It all comes back to our members

'Serving you since 1972'

Celebrating 40 Years

'Let us nurture your financial future.
Big enough to help...yet small enough to care.'

BRANCHES

Young (Registered Office)

89 Boorowa Street
Young NSW 2594
Phone : 02 6384 1111
Fax: 02 6382 1744

Temora

171 Hoskins Street
Temora NSW 2666
Phone: 02 6978 1014
Fax: 02 6978 1016

Cootamundra

268 Parker Street
Cootamundra NSW 2590
Phone: 02 6942 4144
Fax: 02 6942 4110

West Wyalong

147 Main Street
West Wyalong NSW 2671
Phone: 02 6972 4400
Fax: 02 6972 4422

AGENCIES

Harden

Harden Newsagency
26 Neill Street
Harden NSW 2587
Phone: 02 6386 2333

Boorowa

Andrew Mitchell Real Estate
34 Marsden Street
Boorowa NSW 2586
Phone: 02 6385 3337

TELEPHONE BANKING

Call Local Branch and Select Option 1 (one)

INTERNET

www.swscu.com.au

‘Ask us today how much you can save, let us nurture your financial future.’

Front Cover Photos: (Let to Right) Pat O’Leary, Laurie Rentoule & Trevor Greenhalgh.

Staff at Young

Staff at West Wyalong

Staff at Cootamundra

Staff at Temora

We're Local and We're Yours

I was originally employed by the credit union in 1989 as the loans officer and subsequently appointed general manager in 1995 following the sudden and unexpected death of Laurie Rentoule, a day that I will always remember as the day I lost a great boss, a mentor and a friend.

In my 23 years of employment with South West Slopes Credit Union I have seen a lot of changes. I have seen the organization grow from 1800 members to nearly 16,000, assets of $5 million to $125 million and staff of five to 37.

I have seen us transform the business from virtually a manual ledger operation to a fully computerized setup offering telephone and internet banking. And there have been numerous branch renovations and fit outs.

But through all these changes one thing that I am proud of is that we have not changed our focus which is a common commitment to the principals of mutuality, a real commitment to the "mate helping mate" culture of Australians, a commitment to the communities South West Slopes Credit Union serves.

I am proud that support we have received from these communities has produced the financial performance that sets a benchmark in the mutual sector and puts us in a position to return this support to these communities by way of our sponsorship programs.

I am proud of the fact that over the last decade the credit union has supported numerous sporting, educational and community events to in excess of $1 million through this sponsorship program.

"But through all these changes one thing that I am proud of is that we have not changed our focus which is a common commitment to the principals of mutuality"

I liken my term as general manager as being similar to that of Luck Nolan, the jockey of Australia's favorite racehorse at the moment - Black Caviar - the hard work had already been done, the horse had bolted and I just need to sit there and steer it in the right direction, giving it a kick every now and then to make sure we had our mind on the job.

The success of South West Slopes Credit Union has been because of its people. Over the 40 year history of the credit union there have been 60 directors and 101 staff that have served at the credit union.

Each and every one of these people have contributed to the success that South West Slopes Credit Union has enjoyed in its 40 year history. It is something I am immensely proud to be part of.

Steve Elsley
General Manager
Society Secretary

Contents

South West Slopes Credit Union Ltd
A.C.N 087 650 673
Australian Credit Licence No 240712

Registered Office 89 Boorowa Street, Young NSW 2594
Solicitors K.P. Carmody & Co. Solicitor & Attorneys
Bankers CUSCAL & National Australia Bank
Auditors KPMG (Wollongong)

Meet the Directors

Demographic Profile:

Name:
Brian Page

Generation:
Baby Boomer

Place of Birth:
Botany - Sydney

Home Town at Present:
Young

Marital Status:
Married

Children:
Four

Current Profession:
Retired

Business or professional experience:
Plumber, Local Government Health and Building Inspection, Town planning and Local Government Part Time.

Professional memberships you currently hold:
Member, Australian Mutuals Institute.

Demographic Profile:

Name:
Keith Carmody

Generation:
Baby Boomer

Place of Birth:
Sydney

Home Town at Present:
Young

Marital Status:
Married

Children:
Three

Current Profession:
Solicitor in private practice

Business or professional experience:
Graduated 1973 LLB Sydney University
Commenced legal practice in Young and Harden as sole practitioner in 1976

Professional memberships you currently hold:
Law Society of NSW & Australasian Mutuals Institute

Demographic Profile:

Name:
Lauren Peek

Generation:
Baby Boomer

Place of Birth:
Dubbo

Home Town at Present:
Young 45 Years

Marital Status:
Married

Children:
Two

Current Profession:
Business Operator

Work History:
1981 Started working with David Good Photography, 1984 went into partnership to start a framing business called Framurama, 1987 Bought David Good out and expanded into glass, changed the business name to Framaglass.

Demographic Profile:

Name:
Craig McTavish

Generation:
Generation X

Place of Birth:
Cootamundra

Home Town at Present:
Cootamundra

Marital Status:
Married

Children:
Three

Current Profession:
Accountant/ Business Adviser

Work History:
10 years in Public Practice. 22 years working in the industry.

Professional memberships you currently hold:
CPA Australia

Meet the Directors

Demographic Profile:

Name:
Adrian Hanrahan

Generation:
Baby Boomer

Place of Birth:
Nyngan

Home Town at Present:
Young

Marital Status:
Married

Children:
Three

Current Profession:
Retired

Work History:
40 years in Local Government which included 26 years as a General Manager

Organisations, clubs, or associations to which you belong:
President Young Golf Club

Demographic Profile:

Name:
Kevin Cloake

Generation:
Baby Boomer

Place of Birth:
Glen Innes NSW

Home Town at Present:
Young

Marital Status:
Married

Children:
Three

Current Profession:
Harden Shire Council
Administration since 2003.

Business or professional experience:
Employed for 21 years
Commonwealth Bank, since then 15 years administration & accounts experience.

Professional memberships you currently hold:
Member Australian Mutuals Institute.

Organisations, clubs, or associations to which you belong:
Honorary auditor for Combined Pensioners & Superannuants
Young branch.

Meet the Directors

Allan Stuart Resigned effective March 2012

THE PAST YEAR

South West Slopes Credit Union (SWSCU) performance throughout the year has again been the envy of industry peers. The level of loans has increased, profitability maintained and this has been achieved whilst members have benefited from competitive loan and savings interest rates together with a generous fee structure that is seldom matched elsewhere.

Sponsorship of community activities throughout the region totalled more than $87,000.

The school banking program continues to expand thanks to the efforts of staff and the cooperation of principals & teachers, there are now ten schools participating.

Renovations at the Cootamundra Branch have been completed improving conditions for both staff and members and the general appearance of the premises.

This year marked the 40th year of SWSCU operation and the occasion was marked by a function to launch the book detailing this history. There have been many who have contributed over that period; SWSCU has indeed been fortunate to have management, staff and directors prepared to put in that bit extra and the loyalty of members.

Following lengthy negotiations a new 5 year contract for the provision of transactional banking services was signed with Cuscal, an organisation owned by Australian credit unions, building societies and mutual banks. It is anticipated this will have long term benefits and whilst the changeover has been completed, regrettably there was some interruption to ATM service which was beyond the control of SWSCU.

There were also maintenance problems with ATMs throughout the year. Management spent considerable time in discussion with the service provider in an effort to overcome the problem. Again this situation is difficult for SWSCU to control but nevertheless apologises to members that were inconvenienced.

REGULATORY AND ASSOCIATED SERVICES

Internal auditors Morse Group and external auditors KPMG continue to provide not only excellent service in performing their basic role but also provide important information on trends within the industry and the economy.

DEVELOPMENTS WITHIN THE INDUSTRY

Recently some of the larger credit unions and building societies (over $50 million capital) have rebranded as mutual banks.

In December 2010 the Federal Government announced a banking reform package to create more competition in retail banking.

One of the reforms was to allow credit unions and building societies to adopt the term ”bank” in their name. This was done to overcome adverse perceptions of smaller deposit-taking entities in the wake of the global financial crisis of 2008.

Previously mutual credit unions and building societies emphasised that unlike banks they put service to members before profit. Mutual credit unions have a higher level of customer satisfaction than banks so this move to rebrand as a ‘mutual bank’ has met a mixed reaction within the sector.

Another development within the industry was the unfortunate cancellation of the next round of cooperative mutual advertisements.

The current downturn in spending and borrowing, the level of competition for deposits and the increasing demands of regulation have resulted in diminishing profitability for some credit unions. These trends force some to consider mergers or form a partnership to survive.

SWSCU is in a sound financial position and does not have to consider this option but the trend to consolidate will no doubt continue.

THE BOARD

Director Allan Stuart resigned in March after serving thirteen years as a director including more than two years as chair of the board. Allan was elected as chair in 2008 when SWSCU was experiencing some governance and regulation challenges. Allan devoted a considerable amount of time and effort in meeting regulator expectations and leading a change in culture within the organisation. Abacus then invited Allan to deliver a presentation at a National Convention detailing the process. A big thank you to Allan Stuart for a job well done.

In accordance with the requirements of the Corporations Act and the SWSCU Constitution, the Board has resolved that the number of directors will be six

THE COMING YEAR

Of some concern is the possible need for a new provider of banking IT services as the current one may not be in a position to continue long term. Management will undertake a thorough assessment of alternate service providers to ensure a timely and smooth conversion if necessary.

In conclusion I wish to thank management, staff and directors for their efforts and support throughout the year. I thank our members for their ongoing loyalty; may we all continue to enjoy the benefits of SWSCU financial services.

Brian Page
Chairman
Board of Directors

The 2012 Financial year was the 40th year of operation of South West Slopes Credit Union, with this milestone being celebrated at a function held on the 29th June. It was pleasing to have a number of the original Board and members attend this event and reflect on the achievements that have been obtained in the four decades of operation.

It was obvious that those present were both proud and astounded of the growth of the organisation from its humble beginnings in a South West Slopes County Council office in 1972 when 78 members joined to today were there are 4 branches, 2 agencies, 16,000 members, 37 staff and in excess of $125 million under management.

This annual report features a number of milestones that are the fruits of these founders vision. A book detailing this history is also available at any of our branches.

The 2012 financial year was both challenging and rewarding in an environment of reducing interest rates, fierce competition for our traditional market, reducing margins and trying economic conditions. Despite these conditions your credit union continued to perform admirably with increases in all financial performance ratios.

Whilst this growth is substantially less than achieved the previous year, it is considered a good result under the current economic climate.

It is also pleasing to note that although loan balances outstanding have increased significantly over the last few years, delinquency levels continue to decline which is a reflection of the changing lending portfolio with the majority of loans now being in the secured housing loan area.

A new set of challenges are emerging to traditional transactional service providers through technology.

Companies like Google, Apple, Facebook, Paypal and mobile phone providers have indicated that their technology will soon allow them to play in the arena, previously solely occupied by financial service providers.

These companies already have strong relationships with the younger generations and will use these relationships to broaden their customer base and income streams as soon as their technology permits

In a small way your credit union has commenced combating these new players by our school banking program. Staff currently visit 10 primary schools in the region every Tuesday to foster banking relationships with the kids. Our challenge now will be to maintain these relationships by providing the technology they expect while maintaining acceptable levels of fraud prevention.

As in the past 40 years, I have no doubt that your credit union is well positioned to meet and overcome these challenges.

Once again I remain appreciative of the support and guidance I have received from both the Board and staff over the last 12 months. The performance and achievements highlighted throughout this report are the direct result of a committed and dedicated team.

I also thank our loyal members for the support and confidence they have entrusted in their local mutually owned financial institution.

Steve Elsley
General Manager
Society Secretary

Financial Performance Ratios:

Net Profit After Tax	Increase	4.7%	or	$56,000	to	$1.25M
Total Loan Balances Oustanding	Increase	4.8%	or	$4.3M	to	$ 93.1M
Total Assets	Increase	11.7%	or	$13.0M	to	$124.6M
Total Member Deposits	Increase	12.7%	or	$12.1M	to	$107.3M

The directors present their report together with the financial report of South West Slopes Credit Union Ltd ("the Credit Union") for the financial year ended 30 June 2012 and the auditor's report thereon.

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

INFORMATION ON DIRECTORS

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

Name	*Position*	*Qualifications*	*Experience*	*Responsibilities*
Brian Page	Director & Chair of the Board	Member AMI Director Environmental Services Young Shire Council (Retired)	15 years 1978-1981 and 2000-current	Full Board & member of the G&PR Committee
Keith Carmody	Director & Deputy Chair	Solicitor and Attorney LLB Bachelor of Laws Principal K.P. Carmody Solicitors Young Member AMI	24 years as a member of the Board	Full Board & Chair of G&PR Committee
Lauren Peek	Director	Proprietor 'Framaglass' longstanding business in Young Member AMI	20 years, a member of the Board since 1992	Full Board & member of G&PR Committee
Allan Stuart **Resigned** effective March 2012	Director	Graduate AICD Diploma Financial Services Member AMI Engineering & Management Consultant (self employed)	13 years as a member of the Board, 2 years as chair (2008-2010)	Full Board & member of the Audit and Risk Committee and G&PR Committee
Craig McTavish	Director	CPA Accountant Diploma Financial Services Partner Hunt & McTavish Accountants at Cootamundra Member AMI	5 years	Full Board & member of the Audit and Risk Committee
Adrian Hanrahan	Director	Retired General Manager Young Shire Council Member AMI	4 years	Full Board & Chair of the Audit and Risk Committee
Kevin Cloake	Director	Harden Shire Council – Cost Clerk since 2003 21 years banking background with Commonwealth Bank 1976-1997 Member AMI	2 year	Full Board & member of the Audit & Risk Committee

Unless indicated otherwise, all directors held their position as a director throughout the entire financial period and up until the date of this report.

The name of the Company Secretary in office at the end of the year is:

Name	*Qualifications*	*Experience*
Stephen W. Elsley	Diploma Financial Services, ASIC Tier 2 Fellow AMI	35 Years Banking experience with Rural / State Bank and South West Slopes Credit Union, 16 years as General Manager of South West Slopes Credit Union

The number of directors' meetings and number of meetings attended by each of the directors of the Credit Union during the financial year are:

Director	*Board Meetings*		*Audit and Risk Committee Meetings*		*Governance & Policy Review Committee*		*Period of appointment*
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	
Allan Stuart (resigned Mar 2012)	9	7			9	7	3 years (2011-2014)
Brian Page	12	11	-	-	11	9	3 years (2010-2013)
Keith Carmody	12	12	-	-	11	11	3 years (2009-2012)
Lauren Peek	12	10	-	-	11	9	3 years (2009-2012)
Craig McTavish	12	12	4	4	-	-	3 years (2011-2014)
Adrian Hanrahan	12	12	4	4	-	-	3 years (2010-2013)
Kevin Cloake	12	11	4	3	-	-	3 years (2010-2013)

DIRECTORS' BENEFITS

No director has received or become entitled to receive during, or since the financial year, a benefit because of a contract made by the Credit Union, controlled by the Credit Union, or a related body corporate with a director, a firm of which a director is a member or a Credit Union in which a director has a substantial financial interest.

Mr Keith Carmody acts on behalf of the Credit Union in legal matters at normal commercial rates. During the course of the year amounts paid to Mr Keith Carmody totalled $6,712 (2011 $9,305).

INDEMNIFYING OFFICER OR AUDITOR

Insurance premiums have been paid to insure each of the directors and officers of the Credit Union against any costs and expenses incurred by them in defending any legal proceeding arising out of their conduct while acting in their capacity as an officer of the Credit Union. In accordance with normal commercial practice disclosure of the premium amount and the nature of the insured liabilities is prohibited by a confidentiality clause in the contract.

No insurance cover has been provided for the benefit of the auditors of the Credit Union.

PRINCIPAL ACTIVITIES

The principal activities of the Credit Union during the year were the provision of retail financial services to members in the form of taking deposits and as prescribed by the Constitution.

No significant changes in the nature of these activities occurred during the year

OPERATING RESULTS

The net profit of the Credit Union for the year after providing for income tax was $1,246,000 (2011 $1,190,000).

DIVIDENDS

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

REVIEW OF OPERATIONS

The results of the Credit Union's operations from its activities of providing financial services to its members did not change significantly from those of the previous year.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

ENVIRONMENTAL REGULATIONS

The Credit Union's operations are not subject to any significant regulations under either Commonwealth or State legislation. However, the Board believes that the Credit Union has adequate systems in place for the management of its environmental responsibilities and is not aware of any breach of environmental requirements as they apply to the Credit Union.

EVENTS SUBSEQUENT TO REPORTING DATE

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Credit Union, that has significantly affected or may significantly affect:

(i) The operations of the Credit Union;

(ii) The results of those operations; or

(iii) The state of affairs of the Credit Union

in the financial years subsequent to this financial year.

LIKELY DEVELOPMENTS

The Credit Union will continue to pursue its policy of increasing the profitability and market share of its major business sectors during the next financial year.

Further information about likely developments in the operations of the Credit Union and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Credit Union.

LEAD AUDITOR'S INDEPENDENCE DECLARATION

The Lead auditor's independence declaration is set out on page 6 and forms part of the directors' report for the financial year ended 30 June 2012.

ROUNDING OFF

The Credit Union is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

This report is made with a resolution of the directors:

Brian Page
Director

Dated at Young this 27th day of September 2012

In the opinion of the Directors of South West Slopes Credit Union Ltd ("the Credit Union"):

(a) the financial statements and notes that are set out on pages 7 to 44, are in accordance with the Corporations Act 2001, including:

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

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

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1; and

(c) there are reasonable grounds to believe that the Credit Union will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors of South West Slopes Credit Union Ltd:

Brian Page (Chair of the Board)
Director
Young
27 September 2012

KPMG

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of South West Slopes Credit Union Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2012 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

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

KPMG

KPMG

Richard Drinnan
Partner

Wollongong

Dated this 27th day of September 2012

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

Statement Of Comprehensive Income

FOR THE YEAR ENDED 30 June 2012

	Note	2012 $'000	2011 $'000
Interest income	2	8,486	7,656
Interest expense	2	(3,361)	(2,545)
Net interest income		5,125	5,111
Fee commission and other income	2	936	770
Operating income		6,061	5,881
Impairment losses on loans receivable from members	2	(76)	(50)
Fee and commission expenses		(786)	(744)
Employees' compensation and benefits		(2,043)	(1,977)
Depreciation and amortisation	10,11	(198)	(258)
Information technology		(224)	(233)
Office occupancy		(130)	(166)
Other administration		(842)	(764)
Total operating expenses		(4,299)	(4,192)
Profit before income tax		1,762	1,689
Income tax expense	3	(516)	(499)
Profit for the year		1,246	1,190
Other comprehensive income for the year, net of income tax		-	-
Total comprehensive income for the year		1,246	1,190

The Statement of Comprehensive Income is to be read in conjunction with the notes to the financial statements set out on pages 15 to 46.

Statement Of Changes In Equity

FOR THE YEAR ENDED 30 June 2012

	General reserve for credit losses $'000	Retained earnings $'000	Total $'000
Balance at 1 July 2010			
Total comprehensive income for the year	**236**	**13,090**	**13,326**
Profit for the year	-	1,190	1,190
Other comprehensive for the year	-	-	-
Total comprehensive income for the year	-	1,190	1,190
Transfer to (from) reserve for credit losses in year	34	(34)	-
Balance at 30 June 2011	**270**	**14,246**	**14,516**
Balance at 30 June 2011	**270**	**14,246**	**14,516**
Total comprehensive income for the year			
Profit for the year	-	1,246	1,246
Other comprehensive for the year	-	-	-
Total comprehensive income for the year	-	1,246	1,246
Transfer to (from) reserve for credit losses in year	16	(16)	-
Balance at 30 June 2012	**286**	**15,476**	**15,762**

The Statement of Changes in Equity is to be read in conjunction with the notes to the financial statements set out on pages 15 to 46.

AS AT 30 June 2012

	Note	2012 $'000	2011 $'000
ASSETS			
Cash and cash equivalents	4	10,294	8,521
Receivables from financial institutions	5	19,565	12,553
Other receivables	6	221	228
Prepayments		42	37
Loans to members	7	93,090	88,839
Available-for-sale investments	9	220	220
Property, plant and equipment	10	915	825
Deferred tax assets	12	226	216
Intangible assets	11	55	112
TOTAL ASSETS		124,628	111,551
LIABILITIES			
Deposits from members	13	107,268	95,190
Creditor accruals and settlement accounts	14	1,063	1,330
Current tax payable	12	152	173
Provisions	15	383	342
TOTAL LIABILITIES		108,866	97,035
NET ASSETS		15,762	14,516
MEMBERS' EQUITY			
General reserve for credit losses		286	270
Retained earnings		15,476	14,246
TOTAL MEMBERS' EQUITY		15,762	14,516

The Statement of Financial Position is to be read in conjunction with the notes to the financial statements set out on pages 15 to 46.

FOR THE YEAR ENDED 30 June 2012

	Note	2012 $'000	2011 $'000
OPERATING ACTIVITIES			
Interest received from members		7,216	6,837
Investment Interest		1,277	934
Dividends received		47	38
Other income received		868	728
Interest paid		(3,200)	(2,545)
Suppliers and employees paid		(4,412)	(4,217)
Income taxes paid		(547)	(477)
Net cash from revenue generating activities		1,249	1,298
Cash from other operating activities			
Net movement in receivables from other financial institutions		(7,012)	4,014
Net movement in member loans		(4,327)	(14,655)
Net movement in member deposits and shares		12,078	13,578
Net cash from operating activities	**24**	**1988**	**4,235**
INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		78	-
Purchase of property plant and equipment and intangibles		(293)	(178)
Net cash used in investing activities		(215)	(178)
FINANCING ACTIVITIES			
Net cash from financing activities		-	-
Net increase in cash and cash equivalents		1,773	4,057
Cash and cash equivalents at beginning of year		8,521	4,464
Cash and cash equivalents at end of year	4	10,294	8,521

The Statement of Cash flows is to be read in conjunction with the notes to the financial statements set out on pages 15 to 46.

1. SUMMARY OF ACCOUNTING POLICIES

a. Reporting entity

South West Slopes Credit Union Limited ("the Credit Union") is a company limited by shares domiciled in Australia.

The address of the registered office is 89 Boorowa Street, Young NSW 2594.
The credit union is a for-profit entity primarily involved in the provision to members of banking and financial services, including lending, deposits and insurance products.

b. Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards (AASBs), adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001.

The financial report of the Credit Union complies with International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board (IASB).

The report was authorised for issue on 27th September 2012 in accordance with a resolution of the board of directors.

c. Basis of measurement

The financial report has been prepared on an accruals basis, and is based on historical costs, which do not take into account changing money values or current values of non-current assets.

d. Functional and presentation currency

The financial report is presented in Australian dollars, which is the Credit Union's functional currency. The Credit Union is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, all financial information presented in Australian dollars have been rounded off to the nearest thousand dollars, unless otherwise stated.

e. Accounting estimates and judgements

The preparation of financial statements in conformity with AASBs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 1(n)(ii) – Loan impairment

The accounting policies set out below have been applied consistently to all periods presented in the financial report.

1. SUMMARY OF ACCOUNTING POLICIES (Continued)

f. Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise cash and cash equivalents, loans to members, loans and receivables to other financial institutions, available for sale financial assets, other assets, member deposits and payables.

The Credit Union initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised on the trade date at which the Credit Union becomes a party to the contractual provisions of the instrument.

The Credit Union derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Credit Union is recognised as a separate asset or liability.

Financial liabilities are derecognised when the Credit Union's obligations specified in the contract expire or are discharged or cancelled.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Credit Union has a legal right to offset the amounts and intends to settle on a net basis or to realise the asset and settle the liability simultaneously.

Non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment loss. Refer to the following notes for further information;

- Cash and cash equivalents – note 1(g)
- Loans to members – note 1(h)
- Loans and receivables to other financial institutions – note 1(i)
- Available for sale financial assets – note 1(j)
- Other assets – note 1(m)
- Member deposits – note 1(o)
- Payables – note 1(p)

g. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash balances in the Credit Union's bank accounts and at call deposits. Cash and cash equivalents are measured at amortised cost using the effective interest method.

h. Loans to members

(i) Basis of recognition

Loans and receivables to members are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

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, less any impairment losses.

Loans to members are reported at their recoverable amount representing the aggregate amount of principal and unpaid interest owing to the Credit Union at reporting date, less any allowance or provision against 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.

1. SUMMARY OF ACCOUNTING POLICIES (Continued)

h. Loans to members (continued)

(ii) Securitised loans

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

During the current and prior year the Credit Union did not securitise any additional loans.

i. Loans and receivables to other financial institutions

Loans and receivables to other financial institutions are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Term deposits 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.

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.

j. Available for sale financial assets

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 without an active market are initially measured at fair value plus and directly attributable transaction costs. Subsequent to initial recognition instruments whose fair value cannot be reliably determined are measured at cost less any impairment loss.

When available-for-sale financial assets are derecognised, the cumulative gain or loss in the asset revaluation reserve is transferred to the profit or loss.

An available-for-sale financial asset is assessed at each reporting date to determine whether there is objective evidence that it is impaired.

Impairment losses on available-for-sale investment are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost and the current fair value, less any impairment loss previously recognised in profit or loss.

1. **SUMMARY OF ACCOUNTING POLICIES (Continued)**

j. Available for sale financial assets (continued)

If, in a subsequent period, the fair value of an impaired available-for-sale investments increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in other comprehensive income.

The shareholding in Cuscal is measured at cost as its shares are not traded in an active market. This company was created to supply services to the member credit unions. These shares are held to enable the Credit Union to receive essential banking services. The shares are not able to be traded and are not redeemable.

The financial reports of Cuscal record net tangible asset backing of these shares exceeding their cost. 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 an active market and restrictions on the ability to transfer the shares, a market value is not able to be determined readily

k. Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment (PPE) are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of PPE have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of PPE are determined by comparing the proceeds from disposal with the carrying amount of PPE and are recognised within profit or loss.

(ii) Subsequent expenditure

The Credit Union recognises in the carrying amount of an item of PPE the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Credit Union and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful life of each part of an item of property, plant and equipment. Land is not depreciated.

The useful lives are adjusted if appropriate at each reporting date. Estimated useful lives for the current and comparative periods are as follows:

- Buildings - 40 years.
- Plant and equipment - 3 to 7 years.

1. SUMMARY OF ACCOUNTING POLICIES (Continued)

l. Intangible assets

(i) Recognition and measurement

Intangible assets consist of capitalised expenditure on VISA credit card and VISA debit card establishment costs such as VISA licence fees, VISA establishment fees with CUSCAL, card facility and FDI testing, as well as the cost of a VISA BIN.
Intangible assets that have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the intangible asset to which is relates. All other expenditure is recognised in profit or loss as incurred.

(iii) Amortisation

Amortisation is calculated over the cost of the asset less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use. The estimated useful lives for the current and comparative periods is 5 years.

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

m. Other assets

Other assets include interest receivable, prepayments and other receivables. Such assets are stated at their amortised cost.

n. Impairment

(i) Financial assets

Financial assets are assessed at each reporting date to determine whether there is any objective evidence that a financial asset is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more loss events have occurred after the initial recognition of the asset, and that loss event had a negative effect on the estimated cash flows of that asset that can be measured reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset previously recognised in equity is transferred to profit or loss.

1. SUMMARY OF ACCOUNTING POLICIES (Continued)

n. Impairment (continued)

(i) Financial assets

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available for sale financial assets that are equity securities, the reversal is recognised directly in equity.

(ii) Loan Impairment

A provision for losses on impaired loans is recognised when there is objective evidence that the impairment of a loan has occurred. 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. In these instances a specific provision for impairment may be recognised in relation to anticipated losses.

Estimated impairment losses are calculated on a portfolio basis for loans of similar characteristics. 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. For loans with arrears levels of greater than 90 days, a collective provision is recognised based on the level of arrears. Note 16 details the credit risk management approach for 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.

Bad debts are written off from time to time as determined by management and the board of directors when it is reasonable to expect that the recovery of the debt is unlikely. Bad debts are written off against the provision for 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 profit or loss.

A general reserve for credit losses is also held as an additional allowance for impairment of loans and receivables as required by prudential standards. The reserve is based on the estimation of potential risk in the loan portfolio based upon the level of security taken as collateral.

(iii) Non-financial assets

The carrying amount of the Credit Union's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its fair value less costs to sell and its value in use. In 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.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit and loss, unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the profit or loss.

1. SUMMARY OF ACCOUNTING POLICIES (Continued)

n. Impairment (continued)

(iii) Non-financial assets (continued)

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

o. Member Deposits

(i) Basis for measurement

Member savings and term investments are recognised on the date at which they originated and are measured initially at fair value plus incremental direct transactions costs. Member deposits are stated at the aggregate amount of monies owing to depositors. Member deposits are subsequently measured at their amortised costs using the effective interest method.

(ii) Interest payable

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

p. Payables

Payables include trade and other payables. Such liabilities are stated at their amortised cost and are recognised in relation to goods and services received by the Credit Union.
Trade Payables are non-interest bearing and are normally settled on 30 day terms.

q. Employee Benefits

(i) Defined contribution plans

Defined contributions are made by the Credit Union to an employee's superannuation fund and are recognised in the profit or loss as incurred personnel expense. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(ii) Long-term employee benefits

The Credit Union's net obligation in respect of long-term service benefits is the amount of future benefits that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to government bonds at the balance sheet date that have maturity dates approximating the terms of the Credit Union's obligations.

(iii) Short-term employee benefits

Liabilities for employee benefits for wages, salaries and annual leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided up to the reporting date, calculated at undiscounted amounts based on wage and salary rates that the Credit Union expects to pay as at reporting date including related on-costs, such as workers' compensation insurance, superannuation contributions and payroll tax.

1. SUMMARY OF ACCOUNTING POLICIES (Continued)

r. Revenue from financial assets

Revenue is recognised to the extent it is probable that the economic benefits will flow to the Credit Union and the revenue can be reliably measured.

Interest income is recognised in the profit or loss using the effective interest method. Credit Card products receive up to fifty five days interest free until the due date of payment. Interest on non-accrual loans is not recognised.

(i) Fees and commissions

Fee and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fee and commission income is recognised as the related services are performed. Other fee and commission expense relates mainly to transaction and service fees which are expensed as the services are received.

(ii) Dividend income

Dividend income is recognised in the profit and loss on the date the Credit Union's right to receive income is established. Usually this is the ex-dividend date for equity securities.

s. Leasehold on Premises

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

t. Goods and Services Tax

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

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance ` sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

u. Income Tax

Income tax expense comprises current and deferred tax. Current and deferred tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. As at 30 June 2012 temporary differences were assessed at 30% (2011: 30%).

1. SUMMARY OF ACCOUNTING POLICIES (Continued)

u. Income Tax (continued)

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

v. Member deposits

The Credit Union issues redeemable preference shares to each Member upon joining in accordance with the constitution. The shares are redeemable at their face value on leaving the Credit Union.

w. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2012, and have not been applied in preparing this financial report. Those standards with the most significant potential impact on the financial statements are outlined below:

- AASB 9 Financial Instruments, which becomes mandatory for the Credit Unions's 2014 financial report, and could change the classification and measurement of financial assets. The Credit Union does not plan to adopt this standard early and the extent of the impact has not been determined.

- AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9, which becomes mandatory for the Credit Union's 2016 financial report, and retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets; amortised and fair value. The Credit Union does not plan to adopt this standard early and the extent of the impact has not been determined.

- AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income, which becomes mandatory for the Credit Union's 2013 financial report, makes a number of changes to the presentation of other comprehensive income. The Credit Union does not plan to adopt this standard early and the amendments are not expected to have any significant impact on the financial report.

2. NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

	2012 $'000	2011 $'000
Interest income		
Cash – deposits at call	352	135
Receivables from financial institutions	918	836
Loans to members	7,216	6,685
TOTAL INTEREST INCOME	8,486	7,656
Fee, commission and other income		
Fee income from member deposits	676	534
Insurance commissions	102	82
Other commissions	78	84
Dividends received on available–for-sale assets	47	38
Bad debts recovered	9	8
Gain on disposal of property, plant and equipment	16	-
Other income	8	24
TOTAL FEE, COMMISSION AND OTHER INCOME	936	770
Interest expense		
Deposits from members	3,361	2,545
TOTAL INTEREST EXPENSE	3,361	2,545
Impairment losses		
Loans and advances		
Provision made during the year	76	50
Bad debts written off directly against profit	-	-
TOTAL IMPAIRMENT LOSSES	76	50
Other prescribed disclosures		
Employees compensation and benefits include:	150	148
- Superannuation contributions		
Office occupancy costs include:		
Property operating lease payments		
- minimum lease payments	23	22

3. INCOME TAX EXPENSE

	2012 $'000	2011 $'000
The income tax expense comprises amounts set aside as:-		
Provision for income tax – current year	527	490
Under provision prior years	-	2
(Increase)/ Decrease in deferred tax asset account	(11)	7
Income tax expense attributable to operating profit	516	499
The prima facie tax payable on profit is reconciled to the income tax expense in the accounts as follows:		
Profit before income tax	1,762	1,689
Prima facie tax payable on profit before income tax at 30% (2011:30%)	529	506
Add tax effect of expenses not deductible		
- Other non-deductible expenses / or taxable income	2	2
- Gross up dividends	5	5
- Adjustment prior years	-	2
	536	515
Less		
- Investment allowance	-	-
- Franking rebate	(20)	(16)
Income tax expense attributable to current year profit	516	499

4. CASH AND CASH EQUIVALENTS

	2012 $'000	2011 $'000
Cash on hand	2,794	2,771
Deposits at call	7,500	5,750
	10,294	8,521

5. RECEIVABLES FROM OTHER FINANCIAL INSTITUTIONS

	2012 $'000	2011 $'000
Deposits with industry bodies - Cuscal	4,500	2,093
Deposits with Non Bank ADI's	985	2,987
Deposits with banks	14,080	7,473
	19,565	12,553

6. OTHER RECEIVABLES

	2012 $'000	2011 $'000
Sundry debtors and settlement accounts	221	228
	221	228

7. LOANS TO MEMBERS

	2012 $'000	2011 $'000
Amount due comprises:		
Overdrafts and revolving credit	1,078	1,083
Term loans	92,189	87,955
	93,267	89,038
Provision on impaired loans (Note 8)	(177)	(199)
	93,090	88,839
Credit quality		
Secured by mortgage over real estate	73,888	69,705
Partly secured by goods mortgage	4,967	4,158
Wholly unsecured	14,412	15,175
	93,267	89,038

It is not practicable to value all collateral as at the reporting date due to the variety of assets and conditions. A breakdown of the quality of the residential mortgage security on a portfolio basis is as follows:

Credit quality profile of loans whole secured by mortgage against real estate	2012 $'000	2011 $'000
- loan to valuation ratio of less than 80%	68,383	62,405
- loan to valuation ratio of more than 80% but mortgage insured	4,584	3,885
- loan to valuation ratio of more than 80% and not mortgage insured	921	3,415
Total	73,888	69,705

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

Concentration of loans

There are no loans to individual or related groups of members which exceed 10% of the Credit Union's regulatory capital.

The Credit Union's loans, and where applicable, the related collateral held against such loans, are predominantly concentrated in the South West Slopes region of New South Wales.

The amount of securitised loans under management as at 30 June 2012 is $404,252 (2011: $653,081).

8. PROVISION ON IMPAIRED LOANS

	2012 $'000	2011 $'000
Total provision comprises		
Collective provision	53	78
Specific provision	124	121
Total Provision	177	199
Movement in the provision for impairment		
Balance at the beginning of year	199	265
Add (deduct):		
Provision made during the year	76	50
Provision used during the year	(98)	(116)
Balance at end of year	177	199

Details of credit risk management are set out in Note 16.

Analysis of loans that are specifically impaired, past due but not impaired and neither past due nor impaired

	2012 $'000	2011 $'000
Carrying amount	93,090	88,839
Individually impaired		
Gross amount	124	121
Provision for impairment	(124)	(121)
Carrying amount	-	-
Past due but not impaired		
Day in arrears:		
Less than one month	2,294	1,198
Greater than one month and less than two months	33	62
Greater than two months and less than three months	87	69
Greater than three months	457	167
Carrying amount	2,871	1,496
Neither past due nor impaired		
Secured by mortgage	66,164	62,125
Personal and commercial	23,067	24,226
Overdrafts/revolving	1,041	1,070
Carrying amount	90,272	87,421
Collective impairment provision	(53)	(78)
Total carrying amount	**93,090**	**88,839**

There are loans 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. There have been no other provisions recognised on financial assets during the current period (2011: nil).

9. AVAILABLE FOR SALE INVESTMENTS

	2012 $'000	2011 $'000
Shares in unlisted company – at cost		
Cuscal Limited	220	220
Total value of investments	**220**	**220**

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

10. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings $'000	Plant and equipment $'000	Total $'000
Cost or deemed cost			
Balance at 1 July 2010	670	1,912	2,582
Additions	22	50	72
Disposals	-	(236)	(236)
Balance at 30 June 2011	692	1,726	2,418
Additions	133	160	293
Disposals	-	(117)	(117)
Balance at 30 June 2012	825	1,769	2,594
Accumulated depreciation and impairment losses			
Balance at 1 July 2010	(142)	(1,502)	(1,644)
Depreciation for the year	(11)	(174)	(185)
Disposals	-	236	236
Balance at 30 June 2011	(153)	(1,440)	(1,593)
Depreciation for the year	(17)	(124)	(141)
Disposals	-	55	55
Balance at 30 June 2012	(170)	(1,509)	(1,679)

	2012 $'000	2011 $'000
Total property plant and equipment - at cost	2,594	2,418
Total accumulated depreciation	(1,679)	(1,593)
Total property, plant and equipment - carrying amount	915	825

11 INTANGIBLE ASSETS

	2012 $'000	2011 $'000
VISA Credit / Debit Licence / Setup Fees – at cost	252	252
Accumulated amortisation	(197)	(140)
	55	112

Movement in intangible asset balances during the year were:

	2012 $'000	2011 $'000
Opening balance	112	79
Additions	-	106
Amortisation for the year	(57)	(73)
Balance at the end of the year	55	112

12 DEFERRED TAX ASSETS

	2012 $'000	2011 $'000
Deferred tax assets comprise:		
Accrued expenses	51	46
Provision on impaired loans	53	60
Provisions for employee benefits	108	98
Depreciation on fixed assets	2	2
Visa setup costs	12	10
	226	216

The Credit Union's current tax liability of $152,000 (2011: 173,000) represents the amount of income tax payable in respect of the current and prior year periods due to the Australian Taxation Authority.

13 DEPOSITS FROM MEMBERS

	2012 $'000	2011 $'000
Member Deposits		
- at call	46,604	42,877
- term	60,525	52,173
Member withdrawable shares	139	140
	107,268	95,190

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

Concentration of member deposits

There is no significant individual member deposits which in aggregate represent more than 10% of the total liabilities.

Geographical concentration

The Credit Union's member deposits predominantly concentrated in the South West Slopes region of New South Wales.

14 CREDITOR ACCRUALS AND SETTLEMENT ACCOUNTS

	2012 $'000	2011 $'000
Creditors and accruals	227	228
Interest payable on deposits	621	460
Sundry creditors	215	642
	1,063	1,330

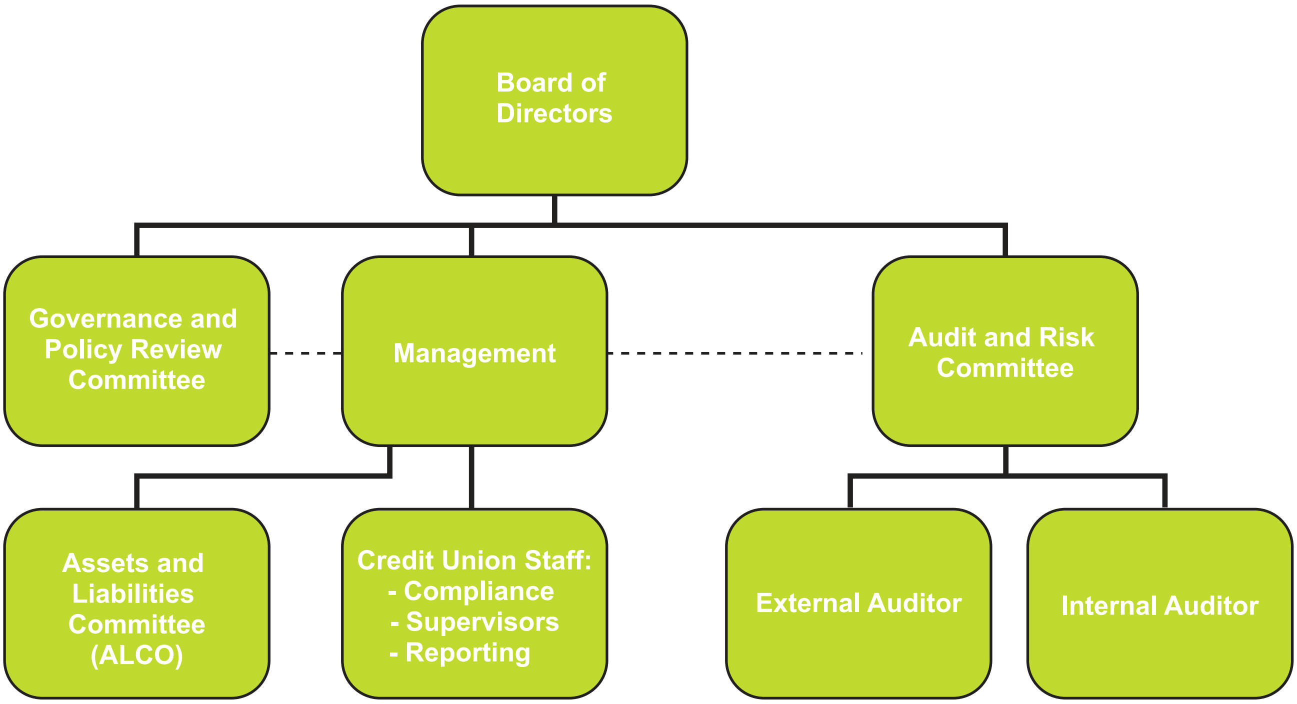
15 PROVISIONS - Current

Annual Leave	140	137
Long service leave	193	183
Provisions – other	22	16
	355	336
Non-current		
Long service leave	28	6
	383	342

16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The board has endorsed compliance and risk management policies to suit the risk profile of the Credit Union. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, procedures and services offered. The Credit Union, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and objectives.

The Credit Union's risk management focuses on the major areas of market risk, liquidity risk, credit risk and operational risk. Authority flows from the board of directors to the audit and risk committee who are integral to the management of risk. The following diagram gives an overview of the structure in place since 2009.



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

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

Audit and Risk Committee: This is a key body in the control of risk and has representatives from the Board of Directors and Executive. This committee reviews risks and the controls that are used to mitigate them. This includes the identification, assessment and reporting of risks. Regular monitoring is carried out by the Audit and Risk Committee through quarterly review of operational reports.

Risk controls are reviewed quarterly to confirm whether risks are within the parameters endorsed by the Board. The Audit and Risk Committee seeks to ensure that the significant risks and controls are assessed cognisant with the endorsed internal audit plan. The Audit and Risk Committee receives internal audit reports on assessment and compliance with risk controls. They report to the Board quarterly measuring actual risks against prescribed limits.

The Audit and Risk Committee carries out 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 allow business continuity in the event of serious disruptions to business operations due to unforseen circumstances.

16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Asset and Liability Committee (ALCO) – Credit Risk: This committee of senior management meets monthly and has responsibility for managing and reporting credit risk exposure. It scrutinises operational reports and monitors exposures against limits determined by the board. The ALCO also determines the credit risk of loans in the banking book, ensures provisioning is accurate and determine controls that need to be put in place regarding the authorisation of new loans.

The ALCO Committee has responsibility for implementing policies to ensure that all large credit exposures are properly pre-approved, measured and controlled. Details concerning a prospective borrower are subject to a criteria-based decision-making process. Criteria used for this assessment include: credit references, loan-to-value ratio on security and borrower’s capacity to repay which vary according to the value of the loan or facility.

All large credit exposure facilities above policy limits are approved by the board. All exposures are checked monthly against approved limits, independently of each business unit, and are reported to the ALCO Committee.

All loans are managed weekly through the monitoring of the scheduled repayments. Accounts where the arrears are over 90 days or over limit facilities over 14 days, have collective provisions charged against them. Other provisions are taken up on accounts considered doubtful and the status of these loans is reported to the Credit Risk Committee monthly and the Audit and Risk Committee quarterly.

Arrears are strictly controlled. The size of the loan book is such that it is possible to monitor each individual exposure to evaluate whether specific provisions are necessary and adequate. A dedicated credit control team, which reports to the ALCO, implements the Credit Union’s credit risk policy.

Asset and Liability Committee (ALCO) - Market Risk: This committee meets weekly and has responsibility for managing interest rate risk exposures, and ensuring that the treasury and finance functions adhere to exposure limits as outlined in the policies for interest rate gap. The weekly scrutiny of market risk reports is intended to prevent any exposure breaches prior to the quarterly review by the Audit & Risk Committee.

Compliance and Risk Officer: This person has responsibility for both liaising with the operational function to ensure timely production of information for the risk committees and ensuring that instructions passed down from the board via the risk committees are implemented.

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

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

- Interest rate risk
- Liquidity Management
- Credit risk management
- Operations risk management including data risk management.

This note presents information about the Credit Union’s exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

A. MARKET RISK

Market risk is the risk that changes in interest 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 or 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 objective of the Credit Union’s market risk management is to manage and control market risk exposures in order to optimise risk and return.

Management is responsible for the development of detailed risk management policies which are submitted to the Board for review and approval, and for the day-to-day review of their implementation. In addition the ALCO, being a management committee, meets on a weekly basis to review and implement day-to-day market risk strategies.

INTEREST RATE RISK

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

Member loans

The Credit Union is exposed to some interest rate risk in its banking book due to mismatches between the repricing dates of assets and liabilities. However, as the Credit Union only offers variable rate loans and uses member deposits as a natural hedge, the Credit Union does not have significant interest rate risk as at 30 June 2012 and 30 June 2011 arising from member loans.

The interest rate risk on the banking book is measured formally and externally every 6 months. Monthly reports on interest rate margin are reviewed and reported to the ALCO and the Board.

Fixed rate financial instruments

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.

The level of mismatch on the banking book is set out in Note 18 below. The table set out at Note 18 displays the period that each interest rate sensitive asset and liability will reprice as at the reporting date. This risk is not considered significant enough to warrant the use of derivatives to mitigate this risk.

Method of managing risk

The Credit Union manages its interest rate risk by the use of value at risk models VaR. The detail and assumptions used are set out below.

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 as a result of the risk positions taken by the Credit Union and movements in market rates over a specified time period to a given level of confidence.

VaR, as set out in the table below, has been calculated using historical simulations, taking into account movements in market rates, a 99.5 per cent confidence level and a holding period of 10 days.

This function is outsourced to Cuscal who prepare a detailed risk exposure summary every six months. The VaR on the non-trading book was as follows:

A. MARKET RISK (CONTINUED)

	2012	2011
Value at Risk / 10 day value at risk	$30,588	$19,515
Percentage of capital	0.20%	0.13 %

Given the Credit Union's profile of assets and liabilities at 30 June 2012, and therefore its book sensitivity as at that date, for each 1% parallel downward shift in the yield curve the Credit Union can expect a reduction in profit of $107,781 (2011: $117,341). The Credit Union is therefore exposed to falling interest rates.

As book sensitivity is a measure only to a definite point in time the abovementioned expected loss does not reflect the position of the Credit Union subsequent to balance date. In addition, although VaR provides a useful tool for measuring and monitoring market risk, the assumptions on which the model are based give rise to some limitations, including the following:

- a 10 day holding period assumes that it is possible to dispose of financial instruments within that period. This is considered a realistic assumption in almost all cases but may not be the case in situations where there is severe market illiquidity;
- a 99 per cent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is 1% probability that losses will exceed VaR;
- the use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those on an exceptional nature; and
- VaR is dependent on the Credit Union's position of assets and liabilities and the volatility of market prices. The VaR of an unchanged book position will rise if market volatility increases and vice versa.

The Credit Union is therefore confident within a 99.5 per cent confidence level that, given the risks as at 30 June 2012, it will not incur a one day loss on its non-trading book of more than the amount calculated above, based on the 2012 VaR model used.

Although the use of VaR models calculates the interest rate sensitivity on the banking book, this is not reflected in the Pillar 1 capital requirement.

The Credit Union's exposure to banking book interest rate risk is not expected to change materially in the next year so existing capital requirements are considered to be an accurate measurement of capital needed to mitigate interest rate risk.

B. LIQUIDITY RISK

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

The Credit Union manages liquidity risk by:

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

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

The Credit Union is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 24 hours under the APRA Prudential standards. The Credit Union policy is to apply 12% of funds as liquid assets to maintain adequate funds for meeting member withdrawal requests. The ratio is checked daily. Should the liquidity ratio fall below this level the management and board are to address the matter and ensure that the liquid funds are obtained from new deposits, or available borrowing facilities.

The maturity profile of the financial liabilities, based on the contractual repayment terms are set out in Note 18.

The ratio of liquid funds over the past year is set out below:

APRA minimum 9 %		2012	2011
As at 30 June	Total	26.28 %	20.80 %
Average for the year	Total	25.21 %	21.15 %
Lowest during the year		14.79 %	16.90 %

C. CREDIT RISK

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

(i) CREDIT RISK – LOANS

The Credit Union's maximum exposure to credit risk arising from loans to members at the reporting date is as follows:

	2012 $'000	2011 $'000
Loans to members		
Mortgage	68,895	63,661
Personal	22,245	23,180
Credit cards	636	574
Overdrafts	442	509
Commercial	1,049	1,114
Total loans	93,267	89,038
Provision for impairment	(177)	(199)
	93,090	88,839

All loans and facilities are within Australia.

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

The Credit Union has established policies over the:
- Credit assessment and approval of loans and facilities covering acceptable risk assessment and security requirements;
- Limits of acceptable exposure over the value to individual borrowers, non-mortgage secured loans, commercial lending and concentrations to geographic and industry 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;
- Review of compliance with the above policies;

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

(i) CREDIT RISK – LOANS (CONTINUED)

Past due and impaired

A financial asset is past due when the counterparty has failed to make a payment when contractually due. As an example, a member enters into a lending agreement with the Credit Union that requires interest and a portion of the principle to be paid every month. On the first day of the 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 loans are regarded as impaired, unless other factors indicate the impairment should be recognised sooner.

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

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

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

Provisions of impairment 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 deterioration in counterparty risk, changes in a counterparty's industry, and technological developments, as well as identified structural weaknesses or deterioration in cash flows.

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

On 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 to risks in the reduction of the Loan to Value (LVR) cover should the property market be subject to a decline.

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

The board policy is to maintain the majority of the loans in well secured residential mortgages which carry an 80% loan to valuation ratio or less. Note 7 describes the nature and extent of the security held against the loans held as at the balance date.

Repossessed collateral
In the event of member default on a mortgage facility, any loan security is usually held as mortgagee in possession and therefore the Credit Union does not usually hold any real estate or other assets acquired through the enforcement of security. During the year the Credit Union did not take possession of any real estate assets (2011: nil).

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 (10 per cent) a large exposure is considered to exist. No additional 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 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 per cent 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 per cent and bi-annual reviews of compliance with this policy are conducted.

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

(ii) CREDIT RISK – LIQUID INVESTMENTS

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

There is a concentration of credit risk with respect to investment receivables with the placement of investments in Cuscal. The credit policy is that investments are only made to institutions that are credit worthy. Directors have established policies that a maximum of 50 % of capital can be invested with any one financial institution at a time.

The risk of losses from the liquid investments undertaken is reduced by the nature and quality of the independent rating of the investment body and the limits to concentration on any one counterparty. Also the relative size of the Credit Union as compared to the industry is relatively low such that the risk of loss is reduced.

Under the liquidity support scheme at least 3.2% of the total assets must be invested in Cuscal, to allow the scheme to have adequate resources to meet its obligations if needed. The Board's policy is to maintain at least 3.2 % of the investments in Cuscal Limited, a company set up to support the member Credit Unions and which has an A1+ / AA- rating.

All other investments must be with financial institutions with a rating in excess of BBB. The policies of the board limit the investments outside Cuscal to 50 % of capital base per counterparty.

External Credit Assessment for Institution Investments

The Credit Union uses ratings agencies to assess the credit quality of all investment exposures, where applicable, using the credit quality assessment scale in APRA's prudential guidance note AGN 112. The credit quality assessment scale within this standard has been complied with. During the year the Credit Union invested in a number of unrated Building Societies and other Credit Unions however all investments with unrated counterparties did not exceed $1 million (while the $1 million Government guarantee was in place). Since the reduction of the Government guarantee to $250,000 the investment policy was amended.

The exposure values associated with each credit rating are as follows:

Investments with	2012 Carrying value $'000	2012 Past due value $'000	2012 Provision $'000	2011 Carrying value $'000	2011 Past due value $'000	2011 Carrying value $'000
Cuscal – rated AA-	8,775	-	-	2,093	-	-
Banks – rated AA and above	15,080	-	-	4,500	-	-
Banks – rated below AA	4,985	-	-	2,973	-	-
Non Bank ADI*	-	-	-	2,987	-	-
Total	28,840	-	-	12,553	-	-

*' rated below AA or Unrated (covered by Government Guarantee).

D. OPERATIONAL RISK

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

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

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

Fraud

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

IT systems

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

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

E. CAPITAL MANAGEMENT

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

- Credit risk
- Market risk (trading book)
- 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

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

Tier 2 capital generally comprises:

- Available for sale reserve which arises from the revaluation of financial instruments categorised as available for sale and reflects the net gains in the fair value of those assets in the year. This is included within upper Tier 2 capital.

- A general reserve for Credit Losses.

Capital in the Credit Union is made up as follows:

	2012 $'000	2011 $'000
Tier 1		
Retained earnings	15,476	14,246
Less prescribed deductions	(391)	(437)
Net tier 1 capital	15,085	13,809
Tier 2		
Reserve for credit losses	286	270
Less prescribed deductions	(110)	(110)
Net tier 2 capital	176	160
Total Capital	15,261	13,969

APRA sets a prudential capital requirement for each ADI that sets capital requirements in excess of the minimum capital requirement of 8% as compared to the risk weighted assets at any given time. The prudential capital ratio remains confidential between each ADI and APRA in accordance with accepted practice.

The risk weights attached to each asset are based on the weights prescribed by APRA in its Guidance AGN 112-1. The general rules apply the risk weights according to the level of underlying security.

E. CAPITAL MANAGEMENT (CONTINUED)

2012	Risk weighting	Carrying Value $'000	Risk Weighted Value $'000
Cash	0%	1,239	-
Deposits in highly rated ADI's	20%	28,619	5,724
Deposits in less highly rated ADI's	50% - 150%	-	-
Standard Loans secured against eligible residential mortgages up to 80% LVR	35%	67,605	23,662
Standard Loans secured against eligible residential mortgages over 80% LVR	50% - 75%	922	461
Past due claims	100% -150%	457	457
Other assets	100%	25,962	25,962
Total		124,804	56,266

2011	Risk weighting	Carrying Value $'000	Risk Weighted Value $'000
Cash	0%	857	-
Deposits in highly rated ADI's	20%	20,217	4,043
Deposits in less highly rated ADI's	50% - 150%	-	-
Standard Loans secured against eligible residential mortgages up to 80% LVR	35%	58,624	20,518
Standard Loans secured against eligible residential mortgages over 80% LVR	50% - 75%	6,623	3,168
Investments in equity instruments	150%	63	94
Other assets	100%	25,429	25,429
Total		111,813	53,252

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

2012	2011	2010	2009	2008
24.12 %	23.19 %	24.13 %	22.16 %	21.42 %

The capital ratio can be affected by growth in assets relative to growth in reserves and by changes in the mix of assets and has been maintained in excess of the regulatory minimums set by APRA.

To manage the Credit Union's 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 18 %. Further a 5 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 from 1 January 2009 and coincided with changes in the asset risk weightings for specified loans and liquid investments. Previously no operational charge was prescribed.

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

Based on this approach, the Operational Risk Regulatory Capital, which is the Risk Weighted Asset Equivalent, amounted to $6,261,594 (2011: $5,795,989).

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 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 department then updates the forecast capital resources models produced and the impact upon the overall capital position of the Credit Union is reassessed.

In relation to the operational risks, the major measurements for additional capital are:

Credit Concentration / Correlation Risk
The Credit Union's business activities are concentrated geographically in the South West Slopes and Central West region of New South Wales. The loan portfolio however is heavily concentrated in Young.
The Board considers that this poses a credit correlation risk and determines that it would be prudent for the Credit Union to hold additional capital on account of its credit correlation risk of 1%;

Contagion / Reputation Risk
This concerns the Credit Union's vulnerability to financial or reputation damage either as part of a group or, in relation to reputation risk, on a stand-alone basis. The Board determines that it would be prudent to hold an additional 1% of capital on account of contagion and reputation risk; and

Other Capital Factors
In order to provide for any unknown risks or unmitigated risks the Board determines that it would be prudent to hold an additional capital buffer of 1%.

The total additional capital charge recognised by the Board equates to 4% resulting in a Credit Union minimum capital prudential capital ratio plus 3%. Actual Capital adequacy exceeds these minimums substantially. As at 30 June 2012 the capital adequacy ratio was 24.12 % (2011: 23.19 %).

17 CATEGORIES OF FINANCIAL INSTRUMENTS

The following information classifies the financial instruments into measurement classes:

	Note	2012 $'000	2011 $'000
Financial assets - carried at amortised cost			
Cash and deposits	4	10,294	8,521
Receivables from financial institutions	5	19,565	12,553
Other receivables	6	221	228
Loans to members	7	93,090	88,839
Total loans and receivables		123,170	110,141
Available-for-sale investments - carried at cost	9	220	220
TOTAL FINANCIAL ASSETS		123,390	110,361
Financial liabilities - carried at amortised cost			
Deposits from members	13	107,268	95,190
Creditors	14	1,063	1,330
TOTAL FINANCIAL LIABILITIES		108,331	96,520

18 MATURITY AND INTEREST PROFILE OF FINANCIAL ASSETS AND LIABILITIES

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

The residual contractual maturities of the Credit Union's financial liabilities are detailed as follows;

2012	Within 1 month $'000	1-3 months $'000	3-12 months $'000	Total $'000
Creditor accrual and settlement accounts	1,063	-	-	1,063
Deposits from members	61,643	31,138	14,348	107,129
Total financial liabilities	62,706	31,138	14,348	108,192

2011	Within 1 month	1-3 months	3-12 months	Total
Creditor accrual and settlement accounts	1,139	119	72	1,330
Deposits from members	55,753	25,101	15,231	96,085
Total financial liabilities	56,892	25,220	15,303	97,415

2012	Within 1 month $'000	1-3 months $'000	3-12 months $'000	Total $'000
Cash	10,294	-	-	10,294
Receivables from financial Institutions	4,000	7,985	7,580	19,565
Loans and advances - mortgage	68,894	-	-	68,894
Loans and advances - personal	23,087	-	-	23,087
Loans and advances – other	1,286	-	-	1,286
Total financial assets	107,561	7,985	7,580	123,126
Deposits from members	61,643	31,138	14,487	107,268
Total financial liabilities	61,643	31,138	14,487	107,268
Gap	45,918	(23,153)	(6,907)	15,858
Cumulative gap	45,918	22,765	15,858	-

2011	Within 1 month $'000	1-3 months $'000	3-12 months $'000	Total $'000
Cash	8,521	-	-	8,521
Receivables from financial Institutions	1,580	6,473	4,500	12,553
Loans and advances - mortgage	63,661	-	-	63,661
Loans and advances - personal	22,981	-	-	22,981
Loans and advances – other	2,197	-	-	2,197
Total financial assets	98,940	6,473	4,500	109,913
Deposits from members	(55,692)	(24,752)	(14,746)	(95,190)
Total financial liabilities	(55,692)	(24,752)	(14,746)	(95,190)
Gap	43,248	(18,279)	(10,246)	14,723
Cumulative gap	43,248	24,969	14,723	-

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).

19 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 the determining the cash flows are that the cash flows will be consistent with the contracted cash flows under the respective contracts.

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

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

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 Credit Union does not provide fixed rate lending.

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. The Credit Union does not provide fixed rate deposits exceeding 12 months.

The carrying value of payables due to other financial institutions approximate their fair value as they are short term in nature and reprice frequently. The Credit Union does not have any short term borrowings.

20 FINANCIAL COMMITMENTS

	2012 $'000	2011 $'000
Outstanding loan commitments		
The loans approved but not funded	951	1,491
Loan redraw facilities		
The loan redraw facilities available	1,598	921
Undrawn loan facilities		
Loan facilities available to members for overdrafts and line of credit loans are as follows:		
Total value of facilities approved	2,776	2,630
Less: Amount advanced	(1,059)	(1,070)
Net undrawn value	1,717	1,560
These commitments are contingent on members maintaining credit standards and ongoing repayment terms on amounts drawn.		
Total financial commitments	**4,266**	**3,972**
Lease expense commitments for operating leases on property occupied by the Credit Union		
Not later than one year	23	22
Later than one year but not later than five years	-	68
Over five years	-	-
	23	90

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 or borrow funds.

21 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.

Guarantees

There are no contingent guarantees as at 30 June 2012 (2011: nil).

22 RELATED PARTIES

Remuneration of key management persons

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.

The following were the key management personnel of the Credit Union at any time during the period and unless otherwise indicated were key management personnel for the entire period;

- Directors: Mr A Stuart, Mr B Page, Mr K Carmody, Mr L Peek, Mr C McTavish, Mr A Hanrahan and Mr K Cloake. Mr A Stuart resigned in March 2012
- Senior Executives: Mr S Elsley, Mrs E. Cleverdon, Mrs J Trudgett and Mrs N Woods

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

		2012 $	2011 $
(a)	short-term employee benefits;	484,777	482,965
(b)	post-employment benefits - superannuation contributions	132,979	114,623
(c)	other long-term benefits	9,985	15,234
Total		**627,741**	**612,822**

In the above table, remuneration shown as short term benefits means (where applicable) wages, salaries and superannuation 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.

Loans to Directors and other Key Management Persons

		2012 $	2011 $
(i)	The aggregate value of loans to directors and other key management persons as at balance date amounted to	768,233	964,458
(ii)	The total value of revolving credit facilities including VISA, to directors and other key management persons, as at balance date amounted to	56,000	26,000
	- Less amounts drawn down and included in (i)	25,536	25,893
	Net Balance available	30,464	107
(iii)	During the year the aggregate value of loans disbursed to directors and other key management persons amounted to:		
	Term Loans	-	356,544
(iv)	The aggregate value of interest paid by key management personnel amounted to:	69,430	45,995

The Credit Union's policy for lending to directors and management 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. There are no loans which are impaired in relation to the loan balances with directors or other KMP.

22 RELATED PARTIES (CONTINUED)

Other transactions between related parties include deposits from KMP and their related parties.

	2012 $	2011 $
Total value term and saving deposits from KMP	728,133	192,407

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.

Transactions with Other Related Parties

Mr Keith Carmody (Director and Deputy Chairman of the Board) acts on behalf of the Credit Union in legal matters at normal commercial rates. During the course of the year amounts paid to Mr Keith Carmody totalled $6,712 (2011 $9,305). There are no amounts outstanding at 30 June 2012 (2011: nil).

Other transactions between related parties include deposits from director related entities or close family members of directors, and other 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 key management persons. There are no service contracts to which key management persons or their close family members are an interested party.

23 ECONOMIC DEPENDENCY

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

Cuscal Limited

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

(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;

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

First Data International Limited (FDI)

This Credit Union operates the computer network used to link Redicards and Visa cards operated through Reditellers and other approved ATM suppliers to the Credit Union's EDP Systems.

Lynx / Indue

Provides and maintains the application software utilised by the Credit Union.

24 NOTES TO STATEMENT OF CASH FLOWS

Reconciliation of cash from operations to accounting profit	2012 $	2011 $
Profit after income tax	1,246	1,190
Add (Deduct) :		
Depreciation and amortisation expense	198	258
Loss on sale of assets	(16)	-
Change in provision for impairment	76	50
Change in provisions	41	(3)
Change in current tax payable	(21)	16
Change in creditor accruals and settlement accounts	(267)	(331)
Change in other receivables	7	114
Change in prepayments	(5)	(3)
Change in deferred tax assets	(10)	7
Net cash from revenue activities	1,249	1,298
Add (Deduct) non revenue operations		
Change in receivables from other financial institution balances	(7,012)	4,014
Change in loans balances	(4,327)	(14,655)
Change in deposit balances	12,078	13,578
Net cash from operating activities	1,988	4,235

25 AUDITORS' REMUNERATION

	2012 $	2011 $
Audit services:		
Auditors of the Credit Union - KPMG		
Audit and review of the financial reports	37,345	33,950
Other regulatory audit services	12,155	11,050
Taxation services	505	450
	50,005	45,450

KPMG

Independent auditor's report to the members of South West Slopes Credit Union Limited

Report on the financial report

We have audited the accompanying financial report of South West Slopes Credit Union Limited (the Company), which comprises the statement of financial position as at 30 June 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, notes 1 to 25 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 1(b), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

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

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

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Company's financial position and of its performance.

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

KPMG

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 the South West Slopes Credit Union Limited is in accordance with the *Corporations Act 2001*, including:

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

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

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

KPMG

KPMG

Richard Drinnan
Partner

Wollongong

Dated this 27th day of September 2012