loans held by the Athena Trust	56,298,045	56,366,795
	581,623,738	**526,334,158**
Loans to corporations	–	–

d. Securitised loans

	2011 $	2010 $
The value of securitised loans which are not qualifying for derecognition as the conditions do not meet the criteria in AASB 139.	56,298,045	56,366,795
	56,298,045	**56,366,795**

During the year ended 30 June 2011, the Credit Union transferred mortgage loans to the Athena Trust under a securitisation arrangement.

Under the arrangement 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.

	2011 $	2010 $

8. Provision on impaired loans

a. Total provision comprises

	2011 $	2010 $
Collective provisions	758,122	917,780
Individual specific provisions	–	–
Total provision	**758,122**	**917,780**

b. Movement in the provision for impairment

	2011 $	2010 $
Balance at the beginning of year	917,780	873,120
Add (deduct):		
Transfers from (to) income statement	(159,658)	44,660
Bad debts written off provision	–	–
Balance at end of year	**758,122**	**917,780**

Details of credit risk management is set out in Note 20.

c. Impaired loans written off

	2011 $	2010 $
Amounts written off against the provision for impaired loans	–	–
Amounts written off directly to expense	1,671,484	1,516,926
Total bad debts	**1,671,484**	**1,516,926**
Bad debts recovered in the period	383,658	478,677
	1,287,826	**1,038,249**

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

In the note below:
- carrying value is the amount recorded on the Balance Sheet;
- 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.

	2011 Carrying value $	2011 Value of impaired loans $	2011 Provision for impairment $	2010 Carrying value $	2010 Value of impaired loans $	2010 Provision for impairment $
Loans to members						
Mortgages held by Athena Trust	56,298,045	–	–	56,366,795	–	–
Mortgages	377,020,009	–	–	316,461,676	–	–
Personal	120,015,675	851,192	378,186	127,637,977	708,463	360,655
Credit cards and overdrafts	28,290,009	663,395	379,936	25,867,710	860,458	557,125
Total to natural persons	581,623,738	1,514,587	758,122	526,334,158	1,568,921	917,780
Corporate borrowers	–	–	–	–	–	–
Total	**581,623,738**	**1,514,587**	**758,122**	**526,334,158**	**1,568,921**	**917,780**

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

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

There are loans with a value of $550,072 past due which are not considered to be impaired as the value of related security over residential property is in excess of the loan due.

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
2011					
Mortgage secured	550,072	–	–	–	550,072
Personal loans	1,401,981	–	–	–	1,401,981
Credit cards and overdrafts less than 14 days	138,421	–	–	–	138,421
Total	**2,090,474**	–	–	–	**2,090,474**
2010					
Mortgage secured	488,045	–	–	–	488,045
Personal loans	1,303,382	–	–	–	1,303,382
Credit cards and overdrafts less than 14 days	237,164	–	–	–	237,164
Total	**2,028,591**	–	–	–	**2,028,591**

f. 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	0
91 days to 180 days	40
181 days to 270 days	60
271 days to 365 days	80
Over 365 days	100

9. Available for sale investments

	2011 $	2010 $
Shares in unlisted companies – at cost		
– Cuscal Limited	907,154	907,154
Total value of investments	**907,154**	**907,154**

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 29. 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.

	2011 $	2010 $

10. Property, plant and equipment

a. Fixed assets

	2011 $	2010 $
Plant and equipment - at cost	4,982,356	4,835,184
Less: provision for depreciation	(4,656,173)	(4,415,968)
	326,183	419,216
Capitalised leasehold improvements at cost	1,855,470	1,817,950
Less: provision for amortisation	(1,677,436)	(1,542,961)
	178,034	274,989
	504,217	**694,205**

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

	2011			2010		
	Plant & equipment $	Leasehold improvements $	Total $	Plant & equipment $	Leasehold improvements $	Total $
Balance at the beginning of the year	419,216	274,989	694,205	504,616	391,086	895,702
Purchases	214,192	37,520	251,712	222,328	57,010	279,338
Less						
Assets disposed	(9,753)	–	(9,753)	(1,365)	–	(1,365)
Depreciation charge	(297,472)	(134,475)	(431,947)	(306,363)	(173,107)	(479,470)
Balance at the end of the year	**326,183**	**178,034**	**504,217**	**419,216**	**274,989**	**694,205**

11. Taxation assets

	2011 $	2010 $
Deferred tax assets	**849,934**	**848,110**
Deferred tax assets comprise:		
- Accrued expenses not deductible until incurred	40,282	31,882
- Provisions for impairment on loans	227,437	275,334
- Provisions for employee benefits	288,318	304,925
- Depreciation on fixed assets and intangible assets	231,115	147,822
- Deferred fees (less transaction costs) on loan origination	62,782	88,147
	849,934	**848,110**

	2011 $	2010 $

12. Intangible assets

	2011 $	2010 $
Computer software	3,146,654	2,901,810
Less provision for amortisation	(2,498,886)	(2,092,647)
	647,768	**809,163**
Movement in the assets balances during the year were:		
Opening balance	809,163	847,643
Purchases	244,845	270,782
Less		
Depreciation charge	(406,240)	(309,262)
Balance at the end of the year	**647,768**	**809,163**

13. Short term borrowings

	2011 $	2010 $
Borrowings from Westpac through the Athena Trust	57,227,357	56,366,795
Loans from other Authorised Deposit-taking Institutions (ADIs)	49,650,000	40,000,000
	106,877,357	**96,366,795**

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

14. Deposits from members

	2011 $	2010 $
Member deposits		
- at call	218,902,295	210,667,129
- term	290,250,292	261,234,896
Deposits from other financial institutions - term	16,000,000	18,500,000
Member withdrawable shares	94,514	94,910
	525,247,101	**490,496,935**

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

Concentration of member deposits

	2011 $	2010 $
(i) Significant individual member deposits which in aggregate represent more than 10% of the total liabilities;	–	–

(ii) Member deposits at balance date were received from individuals employed principally in the Australian Defence industry.

15. Creditor accruals and settlement accounts

	2011 $	2010 $
Annual leave	545,926	621,702
Creditors and accruals	1,316,225	825,172
Interest payable on borrowings	511,842	239,947
Interest payable on deposits	6,329,899	3,822,222
Sundry creditors	2,458,813	1,774,602
	11,162,705	**7,283,645**

	2011 $	2010 $

16. Taxation liabilities

	2011 $	2010 $
Current income tax liability	**1,281,219**	**1,957,145**

Current income tax liability comprises:

	2011 $	2010 $
Liability for income tax in current year	2,466,140	2,527,324
Less installments paid in current year	(1,184,921)	(570,179)
	1,281,219	**1,957,145**

17. Provisions

	2011 $	2010 $
Long service leave	**415,133**	**394,714**

18. Capital reserve account

	2011 $	2010 $
Balance at the beginning of the year	91,268	85,286
Transfer from retained earnings on share redemptions*	7,182	5,982
Balance at the end of the year	**98,450**	**91,268**

***Share redemption**

The accounts represent the amount of redeemable preference shares redeemed by the Credit Union since 1 July 1999. The law 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.

19. General reserve for credit losses

	2011 $	2010 $
General reserve for credit losses	1,060,545	1,060,545
	1,060,545	**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.

	2011 $	2010 $
Balance at the beginning of year	1,060,545	1,060,545
Add: increase (decrease) transferred from retained earnings	–	–
Balance at the end of year	**1,060,545**	**1,060,545**

20. 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 to 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 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 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 Finance and Operations and Head of Credit: These positions have responsibility for ensuring 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 Risk 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 optimise risk and return.

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

The management of market risk is the responsibility of the 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.

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 is calculated using historical simulations, movements in market rates and prices, a 99 per cent confidence level and taking into account historical correlations between different markets and rates.

Although the use of the VaR model 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 and 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 treasury maintains adequate cash reserves and committed credit facilities so as to meet the member withdrawal demands when requested.

The Credit Union manages liquidity risk by:

- continuously monitoring actual daily cash flows and longer term forecasted cash flows;
- monitoring the maturity profiles of financial assets and liabilities;
- maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities;
- 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 31).

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 maturity profile of the financial liabilities, based on the contractual repayment terms are set out in Note 22.

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.

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 loss 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 income statement. 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.

Balance sheet 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. 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 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.

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 an 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 guidance AGN 112.

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.

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 a general reserve for credit losses. 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 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 the documented 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.

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.

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

21. Categories of financial instruments

The following information classifies the financial instruments into measurement classes.

	Note	2011 $	2010 $
FINANCIAL ASSETS - carried at amortised cost			
Cash	4	12,438,261	13,520,374
Receivables		2,098,343	2,331,429
Receivables from financial institutions	5	107,426,984	107,500,000
Loans to members	7 & 8	524,358,296	468,755,762
Loans held by Athena Trust	7 & 8	56,298,045	56,366,795
Total loans and receivables carried at amortised cost		**702,619,929**	**648, 474,360**
Available for sale investments - carried at cost	9	907,154	907,154
Total available for sale investments		**907,154**	**907,154**
Total financial assets		**703,527,083**	**649,381,514**
FINANCIAL LIABILITIES			
Short term borrowings	13	49,650,000	40,000,000
Creditors		8,157,966	6,661,943
Deposits from other institutions	14	16,000,000	18,500,000
Securitisation Facility – Athena Trust	13	57,227,357	56,366,795
Deposits from members	14	509,247,101	471,996,935
Total carried at amortised cost		**640,282,424**	**593,525,673**
Total financial liabilities		**640,282,424**	**593,525,673**

Assets measured at fair value through profit or loss	**2011**		**2010**	
	Level 3 $	**Total $**	**Level 3 $**	**Total $**
Availability for sale	907,154	907,154	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.

22. 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 liabilities held will mature and be eligible for renegotiation or withdrawal. Financial liabilities are at the undiscounted values (including future interest expected to be paid). Accordingly these values will not agree to the balance sheet.

2011	Within 1 month $000	1 – 3 months $000	3 – 12 months $000	1 – 5 years $000	After 5 years $000	No maturity $000	Total $000
ASSETS							
Cash	11,430	–	–	–	–	1,008	12,438
Advance to financial institutions	36,090	40,381	30,412	2,134	–	–	109,017
Loans & advances	6,891	13,338	56,814	239,530	678,385	–	994,958
Loans & advances – Athena Trust	512	991	4,238	21,801	92,993	–	120,535
Total financial assets	**54,923**	**54,710**	**91,464**	**263,465**	**771,378**	**1,008**	**1,236,948**
LIABILITIES							
Borrowings	12,038	15,116	22,808	–	–	–	49,962
Borrowings - Securitisation facility	–	–	–	–	57,227	–	57,227
Creditors	1,316	–	–	–	–	–	1,316
Deposits from other financial institutions	11,024	1,010	4,093	–	–	–	16,127
Deposits from members	257,672	99,085	148,787	10,310	–	95	515,949
Total on balance sheet liabilities	**282,050**	**115,211**	**175,688**	**10,310**	**57,227**	**95**	**640,581**
Undrawn commitments	51,285	–	–	–	–	–	51,285
Total financial liabilities	**333,335**	**115,211**	**175,688**	**10,310**	**57,227**	**95**	**691,866**

2010	Within 1 month $000	1 – 3 months $000	3 – 12 months $000	1 – 5 years $000	After 5 years $000	No maturity $000	Total $000
ASSETS							
Cash	13,520	–	–	–	–	–	13,520
Advance to financial institutions	26,822	22,009	62,775	16,637	–	–	128,243
Loans & advances	6,215	12,430	50,668	224,822	561,750	–	855,885
Loans & advances – Athena Trust	461	923	3,811	20,750	92,505	–	118,450
Total financial assets	**47,018**	**35,362**	**117,254**	**262,209**	**654,255**	–	**1,116,098**
LIABILITIES							
Borrowings	10,077	20,200	10,487	–	–	–	40,764
Creditors	2,600	–	–	–	–	–	2,600
Deposits from other financial institutions	1,001	15,672	2,046	–	–	–	18,719
Deposits from members	287,017	107,093	84,321	1,247	–	–	479,678
Total on balance sheet liabilities	**300,695**	**142,965**	**96,854**	**1,247**	–	–	**541,761**
Undrawn commitments	60,459	–	–	–	–	–	60,459
Total financial liabilities	**361,154**	**142,965**	**96,854**	**1,247**	–	–	**602,220**

23. 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 the contractual repricing date, or maturity date.

2011	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	11,430	–	–	–	–	1,008	12,438
Receivables	1,205	–	–	–	–	893	2,098
Advances to other financial institutions	36,000	40,004	29,423	2,000	–	–	107,427
Loans & advances	449,662	1,979	19,132	54,553	–	–	525,326
Loans & advances – Athena Trust	56,298	–	–	–	–	–	56,298
Total financial assets	**554,595**	**41,983**	**48,555**	**56,553**	–	**1,901**	**703,587**
LIABILITIES							
Borrowings - Securitisation facility	9,219	48,008	–	–	–	–	57,227
Borrowings - other ADIs	22,000	15,000	12,650	–	–	–	49,650
Creditors	–	–	–	–	–	8,158	8,158
Deposits from other financial institutions	11,000	1,000	4,000	–	–	–	16,000
Deposits from members	257,575	98,102	144,035	9,441	–	94	509,247
On balance sheet	**299,794**	**162,110**	**160,685**	**9,441**	–	**8,252**	**640,282**
Undrawn commitments	51,285	–	–	–	–	–	51,285
Total financial liabilities	**351,079**	**162,110**	**160,685**	**9,441**	–	**8,252**	**691,567**

2010	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	12,443	–	–	–	–	1,077	13,520
Receivables	–	–	–	–	–	2,331	2,331
Advances to other financial institutions	26,500	21,500	59,500	–	–	–	107,500
Loans & advances	408,035	2,761	19,454	39,717	–	–	469,967
Loans & advances – Athena Trust	56,367	–	–	–	–	–	56,367
Investments	–	–	–	–	–	907	907
Total financial assets	**503,345**	**24,261**	**78,954**	**39,717**	**–**	**4,315**	**650,592**
LIABILITIES							
Borrowings - Securitisation facility	56,367	–	–	–	–	–	56,367
Borrowings - other ADIs	10,000	20,000	10,000	–	–	–	40,000
Creditors	–	–	–	–	–	6,662	6,662
Deposits from other financial institutions	1,000	15,500	2,000	–	–	–	18,500
Deposits from members	285,367	104,672	80,727	1,136	–	95	471,997
On balance sheet	**352,734**	**140,172**	**92,727**	**1,136**	–	**6,757**	**593,526**
Undrawn commitments	60,459	–	–	–	–	–	60,459
Total financial liabilities	**413,193**	**140,172**	**92,727**	**1,136**	**–**	**6,757**	**653,985**

24. 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 original term.

	2011 Fair value $	2011 Carrying value $	2011 Variance $	2010 Fair value $	2010 Carrying value $	2010 Variance $
FINANCIAL ASSETS						
Cash	12,438,261	12,438,261	–	13,520,374	13,520,374	–
Advances to other financial institutions	107,658,941	107,426,984	231,957	108,216,994	107,500,000	716,994
Receivables[1]	2,098,343	2,098,343	–	2,073,813	2,073,813	–
Loans & advances	523,841,489	524,358,296	(516,807)	467,917,786	468,755,762	(837,976)
Loans & advances – Athena Trust	56,298,045	56,298,045	–	56,366,795	56,366,795	–
Investments	907,154	907,154	–	907,154	907,154	–
Total financial assets	**703,242,233**	**703,527,083**	**(284,850)**	**649,002,916**	**649,123,898**	**(120,982)**
FINANCIAL LIABILITIES						
Borrowings	49,703,272	49,650,000	53,272	40,144,938	40,000,000	144,938
Securitisation facility	57,227,357	57,227,357	–	56,366,795	56,366,795	–
Deposits from other financial institutions	16,022,448	16,000,000	22,448	18,540,755	18,500,000	40,755
Deposits from members						
- Call	218,902,295	218,902,295	–	210,762,039	210,762,039	–
- Term	291,531,153	290,250,292	1,280,861	261,763,297	261,234,896	528,401
Creditors[1]	8,157,966	8,157,966	–	6,661,943	6,661,943	–
Total financial liabilities	**641,544,491**	**640,187,910**	**1,356,581**	**594,239,767**	**593,525,673**	**714,094**

[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 period 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.

25. Financial commitments

	2011 $	2010 $
a. Outstanding loan commitments		
The loans approved but not funded	**7,179,924**	**20,648,987**
b. Loan redraw facilities		
The loan redraw facilities available	**23,488,311**	**21,793,332**
c. Undrawn loan facilities		
Loan facilities available to members for overdrafts and line of credit loans are as follows:		
Total value of facilities approved	46,556,424	43,891,494
Less: Amount advanced	(25,939,305)	(25,874,962)
Net undrawn value	**20,617,119**	**18,016,532**
These commitments are contingent on members maintaining credit standards and ongoing repayment terms on amounts drawn.		
Total financial commitments	**51,285,354**	**60,458,851**
d. Computer expenditure commitments		
The costs committed under contracts with Ultradata are as follows:		
Not later than 1 year	889,212	885,328
Later than 1 year but not 2 years	–	1,277,118
Later than 2 years but not 5 years	–	–
Later than 5 years	–	–
	889,212	**2,162,446**
e. Lease expense commitments for operating leases on property occupied by the Credit Union		
Not later than 1 year	498,208	530,265
Later than 1 year but not later than 5 years	498,208	1,060,531
Later than 5 years	–	–
	996,416	**1,590,796**

The operating leases are in respect of property used for providing branch services to members. There are no contingent rentals applicable to leases taken out. The terms of the leases are for between 2 to 5 years and options for renewal are usually obtained for a further 3 years.

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

26. Standby borrowing facilities

The Credit Union has a borrowing facility with Credit Union Services Corporation (Australia) Limited (Cuscal) of:

	Gross $	Current borrowing $	Net available $
2011			
Committed loan facility - Cuscal	25,000,000	–	25,000,000
Loan facility - other	80,000,000	49,650,000	30,350,000
Overdraft facility	5,000,000	–	5,000,000
Athena - Westpac committed facility	125,000,000	56,552,064	68,447,936
Total standby borrowing facilities	**235,000,000**	**106,202,064**	**128,797,936**
2010			
Committed loan facility - Cuscal	25,000,000	–	25,000,000
Loan facility - other	60,000,000	40,000,000	20,000,000
Overdraft facility	5,000,000	–	5,000,000
Total standby borrowing facilities	**90,000,000**	**40,000,000**	**50,000,000**

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.

27. 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 the balance date there were no loans issued under this arrangement.

28. 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:

	2011 $	2010 $
(a) short-term employee benefits	826,413	727,708
(b) post-employment benefits – superannuation contributions	70,234	61,849
(c) other long-term benefits	–	–
(d) termination benefits	–	–
(e) share-based payment	–	–
Total	**896,647**	**789,557**

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 2011 was $284,000 [2010 $260,000].

	2011 $	2010 $
b. Loans to KMP		
(i) The aggregate value of loans to Directors and other KMP as at balance date amounted to	**3,788**	**748,821**
(ii) The total value of revolving credit facilities to Directors and other KMP, as at balance date amounted to	18,000	18,000
Less amounts drawn down and included in (i)	17,493	17,662
Net balance available	**507**	**338**
(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	**26**	**43,810**

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:

	2011 $	2010 $
Total value term and savings deposits from KMP	**485,332**	**701,128**
Total interest paid on deposits to KMP	**13,853**	**7,199**

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.

29. Economic dependency

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

a. Cuscal Limited

Cuscal is an Approved Deposit Taking Institution registered under the Corporations Act 2001 and the Banking Act. This entity:

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

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

b. First Data International Limited (FDI)

This entity operates the computer network used to link rediCARDs and Visa Cards operated through rediATMs and other approved ATM suppliers to the Credit Union's EDP Systems.

c. Ultradata Australia Pty Limited

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

d. 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.

30. 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.

31. Securitisation

The Credit Union has an arrangement with Integris Securitisation Services Pty Limited (Integris) 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 on-going administration of the processing of the loan repayments and the issue of statements to the members.

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 assigned $5,775,844 in loans to Integris. These loans qualify for derecognition on the basis that the assignment transfers all the risks and rewards to Integris; there are no residual benefits to the Credit Union.

In addition to Integris, the Credit Union operates and assigns mortgages to the Athena Trust. The Trust is independently administered by Perpetual Trustees in their role as trustee and by Cuscal Management Pty Ltd in their role as Manager. Westpac Banking Corporation Ltd provides a committed funding line to the trust. As part of the sale arrangement for assigned mortgages, the Credit Union is granted a service agreement for which it earns a fee.

The amount of securitised loans under management as at 30 June 2011 is $126,594,746 (2010 $134,839,520).

32. Notes to cash flow statement

a. Reconciliation of cash

Cash includes cash on hand, and deposits at call with other financial institutions and comprises:

	2011 $	2010 $
Cash on hand	1,008,465	1,077,497
Deposits at call	11,429,796	12,442,877
Total cash	12,438,261	13,520,374

b. Reconciliation of cash from operations to accounting profit

The net cash increase/(decrease) from operating activities is reconciled to the profit after tax.

	2011 $	2010 $
Profit after income tax	6,186,348	5,811,624
Add (Deduct):		
Bad debts written off	1,671,484	1,516,926
Depreciation expense	838,187	788,732
(Decrease)/Increase in amortised fees on loans	(84,545)	111,829
Increase/(Decrease) in provision for staff leave	20,419	(86,315)
Increase/(Decrease) in provision for income tax	(675,926)	1,757,750
(Decrease)/Increase in provision for loans	(159,658)	44,660
Increase in accrued expenses	415,275	21,544
Increase/(Decrease) in interest payable	2,779,572	(98,069)
Gain on sale of assets	(5,247)	(4,212)
Decrease in prepayments	99,151	133,349
Increase in sundry receivables	–	(38,859)
Increase in deferred tax assets	(1,824)	(76,888)
Increase in accrued taxes	(52,081)	–
Decrease/(Increase) in interest receivable	463,860	(939,538)
Net cash from revenue activities	**11,495,015**	**8,942,533**

33. 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 8, 1 York Street, Sydney NSW 2000.

The address of the principal place of business is:
Level 8, 1 York 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.

Images index

The images on pages 2 to 16 are courtesy of the Australian Government Department of Defence, www.defence.gov.au.

Page 2

A S70B Seahawk helicopter from 816 Squadron flies overhead during exercise Triton Fury 2011.

Page 12

F/A-18 Hornet pilot taxis his aircraft in preparation for takeoff during Exercise Talisman Sabre 2011.

Page 16

Australian Army prepares the hoist to lower United States Navy personnel from Australian Army Black Hawk helicopter 224.

Directors

John Wood

John Robert Brooks

Michael Morrison Pike

COL Jane Maree Spalding

CDRE Clinton William Thomas AM, CSC, RAN

Warren Raymond Thomas

Graham Anthony Weber

Chief Executive Officer

Ian Doyle

Auditors

BDO Audit (NSW-VIC) Pty Ltd.

Level 19, 2 Market Street

Sydney NSW 2000

Telephone

1300 13 23 28

Email

service@adcu.com.au

Website

www.adcu.com.au

Australian Defence Credit Union

ABN 48 087 649 741 AFSL No. 237 988

Printed on recycled paper

we understand you!