53RD ANNUAL REPORT 2012

ADCU
Australian Defence Credit Union

Contents

2012

Directors' Report

Despite the ongoing economic challenges experienced by Australian financial institutions in the past financial year, I am pleased to report ADCU has delivered another strong result. I am proud to say that we have made every effort to keep our products as competitive as possible and are committed to continue doing so going forward.

Chairman's summary

As a credit union, ADCU exists for the benefit of you, our members, and we are committed to improving your financial wellness and your standard of living. We do this by encouraging savings, making loans available to you at the lowest possible cost, and providing services that suit your banking needs. Despite the ongoing economic challenges experienced by Australian financial institutions, we remain committed to operating in your best interest.

In an atmosphere of changing interest rates and much uncertainty, we are once again proud to say that we have made every effort to keep our loan interest rates as low and competitive as possible in a difficult environment and we are committed to continuing to do so going forward. This is demonstrated by the launch of our Defence Home Ownership Assistance Scheme (DHOAS) Value Home Loan which we can proudly say has maintained the lowest standard variable DHOAS home loan rate on the market.

Over the last 12 months demand grew in the banking and financial services market for retail deposit growth. Despite the competitive pressure created by the difficulties in major lenders seeking access to traditional lines of funding, ADCU successfully grew deposits from our members and this provided a stable base to fund our loan growth and help more members. In turn, this has provided the opportunity to grow our total member's equity and to enhance our products and services. Some examples of these product developments include the launch of our Deeming Access Account and our DIY Super Saver Account.

There has been much talk and activity this past year around eligible credit unions making the change to become a mutual bank. While ADCU meets the requirements set by the Australian Prudential Regulation Authority for eligibility to make this change, we have chosen not to. We have chosen instead to concentrate our resources on meeting your banking needs.

At the end of this challenging year for all financial services organisations, I am pleased to congratulate my fellow Directors for their continued and tireless support of your credit union. They have served ADCU well 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 member service by demonstrating our values of professionalism, friendliness, understanding, enthusiasm and passion in everything they do. We are truly fortunate to have the ongoing and positive support of our staff to help us ensure ADCU remains successful and its members well served.

John Wood
Chairman
20 September 2012

The Directors present their report on Australian Defence Credit Union Limited (ADCU) for the financial year ended 30 June 2012.

Corporate governance

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

Legislative and regulatory requirements

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

ADCU is primarily regulated as:

- an Authorised Deposit Taking Institution by the Australian Prudential 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).

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

Role of the Board

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

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

Composition of the Board

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

The Constitution sets out the size and composition of the Board. The Board comprises seven independent non executive Directors. A Director must retire from office at the 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, operational risk, compliance, financial and regulatory reporting. The significant outcomes of the committees' work are reviewed and endorsed by the full Board. The Board currently holds eleven scheduled meetings a year together with two strategic planning conferences.

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

Executive Committee

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

Renewal Committee

The Renewal Committee's role is to maintain the Corporate Governance, Fit and Proper, Board Renewal and Performance Evaluation policies and initiate and conduct the activities that flow from these policies. The committee comprises at least two Directors. The Chair of the Renewal Committee is normally a senior Director. The Committee is assisted by the 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 ADCU's risk appetite and strategy, develop policies and plans to ensure the risk strategy is complied with, and to monitor compliance with those policies. The risk management areas overseen by the committee include, but are not restricted to, market, liquidity, credit, strategic, funding and operational risk. The committee comprises three Directors assisted by the Head of Finance and Operations, the Head of Credit and the Compliance Manager.

Remuneration Committee

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

Asset and Liability Committee (ALCO)

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

Operational Risk Management Committee (ORMC)

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

Strategic planning

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

Ethical standards

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

Conflicts of interest

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

Code of conduct

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

Communications with members

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

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

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

Directors (L to R):

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

2012 Office bearers

John Wood

Qualifications

Fellow of Australian Defence College

Fellow of the Australian Institute of Company Directors

Fellow of the Australasian Mutuals Institute

Experience and Responsibilities

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

Consultant to Defence Industry

Member RAN Reserve

Credit Union Director for 15 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 12 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

Long standing Credit Union Director

Member of the Remuneration and Risk Committees

Past Chairman of Audit and Renewal Committees

Brigadier 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

29 years in the Australian Regular Army

Currently Director General Explosive Ordnance, Joint Logistics Command

Credit Union Director for 5 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/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)

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

Current Chairman of the RAN Central Canteens Board

Currently the Director General Logistics - Navy

Credit Union Director for 12 years

Past Chair of the ADCU Risk Committee (6 years)

Current Chair of the ADCU Renewal Committee

Current Member of the ADCU Audit Committee

Warren Raymond Thomas

Qualifications

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 16 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

Member Australian Institute of Company Directors

Experience and Responsibilities

6 years in Accounting Firms and Advisory Services

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

Currently Director General Budgets and Treasury Defence Materiel Organisation

Credit Union Director for 4 years

Chairman 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

Andrew Prichard

Qualifications

Member Institute of Chartered Accountants (CA)

Bachelor of Commerce – University of New South Wales

Experience and Responsibilities

8 years in the Chartered Accounting profession

Over 17 years in the Banking and Finance Industry

Head of Finance and Operations

Company Secretary

Meetings Attended

					Board Committee Meetings											
	Board meetings		Annual Gen Meeting		Executive		Audit		Risk		Renewal		Remuneration		Joint Risk/Audit	
Directors	H	A	H	A	H	A	H	A	H	A	H	A	H	A	H	A
John Wood	11	9	1	1	12	11	-	-	-	-	5	4	3	3	-	-
John Brooks	11	11	1	1	-	-	-	-	8	8	-	-	-	-	1	1
Michael Pike	11	10	1	1	1	1	3	2	5	5	2	2	3	2	1	1
Jane Spalding	11	9	1	1	-	-	6	6	-	-	1	1	-	-	1	1
Clinton Thomas	11	11	1	1	-	-	3	3	3	3	3	3	-	-	1	1
Warren Thomas	11	10	1	1	12	12	6	5	-	-	-	-	3	3	1	1
Graham Weber	11	11	1	1	-	-	-	-	8	8	-	-	-	-	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 ADCU. As at 30 June 2012, no Director has received or become entitled to receive any such benefit.

Indemnity of Directors and Officers

ADCU has paid insurance premiums in respect of Directors' and Officers' liability and legal expense contracts. The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of Directors' and Officers' liability and legal expense contracts, as such disclosure is prohibited under the insurance contract. No insurance cover has been provided for the benefit of the ADCU auditors, Grant Thornton Audit Pty Ltd (transferred from BDO Audit (NSW-VIC) Pty Ltd).

Principal activities

The principal activities of ADCU during the year remain unchanged and were the raising of funds authorised by the Prudential Standards administered by APRA and the Banking Act 1959, and the application of those funds in providing financial 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) ADCU has continued to experience sound growth in mortgage loans and associated products during the year ended 30 June 2012.

Operating and financial review

Operating results

ADCU delivered another good result in a challenging environment characterised by subdued credit growth, fragile business and consumer confidence, increased funding costs and competitive lending and deposit markets. Net profit after tax for the year ended 30 June 2012 of $5.0 million decreased $1.1 million or 19% compared to the prior year.

Interest revenue increased by $429,661 (or 1%) to $54.4 million, reflecting the growth in interest earning assets offset partially by lower standard variable interest rates on the home loan portfolio.

Net interest income decreased by $948,760 (or 4%) to $23.7 million, reflecting margin contraction from an increase in funding costs and competitive lending and deposit markets.

Non interest expenses increased by $278,716 or 1% and have been contained through disciplined cost management.

During the financial year, ADCU continued to grow, with total on and off balance sheet assets increasing by $23 million or 3% to $856 million despite subdued underlying credit growth. This growth was largely sourced from quality growth in the ADCU's home loan portfolio both from DHOAS and the broader membership.

Throughout the year demand continued in the banking and financial services market for deposits. Despite the competitive pressure, ADCU successfully grew deposits by $25 million or 5% and this provided a stable base to fund our loan growth.

Non interest income for the year of $9.3 million continued to perform well. This was mainly attributable to the continuing success in promoting our extensive range of good value insurance products to members, which has helped ADCU meet our commitment to provide products and services to meet the financial needs of our members.

Dividends

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

Significant changes in state of affairs

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

Regulatory snapshot

During the year we implemented changes to our lending processes to comply with the National Consumer Credit Protection Act as part of the Competitive and Sustainable Banking System reforms. The first phase of the reforms was to implement home loan key facts sheets generated on the ADCU website so consumers can obtain information about our home loan products and make comparisons with other providers in the market. This change was implemented by 1 January 2012.

The second phase of these reforms related to credit cards, with a wide range of requirements implemented by 1 July 2012. These reforms included changes to the payment hierarchy of ADCU's credit card, the cessation of charging overlimit fees for credit card facilities obtained from 1 July 2012 and a number of changes to the credit card statements, to provide clear and transparent information to members about the additional interest charges they will incur if only the minimum payments are made each month.

Another key legislative change related to the Personal Properties Securities Act. Under this new Act, the previously state based diverse registers recording various types of securities were centralised into one national register. Changes were implemented successfully before the commencement of the new requirements.

In the 2012/13 year, the major change is the evolution of the EFT Code of Conduct, into the new ePayments Code, which updates the requirements relating to electronic payments, and provides members with greater protection in the event of mistaken payments. There are also expected changes from the revised National Privacy Principles.

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

Events occurring after balance date

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

Likely developments and results

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

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

in the financial years subsequent to this financial year.

Auditors' independence

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

Board resolution

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

John Wood
Chairman
20 September 2012

Warren Thomas
Deputy Chairman
20 September 2012

Declaration of independence

Auditor's Independence Declaration to the Directors of Australian Defence Credit Union Limited.

In accordance to the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the audit of Australian Defence Credit Union Limited for the year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been:

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

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

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

Neville Sinclair
Director - Audit & Assurance
20 September 2012

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, and accompanying notes are in accordance with the *Corporations Act 2001*, and:

(a) comply with Accounting Standards and the Corporations Regulations 2001; and

(b) give a true and fair view of the financial position of ADCU as at 30 June 2012 and its performance for the year ended on that date.

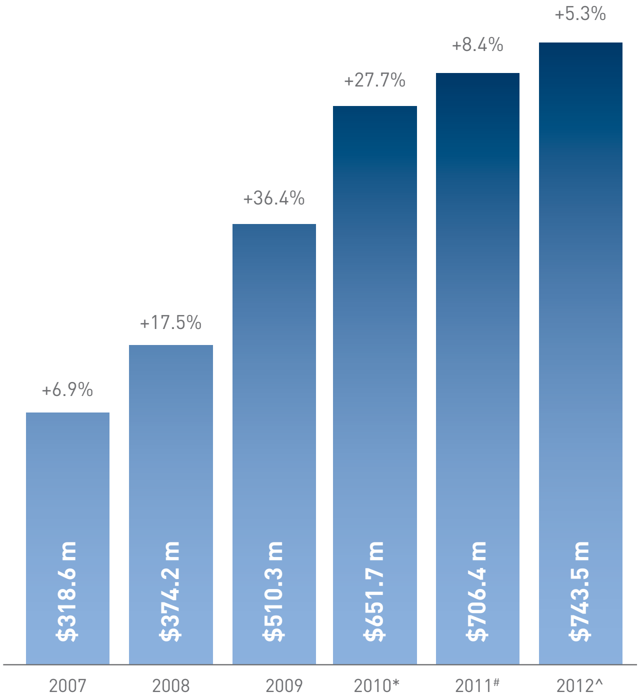
The Credit Union has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.

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

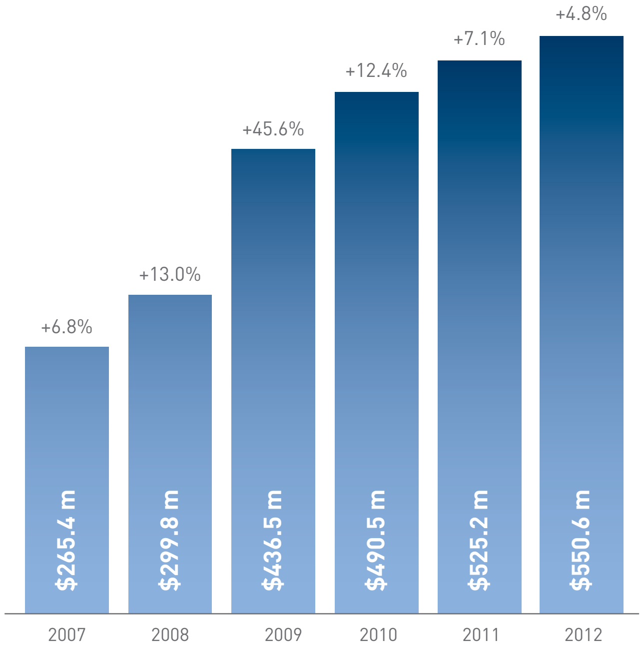
This declaration is made in accordance with a resolution of the Board of Directors.

John Wood
Chairman
20 September 2012

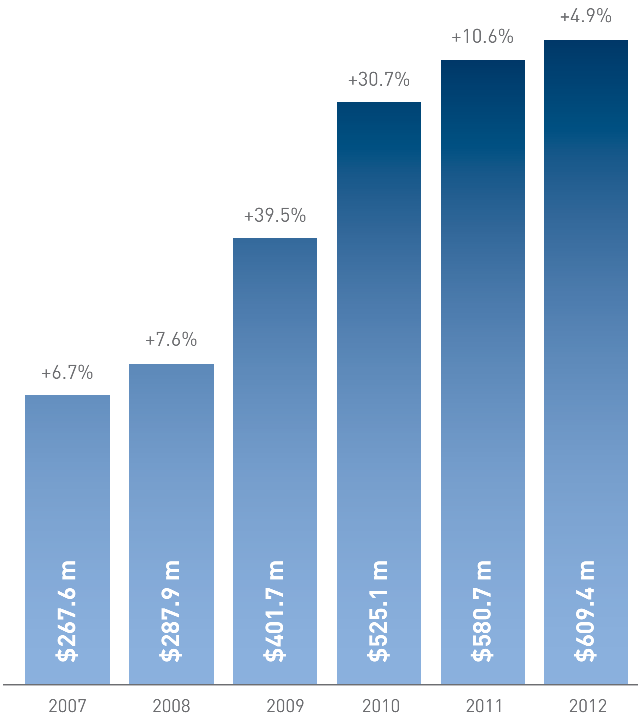
Key Performance Measures



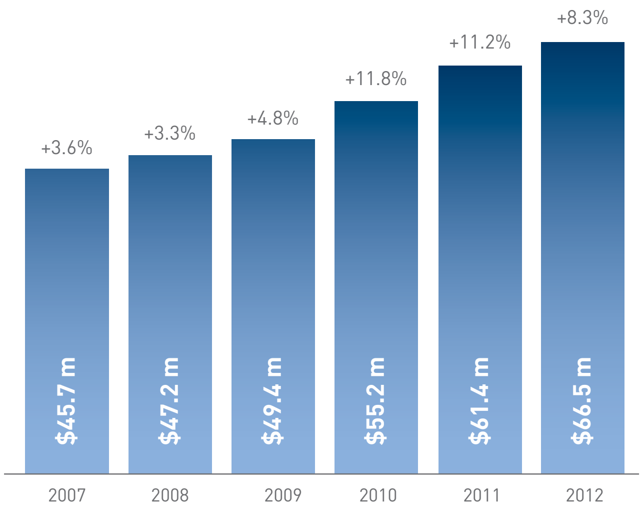
Balance Sheet Assets



Deposits



Net Balance Sheet Loans

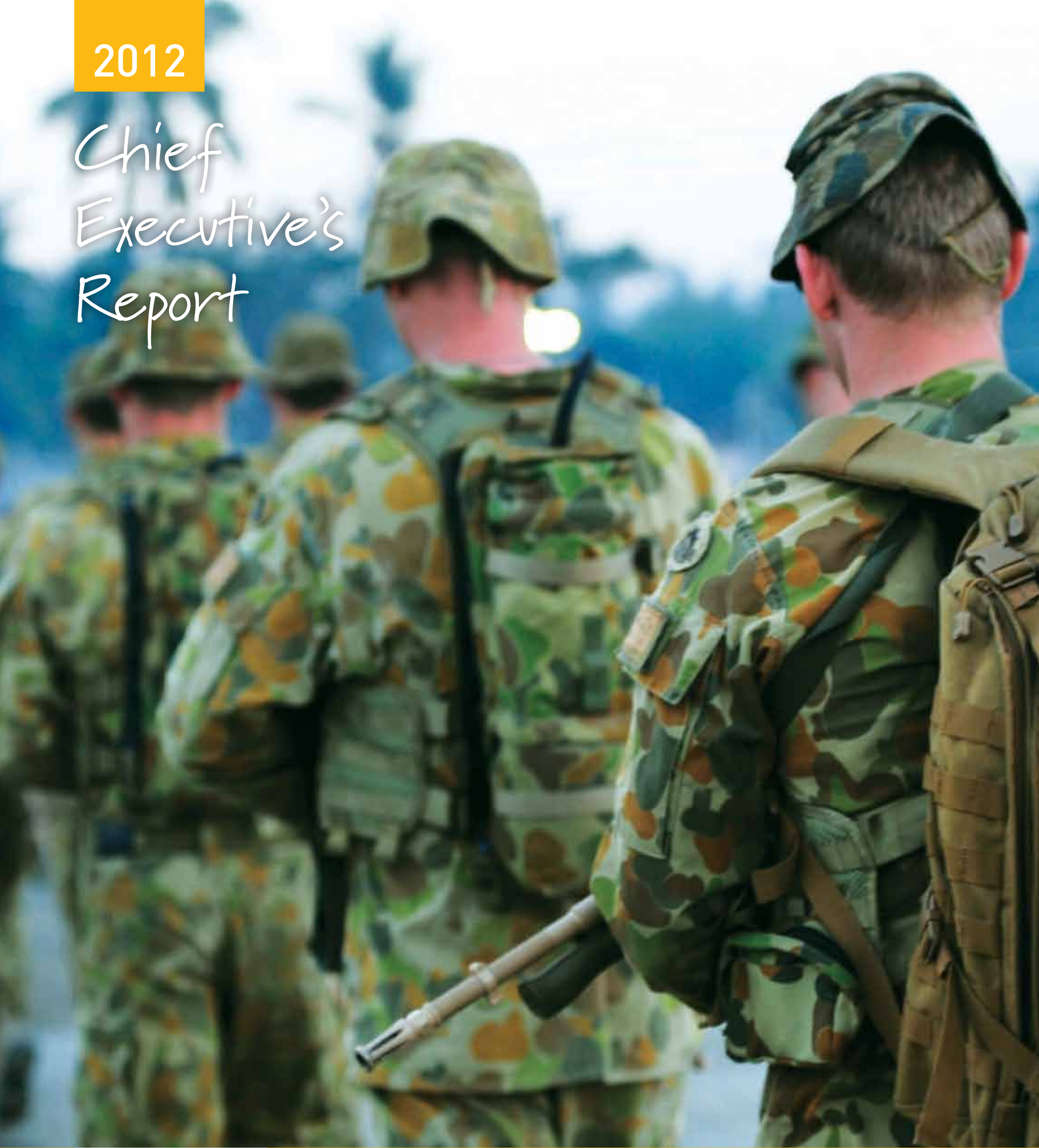


Members Equity

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

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

^ Includes $66,498,506 in loans securitised through Athena Trust.



2012

Chief Executive's Report

Challenging economic conditions have again had significant impacts on the financial industry over the past year. Despite these difficulties, ADCU has demonstrated its adaptability, viability and commitment to members by delivering another year of successful results.

The economic conditions within Australia remained challenging for the financial industry throughout the year, and as a result of our member support and adaptability, ADCU has been able to demonstrate its core strength and viability by delivering another strong result.

This achievement can only be achieved through the collective efforts of our dedicated staff across the organisation meeting the needs and expectations of our members and the broader Defence community. Our staff were supported by sound strategies which were developed and implemented by the Board and management to position ADCU to meet the market demands now and into the future.

Our successful year will allow ADCU to once again invest our profits back into the business for the benefit of our members, and ensure the continuing development and implementation of strategies to improve our highly competitive product range and fulfil our commitment to providing financial services to members throughout their lives. To meet this commitment and remain relevant to our members we have to continually invest in all areas of our organisation to strengthen the internal and external workings of ADCU and ultimately deliver the best service possible to our members. This includes investment in new product development, business processes, policies, human resources and technology.

The continuously evolving nature of the financial industry and our members' needs requires significant operational focus from the Board and management; however, we continue 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. We have been able to improve the products and services for our members whilst maintaining our earnings and strengthening our balance sheet. It is critical that we get this balance right 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

In support of our commitment to provide products and services that suit the needs of our membership, we launched a number of new products and services over the past 12 months including our Defence Home Ownership Assistance Scheme (DHOAS) Value Home Loan, which has the maintained the lowest standard variable interest rate of any DHOAS loan in the market, two brand new deposit products designed especially to assist our members who are leaving or have left the Defence force, the Deeming Access and DIY Super Saver Accounts, and a new improved online and mobile channel, so that members can manage their banking and transact more easily whilst on the move.

The introduction of these new products was a direct response to the increasing needs of our membership. The DHOAS Value Loan provides members with the best of both worlds, a low interest rate and the flexibility to pay off their loan sooner by making extra repayments, which members can redraw if needed. The Deeming Access Account gives members aged 55 or over (who receive a government pension) an everyday account with a higher interest rate and the DIY Super Saver Account is designed specifically for members with a self-managed superannuation fund.

As part of our online and mobile channel strategy we have invested significantly in the redevelopment and improvement of our remote channels (online and mobile) to improve the delivery of information and service to our existing and potential members. This included the launch of a new ADCU website in July 2012 with a range of new functionality and was followed by the launch of our mobile banking functionality in October 2012. This will remain an ongoing focus for ADCU.

Our people and processes

At ADCU our staff are our greatest asset and we believe that they define the way we do business and how we best serve our members. It is because of this that we are committed to providing a work environment and culture that allows them to succeed by recognising their individual talents and skills and by encouraging a team spirit supported by a strong commitment to training.

In response to feedback received from staff in the last staff survey, we undertook a project to review, redefine and re-launch our values of friendly, passionate, understanding, helpful and professional with our staff.

We worked with each Region and Department to define exactly what our values meant to them and outlined key behaviours associated with each of these values.

This was a very important piece of work as it assisted staff with being able to make a direct link between ADCU's values and their day to day dealings with members and staff.

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 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 ADCU 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 is focused on assisting members with managing their finances. Over the past year we have run a host of financial education presentations on budgeting, pre-deployment planning, buying a home and understanding credit.

With the increased usage of online and mobile banking channels it is more important than ever that we are all committed to improving our security when banking online. To assist members with identifying common scams and other things to be aware of, we launched an education program via our website which included an online quiz and a regular focus on current scams in our online news area.

The Executive Management Team (L to R):

Joe Serrao, IT Manager

Bob McGregor, Head of Credit

Christina Imada, Marketing Manager

Mike Lanzing, Head of Business Development

Ian Doyle, Chief Executive Officer

Andrew Prichard, Head of Finance and Operations

Supporting our communities

We believe it is important to give back and support the communities that have been supporting ADCU for so many years. Over the past year we continued to demonstrate this commitment by supporting a wide range of activities and organisations across Australia including the Stirling Walk to Work Day, Gecko's in Townsville, the ADCU Shield Kapooka, Legacy Big Band Sound in the ACT, various base open days and more.

As with previous years, we have continued our long standing partnership with the National and many of the State Returned & Services Leagues. We have also showed our support by participating and sponsoring a number of events around the country. This year ADCU once again supported the Credit Union Foundation Australia (CUFA), the development agency for the Australian Credit Union Movement, as a gold sponsor.

Over the past year we have also been very proud to support ADCU member, Chloe Esposito, in her journey to the 2012 London Olympics as Australia's female Modern Pentathlon champion. Chloe placed 7th at the Olympics which is the best ever result for an Australian woman in this sport.

Competing at the elite level of a sport often presents a financial challenge for athletes and Chloe was no different. In order to help Chloe get to the Olympics, we built her a supporters website, which enabled Chloe's supporters to track her journey as she blogged about her experiences during training, the various competitions leading up to London 2012 and finally at the Olympics. The website also enabled visitors to support Chloe through donations and supporters were also able to purchase merchandise, donated by ADCU, in ADCU branches around Australia. Over $24,000 was raised to assist Chloe in her journey.

As we go forward into a new financial year we believe our mutuality is the strength that will continue to differentiate ADCU from the big banks and enable us to give back to our members. It is difficult to predict what is likely to happen in the economy over the next twelve months; however we remain committed to providing our members with benefits in the form of competitive interest rates, fairer fees, great products, services and our Relationship Reward.

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
20 September 2012

L to R: National RSL Secretary, Mr Derek Robson AM and Andrew Moebus HUME Regional Manager.

Chloe Esposito with CEO Ian Doyle and Marketing Manager, Christina Imada.

Big Band Sound 2011. L to R: Marty Burgess HUME Regional Supervisor, Andrew Moebus HUME Regional Manager with Lieutenant Colonel Ian McLean, AM CSC, Director of Music Army.

Army Indigenous Rugby Team with Lavarack branch staff in Townsville.

2012

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 "Company"), which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the 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 Company are responsible for the preparation of the financial report that gives a true and fair view of the financial report in accordance with Australian Accounting Standards and the *Corporations Act 2001*. This responsibility includes such internal controls as the Directors determine are necessary to enable the preparation of the financial report to be free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, 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 which require us to 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 Company'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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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

Auditor's opinion

In our opinion:

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

   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

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

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

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

Neville Sinclair
Director - Audit & Assurance
20 September 2012

Statement of Comprehensive Income for the year ended 30 June 2012

	Note	2012 $	2011 $
Interest revenue	2.a	54,393,922	53,964,261
Interest expense	2.c	(30,731,525)	(29,353,104)
Net interest income		**23,662,397**	**24,611,157**
Fee, commission and other income	2.b	9,252,876	9,523,921
		32,915,273	34,135,078
Less non interest expenses			
Impairment losses on loans receivable from members	2.d	1,757,370	1,511,826
Fee and commission expenses		3,724,721	3,416,828
General administration expenses			
- Employees compensation and benefits		12,793,472	11,876,523
- Depreciation and amortisation	2.e	581,782	838,187
- Information technology		2,054,731	2,159,635
- Office occupancy	2.f	881,720	856,853
- Other administration		2,141,243	2,295,860
Other operating expenses		1,835,875	2,536,486
Total non interest expenses		**25,770,914**	25,492,198
Profit before income tax		**7,144,359**	8,642,880
Income tax expense	3	2,107,533	2,456,532
Profit after income tax		**5,036,826**	**6,186,348**
Other comprehensive income, net of income tax		–	–
Total comprehensive income for the period		**5,036,826**	**6,186,348**

Statement of Changes In Members' Equity for the year ended 30 June 2012

	Capital reserve $	Reserve for credit losses $	Retained earnings $	Total $
Total as at 1 July 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**
Profit for the year	–	–	5,036,826	5,036,826
Transfer to reserve for credit losses in the year	–	–	–	–
Transfer to capital account on redemption of shares	7,716	–	(7,716)	–
Total as at 30 June 2012	**106,166**	**1,060,545**	**65,290,221**	**66,456,932**

Statement of Financial Position as at 30 June 2012

	Note	2012 $	2011 $
Assets			
Cash	4	13,499,668	12,438,261
Receivables from financial institutions	5	113,974,302	107,426,984
Receivables	6	3,891,203	2,972,963
Loans to members	7.a	609,389,487	580,656,340
Available for sale investments	9	907,154	907,154
Property, plant and equipment	10	521,698	504,217
Taxation assets	11	829,547	849,934
Intangible assets	12	504,368	647,768
Total assets		**743,517,427**	**706,403,621**
Liabilities			
Short term borrowings	13	110,706,053	106,877,357
Deposits from members	14	550,639,553	525,247,101
Creditor accruals and settlement accounts	15	15,119,651	11,162,705
Taxation liabilities	16	136,332	1,281,219
Provisions	17	458,906	415,133
Total liabilities		**677,060,495**	**644,983,515**
Net assets		**66,456,932**	**61,420,106**
Members' equity			
Capital reserve account	18	106,166	98,450
General reserve for credit losses	19	1,060,545	1,060,545
Retained earnings		65,290,221	60,261,111
Total members' equity		**66,456,932**	**61,420,106**

Statement of Cash Flows for the year ended 30 June 2012

	Note	2012 $	2011 $
Operating activities			
Revenue inflows			
Interest received		54,571,375	54,428,121
Fees and commissions received		8,573,116	8,549,661
Dividends received		195,002	483,804
Other income		413,669	400,664
Revenue outflows			
Interest paid		(29,779,827)	(26,573,533)
Payments to suppliers and employees		(24,091,470)	(22,659,420)
Income taxes paid		(3,232,033)	(3,134,282)
Net cash from revenue activities	32.b	**6,649,832**	**11,495,015**
Inflows (outflows) from other operating activities			
Increase in member loans (net movement)		(30,419,426)	(56,961,065)
Increase in member deposits and shares (net movement)		28,766,494	35,487,263
(Increase)/decrease in deposits to other financial institutions (net movement)		(6,547,318)	73,016
Net cash used in operating activities		**(1,550,418)**	**(9,905,771)**
Investing activities			
Inflows			
Proceeds on sale of property, plant and equipment		–	15,000
Less: outflows			
Purchase of property, plant and equipment		(288,056)	(251,712)
Purchase of intangible assets		(167,807)	(244,845)
Money placed on security deposit		(761,008)	(1,205,347)
Net cash used in investing activities		**(1,216,871)**	**(1,686,904)**
Financing activities			
Inflows (outflows)			
Increase in borrowings (net movement)		3,828,696	10,510,562
Net cash provided by financing activities		**3,828,696**	**10,510,562**
Total net cash increase/(decrease)		1,061,407	(1,082,113)
Cash at beginning of year		12,438,261	13,520,374
Cash at end of year	32.a	**13,499,668**	**12,438,261**

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 2012. The report was authorised for issue on 20 September 2012 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 *International Financial Reporting Standards* (IFRS), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*. Compliance with IFRS 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 key assumptions used in the calculation are as set out in Note 8. Note 20 details the credit risk management approach for loans.

The Australian Prudential Regulation Authority (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. Interest is paid on the daily balance at maturity. All deposits are in Australian currency.

The accrual for interest receivable is calculated on a proportional basis of the expired period of the term of the investment. Interest receivable is included in the amount of receivables in the statement of financial position.

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 sundry creditors and accruals.

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 statement of financial position liability method in respect of temporary differences arising between the tax bases of assets or liabilities and their carrying amounts in the financial statements. Current and deferred tax balances relating to amounts recognised directly in equity are also recognised directly in equity.

Deferred tax assets and liabilities are recognised for all temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable. These differences are presently recognised at the company tax rate of 30%.

Deferred tax assets are only brought to account if it is probable that future taxable amounts will be available to utilise those temporary differences. The recognition of these benefits is based on the assumption that no adverse change will occur in income tax legislation; and the anticipation that the Credit Union will derive sufficient future assessable income and comply with the conditions of deductibility imposed by the law to permit an income tax benefit to be obtained.

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 Taxation Office (ATO), the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included where applicable GST is collected. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or current liability in the statement of financial position. Cash flows are included in the cash flow statement on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

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

There are no new accounting standards applicable for the current financial year.

The Credit Union has applied the following revised accounting standards in the presentation of the financial report:

AASB reference	Title of Affected Standard(s):	Nature of Change	Application date	Impact on Initial Application
AASB 7	Financial Instruments: Disclosures	Deletes various disclosures relating to credit risk, renegotiated loans and receivables and the fair value of collateral held.	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. These amendments were adopted by the Credit Union in the previous year's financial report.
AASB 101	Presentation of Financial Statements	A detailed reconciliation of each item of other comprehensive income may be included in the statement of changes in equity or in the notes to the financial statements.	Periods commencing on or after 1 July 2012	There will be no impact on initial adoption of this amendment as a detailed reconciliation of each item of other comprehensive income has always been included in the statement of changes in members' equity.

s. New or emerging standards not yet mandatory

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2012 reporting periods. The Credit Union'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 2011)	Amendments to Australian Accounting Standards – Disclosure on Transfers of Financial Assets	Annual reporting periods commencing on or after 1 July 2012	Additional disclosures required for entities that transfer financial assets, including information about the nature of financial assets involved and the risks associated with them. As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements.
AASB 9 Financial Instruments (issued December 2009 and amended December 2010)	Amends the requirements for classification and measurement of financial assets. The following requirements have generally been carried forward unchanged from AASB 139 *Financial Instruments: Recognition and Measurement* into AASB 9. These include the requirements relating to: • classification and measurement of financial liabilities; and • derecognition requirements for financial assets and liabilities. However, AASB 9 requires that gains or losses on financial liabilities measured at fair value are recognised in profit or loss, except that the effects of changes in the liability's credit risk are recognised in other comprehensive income.	Periods beginning on or after 1 January 2015	The Credit Union does not have any financial liabilities measured at fair value through profit or loss. There will therefore be no impact on the financial statements when these amendments to AASB 9 are first adopted.

AASB reference	Nature of Change	Application date	Impact on Initial Application
AASB 10 Consolidated Financial Statements (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 Credit Union's financial statements because the entity already consolidates its Special Purpose Entity, Athena Trust.
AASB 13 Fair Value Measurement (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 and non-financial items recognised at fair value in the statement of financial position or disclosed in the notes in the financial statements.	Annual reporting periods commencing on or after 1 January 2013	When this standard is adopted for the first time for the year ended 30 June 2014, there will be no impact on the financial statements because the revised fair value measurement requirements apply prospectively from 1 July 2013. However, additional disclosures will be required about fair values.

2. Income statement

	2012 $	2011 $
a. Analysis of interest revenue		
Interest revenue on assets carried at amortised cost		
Cash – deposits at call	205,170	274,856
Receivables from financial institutions	6,135,527	6,705,223
Loans to members	48,053,225	46,984,182
Total interest revenue	**54,393,922**	**53,964,261**
b. Fee, commission and other income		
Fee and commission revenue		
Fee income on loans – other than loan origination fees	1,668,608	1,810,914
Other fee income	4,673,159	4,817,350
Insurance commissions	1,669,554	1,394,824
Other commissions	632,884	611,118
Total fee and commission revenue	**8,644,205**	**8,634,206**
Other income		
Dividends received on available for sale assets	195,002	483,804
Bad debts recovered	375,385	383,658
Gain on disposal of assets		
– Property, plant and equipment	–	5,247
Miscellaneous revenue	38,284	17,006
Total other income	**608,671**	**889,715**
Total fee, commission and other income	**9,252,876**	**9,523,921**
c. Interest expenses		
Interest expense on liabilities carried at amortised cost		
Short term borrowings	2,862,591	2,757,941
Deposits from members	24,390,335	22,841,950
Borrowings from Westpac - Athena Trust	3,478,599	3,753,213
Total interest expense	**30,731,525**	**29,353,104**
d. Impairment losses		
Loans and advances		
Increase/(decrease) in provision for impairment	55,118	(159,658)
Bad debts written off directly against profit	1,702,252	1,671,484
Total impairment losses	**1,757,370**	**1,511,826**
e. Other prescribed disclosures		
General administration – depreciation expense includes:		
– Plant and equipment	175,623	297,472
– Leasehold improvements	94,952	134,475
– Amortisation of software	311,207	406,240
	581,782	**838,187**

	2012 $	2011 $

f. General administration – office occupancy costs include:

Property operating lease payments	**759,088**	**734,883**

g. Other operating expenses include:

Auditor's remuneration (excluding GST)		
Grant Thornton Audit Pty Ltd		
– Audit fees	54,116	–
– Other services – taxation	5,720	–
– Other services – compliance	4,335	–
– Other services – other	17,227	–
	81,398	–
Other		
– Audit fees	40,100	95,210
– Other services – taxation	3,602	5,500
– Other services – compliance	3,000	6,090
– Other services – other	5,732	865
	52,434	**107,665**

3. Income tax expense

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

Current tax provision	2,160,317	2,466,140
Adjustments for previous years	(73,172)	(9,608)
Total current income tax expense	**2,087,145**	**2,456,532**
Deferred tax		
Write-down and/or reversal of previous write-down of a deferred tax asset	20,388	–
Total movement in temporary differences	20,388	–
Total income tax expense in income statement	**2,107,533**	**2,456,532**

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

Profit	**7,144,359**	**8,642,880**
Prima facie tax payable on profit before income tax at 30%	2,143,307	2,592,864
Add tax effect of expenses not deductible	16,810	16,619
Less		
– Franking rebate	(58,501)	(145,141)
Total current year tax expense	2,101,616	2,464,342
Origination and reversal of temporary differences	58,701	1,798
Total current year tax provision	**2,160,317**	**2,466,140**
Less		
– Adjustments to deferred tax assets	20,388	–
– Over provision in prior year	(73,172)	(9,608)
Total income tax expense in statement of comprehensive income	**2,107,533**	**2,456,532**

	2012 $	2011 $

4. Cash

Cash on hand	980,495	1,008,465
Deposits at call	12,519,173	11,429,796
	13,499,668	**12,438,261**

5. Receivables from financial institutions

Deposits with industry bodies - Cuscal (refer Note 29)	38,000,000	42,000,000
Deposits with other societies	2,000,000	4,923,449
Deposits with banks	73,974,302	60,503,535
	113,974,302	**107,426,984**

6. Receivables

Interest receivable on deposits with other financial institutions	715,517	892,996
Prepayments	152,234	158,467
GST receivable	258,634	52,081
Sundry debtors and settlement accounts	798,463	664,072
Security deposit	1,966,355	1,205,347
	3,891,203	**2,972,963**

7. Loans to members

a. Amount due comprises:

Overdrafts and revolving credit	28,619,242	28,290,009
Term loans	515,223,164	497,035,684
Term loans held by the Athena Trust	66,498,506	56,298,045
Subtotal	**610,340,912**	**581,623,738**
Less:		
Unamortised loan origination fees	(138,187)	(209,276)
Subtotal	**610,202,725**	**581,414,462**
Less:		
Provision for impaired loans (Note 8)	(813,238)	(758,122)
	609,389,487	**580,656,340**

b. Credit quality – security held against loans

Secured by mortgage over real estate held in Athena Trust	66,498,506	56,298,045
Secured by mortgage over real estate	416,274,648	382,025,650
Partly secured by goods mortgage	75,687,552	88,243,330
Wholly unsecured	51,880,206	55,056,713
	610,340,912	**581,623,738**

	2012 $	2011 $
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%	247,622,445	231,677,030
– loan to valuation ratio of more than 80% but mortgage insured	157,707,279	139,488,909
– loan to valuation ratio of more than 80% and not mortgage insured	10,944,924	10,859,711
Total	**416,274,648**	**382,025,650**

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

c. Concentration of loans

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

	2012 $	2011 $
(i) Loans to individual or related groups of members which exceed 10% of reserves in aggregate.	–	–
Total	**–**	**–**

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

(ii) Geographical concentrations

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

(iii) Loans by purpose

	2012 $	2011 $
Loans to natural persons		
Residential loans and facilities	408,948,597	377,020,009
Personal loans and facilities	134,235,458	147,598,567
Business loans and facilities	658,351	707,117
Loans held by the Athena Trust	66,498,506	56,298,045
	610,340,912	**581,623,738**
Loans to corporations	**–**	**–**

d. Securitised loans

	2012 $	2011 $
The value of securitised loans which are not qualifying for derecognition as the conditions do not meet the criteria in AASB 139.	66,498,506	56,298,045
	66,498,506	**56,298,045**

During the year ended 30 June 2012, 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.

	2012 $	2011 $

8. Provision on impaired loans

a. Total provision comprises

	2012 $	2011 $
Collective provisions	813,238	758,122
Individual specific provisions	–	–
Total provision	**813,238**	**758,122**

b. Movement in the provision for impairment

	2012 $	2011 $
Balance at the beginning of year	758,122	917,780
Add (deduct):		
Transfers from (to) income statement	55,116	(159,658)
Bad debts written off provision	–	–
Balance at end of year	**813,238**	**758,122**

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

c. Impaired loans written off

	2012 $	2011 $
Amounts written off against the provision for impaired loans	–	–
Amounts written off directly to expense	1,702,252	1,671,484
Total bad debts	**1,702,252**	**1,671,484**
Bad debts recovered in the period	375,385	383,658
	1,326,867	**1,287,826**

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

In the note below:

– carrying value is the amount recorded on the Statement of Financial Position;

– impaired loans value is the 'on balance sheet' loan balances which are past due by 90 days or more; and

– provision for impairment is the amount of the impairment provision allocated to the class of impaired loans.

	2012 Carrying value $	2012 Value of impaired loans $	2012 Provision for impairment $	2011 Carrying value $	2011 Value of impaired loans $	2011 Provision for impairment $
Loans to members						
Mortgages held by Athena Trust	66,498,506	–	–	56,298,045	–	–
Mortgages	408,948,597	–	–	377,020,009	–	–
Personal	106,274,567	982,314	456,072	120,015,675	851,192	378,186
Credit cards and overdrafts	28,619,242	508,529	357,166	28,290,009	663,395	379,936
Total to natural persons	610,340,912	1,490,843	813,238	581,623,738	1,514,587	758,122
Corporate borrowers	–	–	–	–	–	–
Total	**610,340,912**	**1,490,843**	**813,238**	**581,623,738**	**1,514,587**	**758,122**

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 $23,413 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
2012					
Mortgage secured	23,413	–	–	–	23,413
Personal loans	1,445,276	–	–	–	1,445,276
Credit cards and overdrafts less than 14 days	134,722	–	–	–	134,722
Total	**1,603,411**	**–**	**–**	**–**	**1,603,411**
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**

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

	2012 $	2011 $
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.

	2012 $	2011 $

10. Property, plant and equipment

a. Fixed assets

	2012 $	2011 $
Plant and equipment - at cost	5,065,124	4,982,356
Less: provision for depreciation	(4,831,787)	(4,656,173)
	233,337	326,183
Capitalised leasehold improvements at cost	2,060,748	1,855,470
Less: provision for amortisation	(1,772,387)	(1,677,436)
	288,361	178,034
	521,698	**504,217**

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

	2012			2011		
	Plant & equipment $	Leasehold improvements $	Total $	Plant & equipment $	Leasehold improvements $	Total $
Balance at the beginning of the year	326,183	178,034	504,217	419,216	274,989	694,205
Purchases	82,777	205,279	288,056	214,192	37,520	251,712
Less:						
Assets disposed	–	–	–	(9,753)	–	(9,753)
Depreciation charge	(175,623)	(94,952)	(270,575)	(297,472)	(134,475)	(431,947)
Balance at the end of the year	**233,337**	**288,361**	**521,698**	**326,183**	**178,034**	**504,217**

11. Taxation assets

	2012 $	2011 $
Deferred tax assets	**829,547**	**849,934**
Deferred tax assets comprise:		
- Accrued expenses not deductible until incurred	13,890	40,282
- Provisions for impairment on loans	243,971	227,437
- Provisions for employee benefits	306,779	288,318
- Depreciation on fixed assets and intangible assets	264,907	231,115
- Deferred fees (less transaction costs) on loan origination	–	62,782
	829,547	**849,934**

	2012 $	2011 $

12. Intangible assets

Computer software	3,314,497	3,146,654
Less provision for amortisation	(2,810,129)	(2,498,886)
	504,368	**647,768**
Movement in the assets balances during the year were:		
Opening balance	647,768	809,163
Purchases	167,807	244,845
Less:		
Depreciation charge	(311,207)	(406,240)
Balance at the end of the year	**504,368**	**647,768**

13. Short term borrowings

Borrowings from Westpac through the Athena Trust	68,196,053	57,227,357
Loans from other Authorised Deposit-taking Institutions (ADIs)	42,510,000	49,650,000
	110,706,053	**106,877,357**

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

14. Deposits from members

Member deposits		
- at call	223,353,078	218,902,295
- term	295,193,241	290,250,292
Deposits from other financial institutions - term	32,000,000	16,000,000
Member withdrawable shares	93,234	94,514
	550,639,553	**525,247,101**

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

Concentration of member deposits

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

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

15. Creditor accruals and settlement accounts

Annual leave	563,694	545,926
Creditors and accruals	795,274	1,316,225
Interest payable on borrowings	461,143	511,842
Interest payable on deposits	7,332,295	6,329,899
Sundry creditors	5,967,245	2,458,813
	15,119,651	**11,162,705**

	2012 $	2011 $

16. Taxation liabilities

Current income tax liability	**136,332**	**1,281,219**
Current income tax liability comprises:		
Liability for income tax in current year	2,160,317	2,466,140
Less installments paid in current year	(2,023,985)	(1,184,921)
	136,332	**1,281,219**

17. Provisions

Long service leave	**458,906**	**415,133**

18. Capital reserve account

Balance at the beginning of the year	98,450	91,268
Transfer from retained earnings on share redemptions*	7,716	7,182
Balance at the end of the year	**106,166**	**98,450**

***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

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.

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

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

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

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

a. Market Risk

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

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

The management of market risk is the responsibility of the ALCO, which reports directly to the Board.

Interest rate risk

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

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

Interest rate risk in the banking book

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

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.

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

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

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

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

Details are set out in Note 8.

Bad debts

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

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

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

Collateral securing loans

A sizeable portfolio of the loan book is secured on residential property in Australia. Therefore, the Credit Union is exposed should the property market be subject to a decline.

The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken. Note 7.b describes the nature and extent of the security held against the loans held as at the balance date.

Concentration risk – individuals

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

The aggregate value of large exposure loans are set out in note 7. The Credit Union holds no significant concentrations of exposures to members. Concentration exposures to counterparties are closely monitored with annual reviews being prepared for all exposures over 5% of the capital base.

The Credit Union's policy on exposures of this size is to insist on an initial Loan to Valuation ratio (LVR) of no more than 80% and bi-annual reviews of compliance with this policy are conducted.

Concentration risk – industry

The Credit Union has a concentration in the retail lending for members who comprise employees and family in the Defence industry. This concentration is considered acceptable on the basis that the Credit Union was formed to service these members, and the employment concentration is not exclusive. Should members leave the industry the loans continue and other employment opportunities are available to the members to facilitate the repayment of the loans. The details of the geographical and industry concentrations are set out in Note 7.

Credit risk – liquid investments

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

The credit policy is that investments are only made to institutions that are credit worthy based on the assessment of independent credit rating agencies. The risk of losses from liquid investments is reduced by the nature and quality of the financial institutions used and limits to the concentration and amount of individual investments with an institution.

There is a concentration of credit risk with respect to investment receivables with the placement of investments with Cuscal (a company set up to support member credit unions and which has a A+ rating).

External credit assessment for institution investments

The Credit Union uses the ratings of reputable ratings agencies to assess the credit quality of all investment exposure, where applicable, using the credit quality assessment scale in APRA prudential 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	2012 $	2011 $
FINANCIAL ASSETS - carried at amortised cost			
Cash	4	13,499,668	12,438,261
Receivables	6	2,681,872	2,098,343
Receivables from financial institutions	5	113,974,302	107,426,984
Loans to members	7 & 8	542,890,981	524,358,296
Loans held by Athena Trust	7 & 8	66,498,506	56,298,045
Total loans and receivables carried at amortised cost		**739,545,329**	**702,619,929**
Available for sale investments - carried at cost	9	907,154	907,154
Total available for sale investments		**907,154**	**907,154**
Total financial assets		**740,452,483**	**703,527,083**
FINANCIAL LIABILITIES			
Short term borrowings	13	42,510,000	49,650,000
Creditors		8,588,712	8,157,966
Deposits from other institutions	14	32,000,000	16,000,000
Securitisation Facility – Athena Trust	13	68,196,053	57,227,357
Deposits from members	14	518,639,553	509,247,101
Total carried at amortised cost		**669,934,318**	**640,282,424**
Total financial liabilities		**669,934,318**	**640,282,424**

Assets measured at fair value through profit or loss

	Level 3 $	2012 Total $	Level 3 $	2011 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 assets and liabilities held will mature and be eligible for renegotiation or withdrawal. Financial assets and liabilities are at the undiscounted values (including future interest expected to be earned or paid). Accordingly these values will not agree to the statement of financial position.

2012	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	12,520	–	–	–	–	980	13,500
Advance to financial institutions	35,513	27,610	16,307	38,426	–	–	117,856
Loans & advances	5,800	13,816	59,263	232,426	701,210	–	1,012,515
Loans & advances – Athena Trust	393	956	4,111	20,268	87,414	–	113,142
Total financial assets	**54,226**	**42,382**	**79,681**	**291,120**	**788,624**	**980**	**1,257,013**
LIABILITIES							
Borrowings	8,006	20,613	14,578	–	–	–	43,197
Borrowings - Securitisation facility	–	–	–	–	68,196	–	68,196
Creditors	795	–	–	–	–	–	795
Deposits from other financial institutions	12,524	17,637	2,034	–	–	–	32,195
Deposits from members	273,092	95,249	149,292	6,048	–	93	523,774
Total on balance sheet liabilities	**294,417**	**133,499**	**165,904**	**6,048**	**68,196**	**93**	**668,157**
Undrawn commitments	59,287	–	–	–	–	–	59,287
Total financial liabilities	**353,704**	**133,499**	**165,904**	**6,048**	**68,196**	**93**	**727,444**

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**

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.

2012	Within 1 month $000	1 – 3 months $000	3 – 12 months $000	1 – 5 years $000	After 5 years $000	Non interest bearing $000	Total $000
ASSETS							
Cash	12,520	–	–	–	–	980	13,500
Receivables	1,966	–	–	–	–	716	2,682
Advances to other financial institutions	44,464	54,201	10,000	5,309	–	–	113,974
Loans & advances	472,884	7,444	21,607	41,907	–	–	543,842
Loans & advances – Athena Trust	66,499	–	–	–	–	–	66,499
Total financial assets	**598,333**	**61,645**	**31,607**	**47,216**	–	**1,696**	**740,497**
LIABILITIES							
Borrowings - Securitisation facility	5,820	62,376	–	–	–	–	68,196
Borrowings - other ADIs	18,704	23,806	–	–	–	–	42,510
Creditors	–	–	–	–	–	8,589	8,589
Deposits from other financial institutions	12,500	17,500	2,000	–	–	–	32,000
Deposits from members	272,953	94,384	145,585	5,625	–	93	518,640
On balance sheet	**309,977**	**198,066**	**147,585**	**5,625**	–	**8,682**	**669,935**
Undrawn commitments	59,287						59,287
Total financial liabilities	**369,264**	**198,066**	**147,585**	**5,625**	–	**8,682**	**729,222**

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**

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.

	2012			2011		
	Fair value $	Carrying value $	Variance $	Fair value $	Carrying value $	Variance $
FINANCIAL ASSETS						
Cash	13,499,668	13,499,668	–	12,438,261	12,438,261	–
Advances to other financial institutions	115,219,451	113,974,302	1,245,149	107,658,941	107,426,984	231,957
Receivables[1]	2,681,872	2,681,872	–	2,098,343	2,098,343	–
Loans & advances	542,912,459	542,890,981	21,478	523,841,489	524,358,296	(516,807)
Loans & advances – Athena Trust	66,498,506	66,498,506	–	56,298,045	56,298,045	–
Investments	907,154	907,154	–	907,154	907,154	–
Total financial assets	**741,719,110**	**740,452,484**	**1,266,627**	**703,242,233**	**703,527,083**	**(284,850)**
FINANCIAL LIABILITIES						
Borrowings	42,725,769	42,510,000	215,769	49,703,272	49,650,000	53,272
Securitisation facility	68,196,053	68,196,053	–	57,227,357	57,227,357	–
Deposits from other financial institutions	32,075,039	32,000,000	75,039	16,022,448	16,000,000	22,448
Deposits from members						
- Call	223,353,078	223,353,078	–	218,902,295	218,902,295	–
- Term	329,259,392	327,193,241	2,066,151	291,531,153	290,250,292	1,280,861
Creditors[1]	8,588,712	8,588,712	–	8,157,966	8,157,966	–
Total financial liabilities	**704,198,043**	**701,841,084**	**2,356,958**	**641,544,491**	**640,187,910**	**1,356,581**

[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 statement of financial position 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

	2012 $	2011 $
a. Outstanding loan commitments		
The loans approved but not funded	**12,361,083**	**7,179,924**
b. Loan redraw facilities		
The loan redraw facilities available	**25,654,405**	**23,488,311**
c. Undrawn loan facilities		
Loan facilities available to members for overdrafts and line of credit loans are as follows:		
Total value of facilities approved	47,515,064	46,556,424
Less: Amount advanced	(26,243,163)	(25,939,305)
Net undrawn value	**21,271,901**	**20,617,119**
These commitments are contingent on members maintaining credit standards and ongoing repayment terms on amounts drawn.		
Total financial commitments	**59,287,389**	**51,285,354**
d. Computer expenditure commitments		
The costs committed under contracts with Ultradata are as follows:		
Not later than 1 year	1,042,986	889,212
Later than 1 year but not 2 years	1,031,174	–
Later than 2 years but not 5 years	1,062,109	–
Later than 5 years	–	–
	3,136,269	**889,212**
e. Lease expense commitments for operating leases on property occupied by the Credit Union		
Not later than 1 year	673,419	498,208
Later than 1 year but not later than 5 years	318,435	498,208
Later than 5 years	–	–
	991,854	**996,416**

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 number of borrowing facilities.

	Gross $	Current borrowing $	Net available $
2012			
Committed loan facility - Cuscal	25,000,000	–	25,000,000
Loan facility - Cuscal	40,000,000	10,000,000	30,000,000
Loan facility - other	40,000,000	32,510,000	7,490,000
Overdraft facility	5,000,000	–	5,000,000
Athena - Westpac committed facility	125,000,000	68,196,053	56,803,947
Total standby borrowing facilities	**235,000,000**	**110,706,053**	**124,293,947**
2011			
Committed loan facility - Cuscal	25,000,000	–	25,000,000
Loan facility - Cuscal	40,000,000	10,000,000	30,000,000
Loan facility - other	40,000,000	39,650,000	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**

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:

	2012 $	2011 $
(a) short-term employee benefits	881,284	826,413
(b) post-employment benefits – superannuation contributions	80,059	70,234
(c) other long-term benefits	–	–
(d) termination benefits	–	–
(e) share-based payment	–	–
Total	**961,343**	**896,647**

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 2012 was $303,600 [2011 $284,000].

	2012 $	2011 $
b. Loans to KMP		
(i) The aggregate value of loans to Directors and other KMP as at balance date amounted to	**459**	**3,788**
(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)	18,000	17,493
Net balance available	–	**507**
(iii) During the year the aggregate value of loans disbursed to KMP amounted to:		
Revolving credit facilities	–	–
Personal loans	–	–
Term loans	–	–
	–	–
(iv) During the year the aggregate value of revolving credit facility limits granted or increased to KMP amounted to	–	–
(v) Interest and other revenue earned on loans and revolving credit facilities to KMP	**229**	**26**

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:

	2012 $	2011 $
Total value term and savings deposits from KMP	**142,348**	**485,332**
Total interest paid on deposits to KMP	**26,441**	**13,853**

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.

	2012 $	2011 $

31. Transfer of financial assets

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

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

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

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

(a) Securitised loans retained on the balance sheet

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

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

	2012 $	2011 $
Balance sheet values		
Loans and receivables		
Athena Trust	**66,498,506**	**56,298,045**
Fair value of associated liabilities		
Borrowings from other financial institutions	68,196,053	57,227,357
Net	**(1,697,547)**	**(929,312)**

	2012 $	2011 $
Off Balance Sheet commitments (redraws)		
Financial Commitments		
Athena Trust	5,009,012	4,628,729
Carrying amount of the loans as at the time of transfer		
Athena Trust	**21,094,870**	**9,980,710**

b. Securitised loans not on the balance sheet

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

	2012 $	2011 $
Carrying amount of the loans as at the time of transfer		
Integris Securitisation Vehicle	**114,424,250**	**126,594,747**
Fair value of continuing involvement in assets	–	–
Fair value of liabilities that represent continuing involvement in loans	–	–
Undiscounted cash outflows required to repurchase loans under an option agreement	–	–
The maximum exposure to loss from continuing involvement is	–	–
The gain or loss on the transfer of assets in the current years is	–	–
The net income received from the continuing involvement current year	353,143	374,598
The net income received from the continuing involvement – cumulatively	353,143	374,598
The total proceeds received in the year from transfer of bulk sale loans to Integris	–	–

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

Nature of relationship and any continuing involvement

Integris Securitisation Services Pty Limited

The Integris securitisation vehicle is an independent securitisation vehicle established by the peak Credit Union body Cuscal.

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

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

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

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

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

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

32. Notes to cash flow statement

a. Reconciliation of cash

	2012 $	2011 $
Cash includes cash on hand, and deposits at call with other financial institutions and comprises:		
Cash on hand	980,495	1,008,465
Deposits at call	12,519,173	11,429,796
Total cash	**13,499,668**	**12,438,261**

b. Reconciliation of cash from operations to accounting profit

	2012 $	2011 $
The net cash increase/(decrease) from operating activities is reconciled to the profit after tax.		
Profit after income tax	5,036,826	6,186,348
Add (Deduct):		
Bad debts written off	1,702,252	1,671,484
Depreciation expense	581,782	838,187
Decrease in amortised fees on loans	(71,089)	(84,545)
Increase in provision for long service leave	43,772	20,419
Decrease in provision for income tax	(1,144,887)	(675,926)
(Decrease)/Increase in provision for loans	55,116	(159,658)
Increase/(Decrease) in accrued expenses	(503,183)	415,275
Increase in interest payable	951,697	2,779,572
Gain on sale of assets	–	(5,247)
Decrease in prepayments	6,233	99,151
Increase/(Decrease) in deferred tax assets	20,387	(1,824)
Increase in accrued taxes	(206,553)	(52,081)
Decrease in interest receivable	177,479	463,860
Net cash from revenue activities	**6,649,832**	**11,495,015**

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.

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

Directors
John Wood
John Robert Brooks
Michael Morrison Pike
BRIG Jane Maree Spalding
CDRE Clinton William Thomas AM, CSC, RAN
Warren Raymond Thomas
Graham Anthony Weber

Chief Executive Officer
Ian Doyle

Auditors
Grant Thornton Audit Pty Ltd.
Level 19, 2 Market Street Sydney NSW 2000

Images index

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HMAS Melbourne ship's company waves goodbye as the ship departs for the Middle East Area of Operations.

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International Stabilisation Force (ISF) personnel in Dili, East Timor.

Page 16
No. 1 Squadron F/A-18F Super Hornet, Exercise Bersama Shield.

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