Gateway Credit Union Ltd

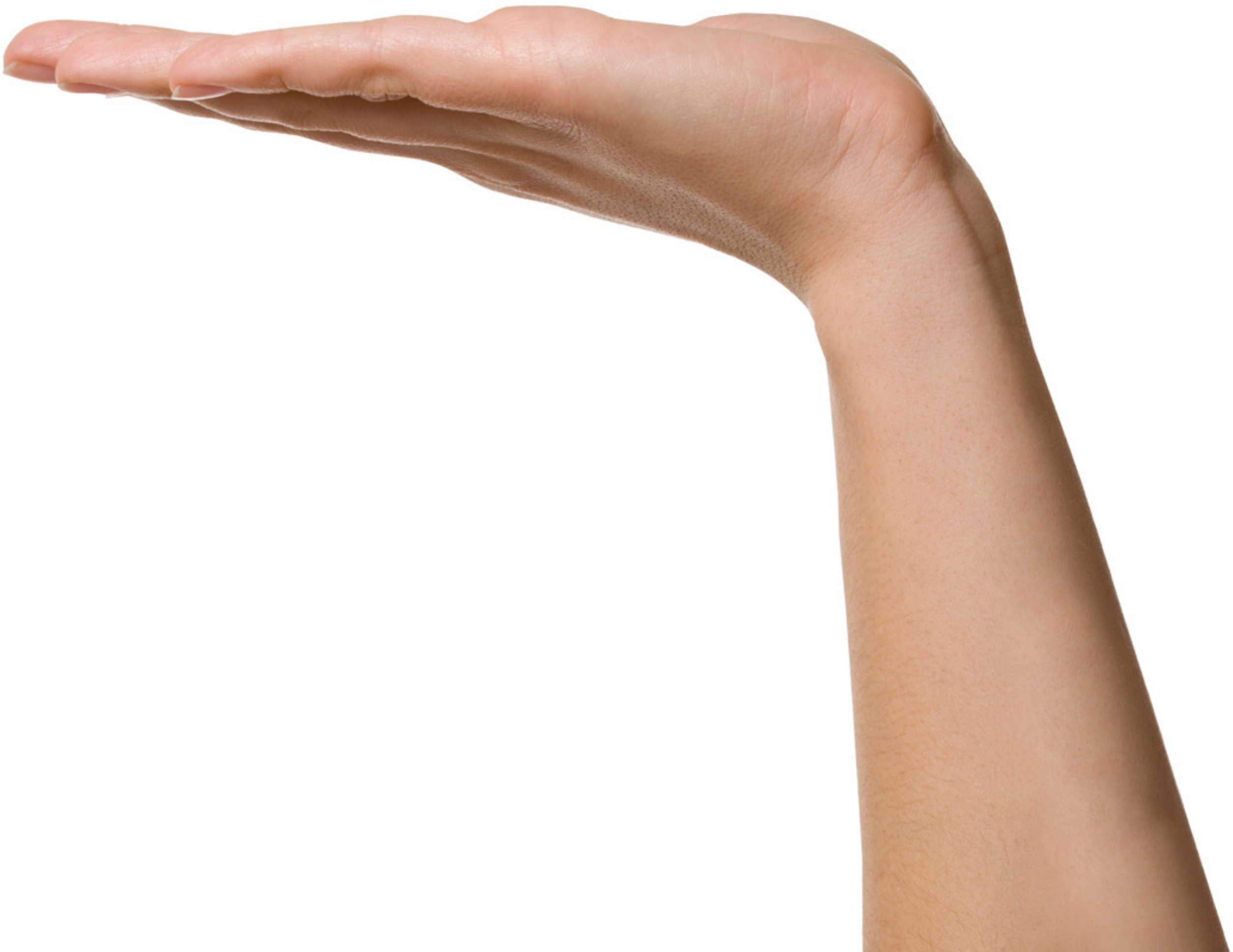
ABN 47 087 650 093

General Purpose Financial Report

For the year ended 30 June 2011

“Coming together is a beginning;
keeping together is progress;
working together is success.”

Henry Ford



CONTENTS

Gateway Credit Union Financial Report 2011

02 Directors' Report
08 Auditor's Independence Declaration
09 Statement of Comprehensive Income
10 Statement of Financial Position
11 Statement of Changes in Equity
12 Statement of Cash Flows
13 Notes to the Financial Statements
60 Directors' Declaration
61 Independent Audit Report

t: 1300 302 474 www.gatewaycu.com.au
e: memberservices@gatewaycu.com.au

Your Directors submit their report for the year ended 30 June 2011.

DIRECTORS
The names and details of the Credit Union's Directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Jennifer M Wicks (Chair)
Catherine M Hallinan (Deputy Chair)
Steven R Carritt
John B Flynn
Malcolm S Graham
Graham B Raward
Irene H van der Loos

Name, qualifications, experience and special responsibilities

Jennifer M Wicks
Chair

Qualifications: BA, GMQ, GAICD.

Experience and special responsibilities: Jennifer joined the Board in February 2008 and was appointed Deputy Chair in March 2009. In February 2010, Jennifer was appointed to the Chair. She is a Management Consultant with over 20 years' financial services experience.

Committee Memberships:
- Members' Equity Protection
- Nominations & Remuneration

Catherine M Hallinan
Deputy Chair

Qualifications: BA (Hons), MBA, F Fin., GAICD.

Experience and special responsibilities: Catherine joined the Board in June 2006 and was appointed Deputy Chair in March 2010. She is also a director of HCF Life Limited and has over 28 years' experience in banking, finance and management consulting.

Committee Memberships:
- Convener of Members' Equity Protection
- Risk & Audit

Steven R Carritt
Non-executive Director

Qualifications: BA (Accounting).

Experience and special responsibilities: Steve joined the Board in July 1992. He is the General Manager ALM – Group Treasury for the Commonwealth Bank of Australia. He has over 36 years' banking experience.

- Chair (January 2005 to February 2010)

Committee Memberships:
- Members' Equity Protection

John B Flynn
Non-executive Director

Qualifications: FAMI.

Experience and special responsibilities: John joined the Board in January 1989. He is currently a Finance Consultant, with over 40 years' finance experience including 36 years with the Commonwealth Bank of Australia.

- Deputy Chair (January 1998 to December 2002)

Committee Memberships:
- Risk & Audit

Malcolm S Graham
Non-executive Director

Qualifications: MA (Management), F Fin., FAMI.

Experience and special responsibilities: Mal joined the Board in July 1992 and has over 38 years' banking and finance experience and currently holds the position of Credit Executive, Uniting Financial Services.

- Deputy Chair (March 2008 to February 2009)
- Chair (January 1998 to December 2004)
- Deputy Chair (March 1994 to January 1998)

Committee Memberships:
- Risk & Audit
- Nominations & Remuneration

Graham B Raward
Non-executive Director

Qualifications: B.Comm., M Applied Finance.

Experience and special responsibilities: Graham joined the Board in June 2006 and has over 38 years' banking experience. He is the Executive Manager, Group Funding of the Commonwealth Bank of Australia.

Committee Memberships:
- Convener of Risk & Audit
- Members' Equity Protection

Irene H van der Loos
Non-executive Director

Qualifications: Diploma, AICD.

Experience and special responsibilities: Rene joined the Board in February 2008. She is the General Manager Marketing of NRMA Motoring & Services and Director of Sydney Ports Corporation (2006–2012). Rene has 11 years' banking experience.

Committee Memberships:
- Convener of Nominations & Remuneration

COMPANY SECRETARIES

Peter W G Gilmore
Chief Financial Officer
Appointed Company Secretary November 2006
B Bus, CPA.

Jeffrey W Organ
Senior Manager, Risk & Compliance
Appointed Company Secretary April 2010
B Bus.

The Credit Union appoints two Company Secretaries to ensure that there is adequate coverage and continuity for this important role.

DIRECTORS' MEETINGS
The number of meetings of Directors (including meetings of committees of Directors) held during the year and the number of meetings attended by each Director were as follows:

		Board Committee Meetings	Nominations & Remuneration Committee Meetings	Risk & Audit Committee Meetings	Members' Equity Protection Committee Meetings
Jennifer M Wicks*	A	11	4		3
	B	11	5		3
Catherine M Hallinan	A	11	1* 1**	8	3
	B	11	1* 1**	8	3
Steven R Carritt	A	8			2
	B	11			3
John B Flynn	A	10	1**	7	
	B	11	1**	8	
Malcolm S Graham	A	11	4	8	1*
	B	11	5	8	1*
Graham B Raward	A	11	1**	8	3
	B	11	1**	8	3
Irene H van der Loos	A	10	4		
	B	11	5		

A - Number of meetings attended
B - Number of meetings held during the time the Director held office during the year.

All Directors requested, and were granted, leave for meetings they were unable to attend.
* Director Invitee
** Alternate Members attending special meeting

DIVIDENDS
No dividends have been paid or declared since the end of the previous financial year, nor do the Directors recommend the declaration of a dividend.

CORPORATE INFORMATION
Gateway Credit Union is a public company limited by shares incorporated and domiciled in Australia.

The Credit Union employed 62 employees at 30 June 2011 (2010: 56 employees).

PRINCIPAL ACTIVITIES
The principal activities of the Credit Union during the year were the provision of financial and associated services to Members in accordance with its constitution. There have been no significant changes in the nature of these activities during the year.

OPERATING AND FINANCIAL REVIEW

The Credit Union's performance during the year was solid as the local economy continued to recover from the global financial crisis. Profit from ordinary activities after income tax was $2.317 million (2010: $2.805 million). The reduction in profit versus the prior year was largely caused by the impact of increased funding costs on net interest margins. The Credit Union's funding largely comes from retail deposits for which competition has increased the cost of these deposits significantly throughout the year.

During the year total loans outstanding reached $624.2 million (2010: $542.2 million), representing an increase of $82.0 million over the previous financial year (2010: increase of $20.2 million). Total deposits reached $634.9 million, an increase of $69.2 million over the previous financial year (2010: $565.7 million).

Operating Results for the Year

The profit after tax of the Credit Union for the year ended 30 June 2011 was $2.317 million (2010: $2.805 million).

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

There have been no significant events occurring after the balance date which may affect either the Credit Union's operations or results of those operations or the Credit Union's state of affairs.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Credit Union is in the process of finalising a Master Trust arrangment via which warehouse funding will be arranged through Westpac Banking Corporation. Otherwise, the Directors do not expect any significant changes in the operations or services of the Credit Union which will affect the results of the Credit Union in future years.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Credit Union is not subject to any particular or significant environmental regulation under laws of the Commonwealth or of a State or Territory.

SHARE OPTIONS

No option to acquire shares in the Credit Union has been granted to any person. No shares have been issued during the financial year or since the end thereof by virtue of the exercise of any options. There are no unissued shares under option at the date of this report.

DIRECTORS' EMOLUMENTS

No benefits have been received or are due to be received by a Director, a firm of which the Director is a member, or an organisation in which a Director has a substantial financial interest, either during the financial year, or subsequently, under a contract for services rendered to the Credit Union.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During or since the end of the financial year, a premium was paid in respect of a contract insuring Directors and officers (including executive officers, secretary and employees) of the Credit Union against liability.

In accordance with normal commercial practice, disclosure of the total amount of premium payable and the nature of the liabilities covered by the insurance contract is prohibited by a confidentiality clause in the contract.

ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (where rounding is applicable), unless otherwise stated, under the option available to the Credit Union under ASIC Class Order 98/0100. The Credit Union is an entity to which the Class Order applies.

AUDITOR INDEPENDENCE

The Directors received an independence declaration from the auditor, Ernst & Young. A copy has been included on page 8 of the report.

Signed in accordance with a resolution of the Directors.

Catherine M Hallinan	Graham B Raward
Deputy Chair	Convenor Risk & Audit Committee

Sydney, 20 September 2011

ERNST & YOUNG

Ernst & Young Centre
680 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
www.ey.com/au

Auditor's Independence Declaration to the Directors of Gateway Credit Union Limited

In relation to our audit of the financial report of Gateway Credit Union Limited for the financial year ended 30 June 2011, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Andrew Harmer
Partner
20 September 2011

	Notes	**2011 $'000**	2010 $'000
Interest revenue	5(a)	**44,724**	37,346
Interest expense	5(a)	**(29,266)**	(21,509)
Net interest revenue		**15,458**	15,837
Non-interest revenue	5(b)	**1,399**	839
Total revenue		**16,857**	16,676
Accommodation expenses		**(1,044)**	(1,065)
Marketing expenses		**(730)**	(794)
IT expenses		**(1,334)**	(1,197)
Administration expenses		**(2,912)**	(2,223)
Employee benefits expenses	5(c)	**(6,203)**	(5,811)
Depreciation and amortisation expenses	5(d)	**(347)**	(460)
Other expenses	5(e)	**(848)**	(1,117)
Total expenses		**(13,418)**	(12,667)
Net profit before tax		**3,439**	4,009
Income tax expense	6(c)	**(1,122)**	(1,204)
Net profit after tax attributable to Members		**2,317**	2,805
Other comprehensive income			
Net change on Cash Flow Hedge Reserve		**49**	(120)
Other comprehensive income, net of tax		**49**	(120)
Total comprehensive income attributable to Members		**2,366**	2,685

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

As at 30 June 2011

	Notes	**2011**	2010
		$'000	$'000
ASSETS			
Cash and cash equivalents	7	**19,117**	14,412
Held to maturity financial investments	10	**79,735**	95,590
Loans and advances	8	**624,235**	542,251
Other assets	9	**1,105**	680
Property, plant and equipment	11	**395**	309
Deferred tax assets	6	**698**	845
Intangible assets	12	**143**	285
TOTAL ASSETS		**725,428**	654,372
LIABILITIES			
Member deposits	13	**634,877**	565,742
Derivatives financial instruments	14	**101**	172
Creditors and other liabilities	17	**2,392**	2,233
Interest-bearing loans and borrowings	16	**-**	69
Current tax liabilities		**203**	603
Provisions	15	**596**	660
TOTAL LIABILITIES		**638,169**	569,479
NET ASSETS		**87,259**	84,893
MEMBERS' EQUITY			
Retained earnings		**87,330**	85,013
Reserves	18	**(71)**	(120)
TOTAL MEMBERS' EQUITY		**87,259**	84,893

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

	Notes	Retained earnings $'000	Cash Flow Hedge Reserve $'000	Total equity $'000
At 30 June 2009		82,208	-	82,208
Profit for the year		2,805	-	2,805
Net change on Cash Flow Hedge Reserve		-	(120)	(120)
Total comprehensive income		2,805	(120)	2,685
At 30 June 2010		85,013	(120)	84,893
Profit for the year		**2,317**	**-**	**2,317**
Net change on Cash Flow Hedge Reserve		**-**	**49**	**49**
Total comprehensive income		**2,317**	**49**	**2,366**
At 30 June 2011		**87,330**	**(71)**	**87,259**

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

	Notes	2011 $'000	2010 $'000
Cash flows from / (used in) operating activities			
Interest received		**44,707**	37,473
Bad debts recovered		**395**	150
Receipts from commissions, fees and other sources		**1,004**	689
Interest paid		**(28,398)**	(20,889)
Net funds advanced to and receipts from Member for loans and advances		**(82,792)**	(21,311)
Payments to suppliers and employees		**(12,691)**	(12,499)
Income tax paid		**(1,395)**	(243)
Net acceptance from and repayment of deposits		**68,276**	20,361
Net cash flows from / (used in) operating activities	20	**(10,894)**	3,731
Cash flows from investing activities			
Proceeds from redemption of investment		**380,000**	305,700
Proceeds from sale of property, plant and equipment		**2**	-
Payments for investment		**(364,000)**	(305,000)
Purchase of property, plant and equipment		**(271)**	(109)
Purchase of Intangible assets		**(53)**	(15)
Net cash flows from investing activities		**15,678**	576
Cash flows used in financing activities			
Net Members' shares		**(10)**	(1)
Repayments of borrowings		**-**	-
Net cash flows used in financing activities		**(10)**	(1)
Net increase in cash and cash equivalents		**4,774**	4,306
Cash and cash equivalents at beginning of year		**14,343**	10,037
Cash and cash equivalents at end of year	7	**19,117**	14,343

The above cash flow statement should be read in conjunction with the accompanying notes.

1 CORPORATE INFORMATION

The financial report of Gateway Credit Union (the Credit Union) for the year ended 30 June 2011 was authorised for issue in accordance with a resolution of the Directors on 20 September 2011.

Gateway Credit Union is a public company limited by shares incorporated and domiciled in Australia. The address of the Credit Union's registered office is Level 16, 2 Market Street, Sydney, NSW.

The nature of the operations and principal activities of the Credit Union are described in the Directors' Report.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards. The financial report has also been prepared on a historical cost basis.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated under the option available to the Credit Union under ASIC Class Order 98/0100. The Credit Union is an entity to which the Class Order applies.

The Statement of Financial Position is prepared on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non current.

(b) Statement of compliance

The financial report is also in compliance with International Financial reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(c) New Accounting Standards & Interpretations

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Credit Union for the annual reporting period ended 30 June 2011. These are outlined in the table following.

Reference	Title	Summary	Application date of standard	Impact on Credit Union financial result	Application date for company*
AASB 9	Financial Instruments	AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 Financial Instruments: Recognition and Measurement). These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes from AASB 139 are described below. (a) Financial assets are classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. This replaces the numerous categories of financial assets in AASB 139, each of which had its own classification criteria. (b) AASB 9 allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.	1 January 2013	The exact impact of this standard is still to be determined. It is likely that the proposed changes will simplify accounting measurement and presentation requirements for financial assets.	1 July 2013

Reference	Title	Summary	Application date of standard	Impact on Credit Union financial result	Application date for company*
AASB 9 (cont)	Financial Instruments (cont)	(c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.	1 January 2013	As above	1 July 2013
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]	These amendments arise from the issuance of AASB 9 Financial Instruments that sets out requirements for the classification and measurement of financial assets. The requirements in AASB 9 form part of the first phase of the International Accounting Standards Board's project to replace IAS 39 Financial Instruments: Recognition and Measurement. This Standard shall be applied when AASB 9 is applied.	1 January 2013	The exact impact of this standard is still to be determined. It is likely that the proposed changes will simplify accounting measurement and presentation requirements for financial assets.	1 July 2013
AASB 1053	Application of Tiers of Australian Accounting Standards	This Standard establishes a differential financial reporting framework consisting of two Tiers of reporting requirements for preparing general purpose financial statements: (a) Tier 1: Australian Accounting Standards (b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements	1 July 2013	The Credit Union may be able to elect to take advantage of reduced disclosure requirements in some instances.	1 July 2013

Reference	Title	Summary	Application date of standard	Impact on Credit Union financial result	Application date for company*
AASB 1053 (cont)	Application of Tiers of Australian Accounting Standards (cont)	Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements. The following entities apply Tier 1 requirements in preparing general purpose financial statements: (a) For-profit entities in the private sector that have public accountability (as defined in this Standard) (b) The Australian Government and State, Territory and Local Governments The following entities apply either Tier 2 or Tier 1 requirements in preparing general purpose financial statements: (a) For-profit private sector entities that do not have public accountability (b) All not-for-profit private sector entities Public sector entities other than the Australian Government and State, Territory and Local Governments.	1 July 2013	As above	1 July 2013

Reference	Title	Summary	Application date of standard	Impact on Credit Union financial result	Application date for company*
AASB 1054	Australian Additional Disclosures	This standard is as a consequence of phase 1 of the joint Trans-Tasman Convergence project of the AASB and FRSB. This standard relocates all Australian specific disclosures from other standards to one place and revises disclosures in the following areas: (a) Compliance with Australian Accounting Standards (b) The statutory basis or reporting framework for financial statements (c) Whether the financial statements are general purpose or special purpose (d) Audit fees (e) Imputation credits	1 July 2011	This standard will result in minor disclosure changes.	1 July 2011
AASB 2010-2	Amendments to Australian Accounting Standards arising from reduced disclosure requirements	This standard makes amendments to many Australian Accounting Standards, reducing the disclosure requirements for Tier 2 entities, identified in accordance with AASB 1053, preparing general purpose financial statements.	1 July 2013	The Credit Union's application of this standard is expected to reduce disclosure requirements.	1 July 2013
AASB 2010-5	Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042]	This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS by the IASB. These amendments have no major impact on the requirements of the amended pronouncements.	1 July 2011	No major impact anticipated.	1 July 2011

Reference	Title	Summary	Application date of standard	Impact on Credit Union financial result	Application date for company*
AASB 2010-6	Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7]	The amendments increase the disclosure requirements for transactions involving transfers of financial assets. Disclosures require enhancements to the existing disclosures in IFRS 7 where an asset is transferred but is not derecognised and introduce new disclosures for assets that are derecognised but the entity continues to have a continuing exposure to the asset after the sale.	1 July 2011	The Credit Union expects to broaden funding via a securitisation Master Trust. Assets transferred to this structure under a warehouse funding arrangment are expected to require continued disclosure within the Credit Union's accounts.	1 July 2011
AASB 2010-7	Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023, & 1038 and interpretations 2, 5, 10, 12, 19 & 127]	The requirements for classifying and measuring financial liabilities were added to AASB 9. The existing requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities the change in fair value is accounted for as follows: ► The change attributable to changes in credit risk are presented in other comprehensive income (OCI) ► The remaining change is presented in profit or loss If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.	1 January 2013	The impact of this requirement is yet to be fully scoped. It is likely to result in classification changes where the fair value option is used.	1 July 2013

Reference	Title	Summary	Application date of standard	Impact on Credit Union financial result	Application date for company*
AASB 2011-1	Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence project [AASB 1, AASB 5, AASB 101, AASB 107, AASB 108, AASB 121, AASB 128, AASB 132, AASB 134, Interpretation 2, Interpretation 112, Interpretation 113]	This Standard amends many Australian Accounting Standards, removing the disclosures which have been relocated to AASB 1054.	1 July 2011	This standard will result in minor disclosure changes as per AASB 1054 (see above).	1 July 2011
AASB 2011-2	Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence project – Reduced disclosure regime [AASB 101, AASB 1054]	This Standard makes amendments to the application of the revised disclosures to Tier 2 entities, that are applying AASB 1053.	1 July 2013	The Credit Union may be able to elect to take advantage of reduced disclosure requirements in some instances. Refer AASB 1053 above.	1 July 2013

Reference	Title	Summary	Application date of standard	Impact on Credit Union financial result	Application date for company*
**	Fair Value Measurement	IFRS 13 establishes a single source of guidance under IFRS for determining the fair value of assets and liabilities. IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value under IFRS when fair value is required or permitted by IFRS. Application of this definition may result in different fair values being determined for the relevant assets. IFRS 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.	1 January 2013	The Credit Union is yet to determine the impact of this standard.	1 July 2013

* Designates the beginning of the applicable annual reporting period

** The AASB has not yet issued this standard, which was finalised by the IASB in May 2011.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Functional and presentation currency

Both the functional and presentation currency of the Credit Union is Australian dollars ($).

(e) Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and on hand, short-term bills and call deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest-bearing loans and borrowings on the Statement of Financial Position.

(f) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

Collectability of trade and other receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified. An allowance for doubtful debts is raised when there is objective evidence that the Credit Union will not be able to collect the debt.

(g) Loans and advances to Members (Classified as Loans and Receivables as per AASB 139)

(i) Basis of inclusion
All loans are initially recognised at fair value.

Loans to Members are reported at their recoverable amount representing the aggregate amount of principal and unpaid interest owing to the Credit Union at balance date, less any allowance or provision for impairment.

(ii) Interest earned
Term Loans and Line of Credit – Interest is calculated on the basis of the daily closing balance outstanding and is charged in arrears to a Member's account on the last day of each month.

(iii) Loan fees
Fees for the recovery of costs incurred are allocated against the relevant expense.

(h) Loan impairment

The Credit Union assesses at each balance date whether there is any objective evidence that a loan and advance to a Member, or a group of loans and advances, is impaired. A loan and advance, or a group of loans and advances, is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and the loss event (or events) has an impact on the estimated future cash flows of the loans and advances or group of loans and advances that can be reliably estimated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Loan impairment (continued)

Objective evidence of impairment may include indications that the borrower, or a group of borrowers, is experiencing financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to 'bad debts recovered'.

Bad debts are written-off when identified. Identification may include: bankruptcy, clearout or unlikelihood of recovery. If a provision of impairment has been recognised in relation to a loan, write-offs for bad debts are made against the provision. If no provision for impairment has previously been recognised, write-offs for bad debts are recognised as expenses in the Statement of Comprehensive Income.

(i) Specific provision

Losses for impaired loans are recognised when there is objective evidence that the impairment of a loan has occurred. Impairment losses are calculated on individual loans. The amount provided for impairment 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.

(ii) Collective provision

A collective provision is made for groups of loans with similar credit risk characteristics. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of impairment loss is based upon estimated losses incurred within the portfolio, based upon objective evidence of impairment, the estimated probability of default and the expected loss given default having regard to the historical experience of the Credit Union.

(iii) General reserve for credit losses

The Board has determined that the collective and specific provisions against impaired loans as required under AASB 139 provide sufficient protection for Members against the prospect that some Members will experience loan repayment difficulties. As such, in 2008 the Board determined to transfer the balance of the general reserve for credit losses to retained earnings. The Board believes that the high level of capital retained by the Credit Union provides strength against impaired losses and as such a nominal general provision is of no value. This is consistent with IFRS and industry practice.

(i) Restructured loans

Where possible, the Credit Union seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all the criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loans' original effective interest rate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Bad debts written-off

Bad debts are written-off when recovery of the debt is considered unlikely by Management and the Board. Bad debts are written-off as expenses in the Statement of Comprehensive Income.

(k) Investments and other financial assets

Investments and financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are categorised as either financial assets at fair value through profit and loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Designation is re-evaluated at each financial year end, but there are restrictions on reclassifying to other categories.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of assets not at fair value through profit and loss, directly attributable transaction costs.

Recognition and Derecognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Credit Union commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place.

(i) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Credit Union has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in profit and loss when the investments are derecognised or impaired, as well as through the amortisation process.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit and loss when the loans and receivables are derecognised or impaired.

(l) Hedge accounting

The Credit Union uses derivative financial instruments, interest rate swaps, to hedge its risk exposure to interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. The fair values of interest rate swaps are determined using a valuation technique based on cash flows discounted to present value using current market interest rates.

Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Hedge accounting (continued)

For the purposes of hedge accounting, hedges are classified as cash flow hedges when they hedge the exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or to a forecast transaction (The Credit Union currently has cash flow hedges attributable to payment of interest on short-term term deposits).

Cash flow hedges are hedges of the Credit Union's exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or to a forecast transaction and that could affect profit and loss. Having met the strict criteria for hedge accounting, the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit and loss. Amounts taken to equity are transferred out of equity and included in the measurement of the hedged transaction (finance costs or inventory purchases) when the forecast transaction occurs.

At inception of the hedge relationship, the Credit Union formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and the strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship. Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item.

At each reporting date, the Credit Union measures ineffectiveness using the dollar offset method. A hedge is regarded as highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%. For situations where the hedged item is a forecast transaction, the Credit Union assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the Statement of Comprehensive Income.

If the forecast transaction is no longer expected to occur, amounts recognised in equity are transferred to the Statement of Comprehensive Income. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked (due to it being ineffective), amounts previously recognised in equity remain in equity.

(m) Derecognition of financial assets and financial liabilities

A financial asset is derecognised where:

- the rights to receive cash flows from the asset have expired; or

- the Credit Union has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party unless under a 'pass-through' arrangement; and

- either (a) the Credit Union has transferred substantially all the risks and rewards of the asset, or (b) the Credit Union has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Derecognition of financial assets and financial liabilities (continued)

When the Credit Union has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Credit Union's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Credit Union could be required to repay.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability, and the difference in the respective carrying amount is recognised in profit and loss.

(n) Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised in profit and loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets at the following rates:

Plant and equipment - 15% - 33.3%
Leasehold property improvements - 12.5%

Assets that cost less than $300 are not capitalised and are expensed in the month of purchase.

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

Derecognition
An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit and loss in the year the asset is derecognised.

(o) Intangible assets

The intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Intangible assets (continued)
Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

Computer software - 20% - 40%

The Credit Union's intangible assets only include the value of computer software.

(p) Leases
The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Operating lease payments are recognised as an expense in the Statement of Comprehensive Income on a straight line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

Lease make good
A provision has been made for the future cost estimates associated with dismantling furniture & fittings. This is recognised as a provision liability in the Statement of Financial Position, which increases annually over the life of the lease. The calculation of this provision requires assumptions which may result in future actual expenditure differing from the amounts currently provided. The provision is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs are recognised in the Statement of Financial Position by adjusting both the expense and provision.

(q) Impairment of non-financial assets
Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

(r) Member deposits
(i) Basis for determination
Member Savings and Term Investments are quoted at the aggregate amount of moneys owing to depositors.

(ii) Interest payable
Interest on Savings and Term Deposits is calculated on the daily balance and posted to the accounts monthly, half-yearly, annually, or on maturity. Interest on Savings and Term Deposits 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 Member Deposits.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Trade and other payables

Trade payables and other payables are carried at amortised cost. They represent liabilities for goods and services provided to the Credit Union prior to the end of the financial year that are unpaid and arise when the Credit Union becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 60 days of recognition.

(t) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

(u) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(v) Provisions

Provisions are recognised when the Credit Union has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Credit Union expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Statement of Comprehensive Income net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

(w) Employee leave benefits

(i) Wages, salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave

The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds that match, as closely as possible, the estimated future cash outflows.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Credit Union and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest income

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Loan interest is calculated on the basis of the daily closing balance outstanding and is charged in arrears to a Member's account on the last day of each month.

Fees and commission income

The Credit Union earns fees and commissions from a diverse range of services it provides to its Members. Income is brought to account on an accrual basis once a right to receive consideration has been established.

(y) Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit and loss.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit and loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Income tax (continued)

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit and loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

(z) Other taxes

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST)

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(aa) Equity reserves

Cash flow hedge reserves

The cash flow hedge reserves comprises the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

3 RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk is inherent in the Credit Union's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Credit Union's continuing profitability and each individual within the Credit Union is accountable for the risk exposures relating to his or her responsibilities. The Credit Union is exposed to market risk, credit risk, liquidity risk and operational risk.

The risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Credit Union's strategic planning process.

Core Components and Principles

During the year the Credit Union continued to develop its improvement program in relation to its Risk Management Framework.

The Credit Union's Risk Management Framework is embedded throughout the Credit Union's operations and governance process, and incorporates the following core components:

- a suite of policies, procedures and systems which together document the Credit Union's Board-approved Risk Appetite Statement and risk management systems descriptions, establish specific limits and other measures to restrict particular risk exposures, ensure that all categories of risk are actively monitored by the Board and managed by Executive Management and provide for regular review of the Credit Union's risk tolerance;
- human resources practices designed to recruit, train and retain employees with required specialist skills;
- clearly documented delegations of responsibility and accountability of risk management throughout the organisation;
- internal control processes including structured Board and Executive Management reporting, a system of independent review (by Internal and External Audit) and constant Board oversight; and
- an operational philosophy that seeks to anticipate and minimise risks before they occur and that fully investigates, and learns from, any unexpected consequences that should arise.

Roles and Responsibilities

Board of Directors

The Board of Directors is responsible for the overall risk management framework and for approving the risk strategies and principles.

Risk & Audit Committee

The Risk & Audit Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions and the internal and external auditor relationships.

Internal Audit

KPMG is engaged by the Board to review risk management and internal controls in the capacity of independent internal auditor. KPMG provides reports to the Convenor of the Risk & Audit Committee and has full access to staff and information when conducting its reviews.

3 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Roles and Responsibilities (continued)

Chief Executive Officer

The Chief Executive Officer is responsible for the ongoing management of the Risk Management Framework including its periodic review and renewal subject to requisite Board direction and approvals.

Executive Management

The Executive Management team is responsible for implementing the Board-approved risk management strategy and for developing policies, procedures, processes and controls for identifying and managing risks in all areas of activity.

Asset and Liability Committee

The Asset and Liability Committee, chaired by the Chief Executive Officer, is responsible for overseeing the Treasury framework including the setting of deposit and loan rates in the context of monetary policy and market competition; the management of liquidity and development of new liquidity sources; approving the structure of the Statement of Financial Position; optimising the loan mix with the appropriate balance of risk and reward; monitoring the short and long-term capital position; and managing the inherent interest rate risk.

Compliance Committee

The Compliance Committee, chaired by the Chief Executive Officer, oversees the Credit Union's effectiveness in meeting all relevant compliance obligations, as well as developing and reviewing the policy framework for recommendation and approval by the relevant Board Committees and endorsement by the Board.

Risk Measurement and Reporting

Monitoring and controlling risks is primarily performed based on limits established by the Board of the Credit Union. These limits reflect the business strategy and market environment of the Credit Union as well as the level of risk that the Credit Union is willing to accept.

Information is compiled, examined and processed in order to analyse, control and identify risks early. This information is presented and explained to the Management Committees, the Risk & Audit Committee and the Board of Directors. The reporting includes aggregate credit exposures, delinquency summary, loan security summary, loan type summary, liquidity ratios, VaR, sensitivity analysis and material changes. On a monthly basis detailed reporting takes place. Senior Management assesses the appropriateness of the allowance for impairment on a quarterly basis. The Board receives summarized risk reporting on key risk measures on a monthly basis. More detailed analysis and review of risks is undertaken on a periodic basis by the Risk & Audit Committee with reporting of outcomes to the Board.

Risk Mitigation

The Credit Union actively manages risk through a framework that includes use of collateral, delegations, limit frameworks, review of loan concentrations and interest rate hedging.

3 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Excessive Risk Concentrations

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Credit Union's performance to developments affecting a particular geographical location (refer note 3 (b)).

(a) Market Risk

Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. The Credit Union is only exposed to changes in interest rates.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board has established limits on Value at Risk (VaR) and interest rate gaps for stipulated periods. Positions are monitored on a monthly basis.

VaR assumptions

The VaR that the Credit Union measures is an estimate, using a confidence level of 99%, of the potential loss that is not expected to be exceeded if the current market risk positions were to be held unchanged for one day. The use of a 99% confidence level means that, within twenty days' horizon, losses exceeding the VaR figure should occur, on average, not more than once every hundred days.

Since VaR is an integral part of the Credit Union's interest rate risk management, VaR limits have been established and exposures are reviewed monthly against the limits by management.

The VaR during the year was as follows:

	2011	2010
	$000's	$000's
30 June	**252**	479
Average	**244**	520
Highest	**384**	772
Lowest	**180**	336

The Credit Union utilises interest rate swaps to minimise exposure to interest rate risk. The Credit Union's exposure to interest rate risk and the effective weighted interest rate for classes of financial assets and financial liabilities are set out below:

3 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(a) Market risk (continued)

2011	Weighted average interest rate %	Floating interest rate	Fixed interest rate 1 year or less	1 to 5 years	More than 5 years	Non-interest bearing	Total
		$000's	$000's	$000's	$000's	$000's	$000's
Financial Assets							
Cash and cash equivalents	4.75	19,116	-	-	-	1	19,117
Held to maturity financial investments	5.64	-	79,735	-	-	-	79,735
Loans and advances	7.52	479,262	65,460	79,889	280	-	624,891
Total financial assets		498,378	145,195	79,889	280	1	723,743
Financial Liabilities Including Equity							
Members' deposits	5.28	201,219	420,217	13,375	-	66	634,877
Derivatives financial instruments	0.40	101	-	-	-	-	101
Creditors and other liabilities	N/A	-	-	-	-	2,391	2,391
Borrowings	N/A	-	-	-	-		0
Provisions	N/A	-	-	-	-	596	596
Equity	N/A	-	-	-	-	87,259	87,259
Total Financial Liabilities and equity		201,320	420,217	13,375	-	90,312	725,224
Total Interest Rate Repricing Gap		297,058	-275,022	66,514	280	-90,311	-1,481
Cumulative Interest Rate Repricing Gap		297,058	22,036	88,550	88,830	-1,481	

3 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(a) Market risk (continued)

2010	Weighted average interest rate %	Floating interest rate	Fixed interest rate 1 year or less	1 to 5 years	More than 5 years	Non-interest bearing	Total
		$000's	$000's	$000's	$000's	$000's	$000's
Financial Assets							
Cash and cash equivalents	3.52	14,411	-	-	-	1	14,412
Held to maturity financial investments	5.68	-	95,590	-	-	-	95,590
Loans and advances	7.50	422,779	40,385	79,396	288	-	542,848
Total financial assets		437,190	135,975	79,396	288	1	652,850
Financial Liabilities Including Equity							
Members' deposits	4.71	184,989	370,575	10,102	-	76	565,742
Derivatives financial instruments	0.43	172	-	-	-	-	172
Creditors and other liabilities	N/A	-	-	-	-	2,233	2,233
Borrowings	10.39	69	-	-	-		69
Provisions	N/A	-	-	-	-	660	660
Equity	N/A	-	-	-	-	84,893	84,893
Total Financial Liabilities and equity		185,230	370,575	10,102	-	87,862	653,769
Total Interest Rate Repricing Gap		251,960	-234,600	69,294	288	-87,861	-919
Cumulative Interest Rate Repricing Gap		251,960	17,360	86,654	86,942	-919	

(b) Credit risk

Credit risk is the risk of financial loss if a counterparty fails to meet an obligation under a contract. It arises principally from the loans and receivables. Potential customers and new facilities of existing customers are subjected to the loan approval system of the Credit Union. Credit quality follows the Credit Union's policy which is reviewed regularly and amendments, where necessary, are implemented promptly.

Maximum exposure to credit risk

The Credit Union's maximum credit risk exposure equals the drawndown portion on the Statement of Financial Position and the undrawn portion of all committed facilities of loans and receivables, and is provided by the following table:

	2011	2010
`	**$000's**	$000's
Bank balances	**19,116**	14,411
Held to maturity investments	**79,735**	95,590
Loans and advances	**624,235**	542,251
Unused Committed Loan Facilities	**25,546**	12,514
	748,632	664,766

3 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(b) Credit risk (continued)

Collateral and other credit enhancements

Loans and advances, except unsecured lines of credit and personal loans, are backed by collateral. The amount and type of collateral required depends on the assessment of the credit risk of the Member. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- for retail lending; mortgages over residential properties
- for commercial lending; charges over real estate properties.

Management monitors the market value of collateral.

The terms and conditions of the collateral are specific to individual loan and security types.

It is the Credit Union's policy to dispose of repossessed collateral in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. The Credit Union does not occupy repossessed properties for business use.

For bank balances and held to maturity investments, the balances are unsecured. The Credit Union has a policy only to invest with counterparties with investment grade ratings and to limit the exposures to them to maximum levels for each counterparty.

Concentrations of credit risk

The Credit Union incurs concentrations of loan credit risk by lending to counterparties primarily in New South Wales. This concentration has not changed materially as shown below.

Concentrations of the Credit Union's credit risk by geographic areas are:

	2011	2010
	%	%
New South Wales	**68.4**	69.2
Victoria	**16.7**	15.5
Queensland	**7.8**	7.4
Western Australia	**2.7**	3.1
South Australia	**2.0**	2.1
Tasmania	**0.7**	0.7
Other	**1.7**	2.0
Total	**100.0**	100.0

3 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Liquidity risk

Liquidity risk is the risk that the Credit Union will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, the Credit Union has standby funding sources in addition to its core deposit base, manages assets with liquidity in mind and monitors future cash flows and liquidity on a daily basis incorporating an assessment of expected cash flows.

The Credit Union maintains a portfolio of High Quality Liquid Assets (HQLA) that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Credit Union also has a committed Line of Credit with the Commonwealth Bank of Australia for $50,000,000, that it can access to meet its liquidity needs. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Credit Union. The most important of these is to maintain minimum regulatory limits on the ratio of net liquid assets to customer liabilities, set to reflect market conditions. Net liquid assets consists of cash and short term bank certificates of deposits/bills available for immediate sale.

In the present economic environment, in order to minimise the risk of the liquidity ratio falling below 12% (as presently mandated by APRA), the Board has determined a target liquidity trading range of 14% - 19% and an internal minimum liquidity ratio of 13%. In the event that liquidity ratio falls below 13% or is considered to be at risk of falling below that level, specific remedial measures are required to be taken by the Board and management.

The Liquidity ratio during year was as follows:

	2011	2010
	%	%
30 June	**14.64**	19.38
Average during the period	**16.59**	17.54
Highest	**19.48**	19.63
Lowest	**13.60**	14.73

Refer to Note 13 for maturity analysis of financial liabilities.

(d) Operational risk

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Credit Union cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Credit Union is able to manage these risks to within tolerable limits. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff training and assessment processes; including the use of internal audit.

3 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(e) Fair value risk

The Credit Union uses various methods in estimating the fair value of a financial instrument. The methods comprise:

Level 1 - the fair value is calculated using quoted prices in active markets.

Level 2 - the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3 - the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

The fair value of the financial instruments as well as the methods used to estimate the fair value are summarised in the table below:

	2011				2010			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
	$'000	***$'000***	***$'000***	***$'000***	*$'000*	*$'000*	*$'000*	*$'000*
Financial Liability								
Interest rate swaps	**-**	**101**	**-**	**-**	-	172	-	-
	-	**101**	**-**	**-**	-	172	-	-

Quoted market price represents the fair value based on quoted prices on active markets as at the reporting date without any deduction for transaction costs.

For financial instruments not quoted in active markets, the Credit Union uses valuation techniques such as present value techniques, comparison to similar instruments for which market observable prices exist and other relevant models used by market participants. These valuation techniques use both observable and unobservable market inputs.

Financial instruments that use valuation techniques with only observable market inputs, or unobservable inputs that are not significant to the overall valuation, include interest rate swaps.

Transfer between categories

There were no transfers between Level 1 and Level 2 during the year.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

(a) Significant accounting judgements

Impairment losses on loans and advances
The Credit Union reviews its problem loans and advances at each reporting date to assess whether a provision for impairment should be recorded in the Statement of Comprehensive Income. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the provision.

In addition to specific provisions against individually significant loans and advances, the Credit Union also makes a collective impairment provision against exposures which, although not specifically identified as requiring a specific provision, have a greater risk of default than when originally granted. This takes into consideration factors such as any deterioration in geographic risk, economic factors, hardship applications or delinquency trends.

Recovery of deferred tax assets
Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

Impairment of non-financial assets
The Credit Union assesses impairment of all assets at each reporting date by evaluating conditions specific to the Credit Union and to the particular asset that may lead to impairment. These include technology, economic and political environments and future expectations. If an impairment trigger exists the recoverable amount of the asset is determined. When management does not consider that the triggers for impairment testing have been significant enough, these assets are not tested for impairment in this financial period.

Taxation
The Credit Union's accounting policy for taxation requires management's judgement as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the Statement of Financial Position. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

(a) Significant accounting judgements (continued)

Taxation (continued)

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future performance, operating costs, restoration costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the Statement of Financial Position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the Statement of Comprehensive Income.

Classification of held to maturity investments

The Credit Union classifies non-derivative financial assets with fixed or determinable payments and a fixed maturity as held to maturity investments. This classification requires significant judgement where management evaluates its intention and ability to hold such investments to maturity.

(b) Significant accounting estimates and assumptions

Estimation of useful lives of non-financial assets

The estimation of the useful lives of assets has been based on historical experience as well as lease terms (for leasehold improvements). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

Make good provision

The Credit Union makes a provision to cover the cost of restoring the leased office premises at 2 Market Street upon completion of the lease as per the requirements of the lease contract. An estimate of the per metre cost of the restoration is based on market rates. This rate and the adequacy of the provision build up is reviewed on a yearly basis to ensure coverage of the make good liability.

Fair value of derivatives

The Credit Union uses observable market prices for similar derivative instruments in order to derive a market fair value for existing derivatives.

5 REVENUE AND EXPENSES

(a) Interest revenue and interest expense

	Average balance $'000	Interest $'000		Average interest rate %
Interest revenue 2011				
Loans and advances to Members	**574,435**	**39,216**		**6.83**
Investment securities	**83,769**	**4,813**		**5.75**
Deposits at call with other financial institutions	**14,496**	**695**		**4.79**
	672,700	**44,724**		**6.65**
Interest revenue 2010				
Loans and advances to Members	531,533	32,964		6.20
Investment securities	82,746	3,929		4.75
Deposits at call with other financial institutions	12,610	453		3.59
	626,889	37,346		5.96
Interest expense 2011				
Member deposits	**582,667**	**28,817**		**4.95**
Overdraft	**48**	**5**		**10.54**
Borrowing	**-**	**444**	*	**0.85**
	582,715	**29,266**		**5.02**
Interest expense 2010				
Member deposits	541,772	20,884		3.85
Overdraft	19	2		9.43
Borrowing	-	623	*	1.25
	541,791	21,509		3.97

* The borrowing interest represents a line fee only. No actual borrowing was made during 2011 or 2010.

5 REVENUE AND EXPENSES (continued)

	2011 $'000	2010 $'000
(b) Non-interest revenue		
Fees and commissions	**552**	392
Bad debts recovered	**395**	150
Other income	**452**	297
	1,399	839
(c) Employee benefits expenses		
Wages and salaries	**5,003**	4,790
Workers' compensation costs	**34**	45
Defined contribution superannuation expense	**427**	366
Other employee benefit expense	**739**	610
Total employee benefits expense	**6,203**	5,811
(d) Depreciation and amortisation expenses		
Depreciation of property, plant & equipment		
Plant and equipment	**118**	149
Leasehold property improvements	**34**	28
Total depreciation of property, plant & equipment	**152**	177
Amortisation of intangible assets		
Computer software	**195**	283
Total amortisation of intangible assets	**195**	283
Total depreciation and amortisation expenses	**347**	460
(e) Other expenses		
(Decrease)/Increase in impairment losses on loans and advances	**59**	(197)
Bad debts written off directly	**739**	1,271
Other expenses	**50**	43
Total other expenses	**848**	1,117
(f) Other expenses included in the Statement of Comprehensive Income		
Minimum lease payments - operating lease	**899**	909
Loss on disposal of property, plant and equipment	**30**	-

Minimum lease payments - operating lease are included in Accomodation expenses in the Statement of Comprehensive Income. Similarly, Loss on disposal of property, plant and equipment is included in Administration expenses.

	2011 $'000	2010 $'000
6 INCOME TAX		
(a) Income tax expense		
The major components of income tax expense are:		
Statement of Comprehensive Income		
Current income tax		
Current income tax charge	996	1,286
Adjustments in respect of current income tax of previous years	1	36
Deferred income tax		
Relating to origination and reversal of temporary differences	125	(118)
Income tax expense reported in the Statement of Comprehensive Income	1,122	1,204
(b) Amounts charged or credited directly to equity		
Deferred income tax related to items charged or credited directly to equity		
Net gain on revaluation of cash flow hedges	21	(52)
Income tax expense reported in equity	21	(52)

(c) Numerical reconciliation between aggregate tax expense recognised in the Statement of Comprehensive Income and tax expense calculated per the statutory income tax rate

A reconciliation between tax expense and the product of accounting profit before tax multiplied by the Credit Union's applicable income tax rate is as follows:

	2011 $'000	2010 $'000
Total accounting profit before income tax	3,439	4,009
At the Credit Union's statutory income tax rate of 30% (2009: 30%)	1,033	1,203
Adjustments in respect of current income tax of previous years	1	36
Adjustments in respect of deferred tax of previous years	83	(36)
Non-deductible expenses	5	1
Aggregate income tax expense	1,122	1,204

(d) Recognised deferred tax assets and liabilities

Deferred tax at 30 June relates to the following:

	2011 $'000	2010 $'000
Statement of Financial Position		
(i) Deferred tax liabilities		
Other assets	-	-
Gross deferred tax liabilities	-	-

	2011 $'000	2010 $'000
6 INCOME TAX (continued)		
(ii) Deferred income tax assets		
Loans and advances	**197**	179
Plant and equipment	**76**	194
Creditors and other liabilities	**225**	269
Employee entitlements	**170**	151
Derivatives	**30**	52
Gross deferred tax assets	**698**	845
Set-off of deferred tax assets/(liabilities)	**-**	-
Net deferred income tax assets	**698**	845
Statement of Comprehensive Income		
Deferred income tax charge		
Loans and advances	**(18)**	59
Plant and equipment	**118**	(54)
Creditors and other liabilities	**44**	(127)
Employee entitlements	**(19)**	4
Deferred tax (income)/expense	**125**	(118)

(e) Unrecognised temporary differences

At 30 June 2011, there are no unrecognised temporary differences (2010: $nil).

(f) Franking credit balance

	2011 $'000	2010 $'000
The amount of franking credits available for the subsequent financial year are:		
– franking account balance as at the end of the financial year at 30% (2010: 30%).	**25,353**	23,958
– franking credits that will arise from the payment of income tax payable as at the end of the financial year	**203**	603
– franking debits that will arise from the receipt of income tax receivable as at the end of the financial year	**-**	-
	25,556	24,561

7 CASH AND CASH EQUIVALENTS

	2011 $'000	2010 $'000
Cash on hand	**1**	1
Cash at bank	**2,545**	3,250
Deposits at call with financial institutions	**16,571**	11,161
	19,117	14,412

Cash at bank earns interest at floating rates based on daily bank deposit rates. The carrying amounts of cash and cash equivalents represents fair value.

Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Credit Union, and earn interest at the respective short-term deposit rates.

7 CASH AND CASH EQUIVALENTS (continued)

Reconciliation to Cash Flow Statement

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the following:

	2011 $'000	2010 $'000
Cash on hand	**1**	1
Deposits at call with financial institutions	**16,571**	11,161
Cash at bank	**2,545**	3,250
Bank overdrafts (note 16)	**-**	(69)
	19,117	14,343

8 LOANS AND ADVANCES

	2011 $'000	2010 $'000
Lines of credit	**79,182**	81,231
Term loans	**545,709**	461,617
Gross loans and advances	**624,891**	542,848
Allowance for impairment loss	**(656)**	(597)
Net loans and advances	**624,235**	542,251
Security dissection		
Secured by mortgage	**564,758**	474,382
Secured other	**12,367**	14,866
Unsecured	**47,766**	53,600
	624,891	542,848
Purpose dissection		
Residential loans	**562,079**	471,429
Personal loans	**60,133**	68,466
Commercial loans	**2,679**	2,953
	624,891	542,848
Maturity analysis - gross loans and advances		
Not later than three months	**3,802**	3,400
Later than three months but not later than one year	**18,422**	17,437
Later than one year but not later than five years	**40,234**	60,770
Later than five years	**562,433**	461,241
	624,891	542,848

(a) Allowance for impairment loss

An increase in allowance for impairment loss of $59,000 (2010: decrease of $197,000) has been recognised by the Credit Union in the 'other expenses' line item for the current year for specific debtors and debtors assessed on a collective basis, as described in note 2(h), for which such evidence exists.

Movements in the allowance for impairment loss were as follows:

	2011 $'000	2010 $'000
At 1 July	**597**	794
Charge for the year	**59**	(197)
At 30 June	**656**	597

8 LOANS AND ADVANCES (continued)

At 30 June, the analysis of loans and advances is as follows:

	2011 $'000	2010 $'000
Neither past due nor impaired*	**606,030**	523,442
Current		
Past due but not impaired**	**-**	-
Individually impaired	**8**	-
1 - 30 days		
Past due but not impaired**	**17,270**	18,147
Individually impaired	**-**	-
30 days - 3 months		
Past due but not impaired**	**983**	925
Individually impaired	**-**	-
3 months - 1 year		
Past due but not impaired**	**544**	334
Individually impaired	**56**	-
	624,891	542,848

* The credit quality of the financial assets that are neither past due nor impaired is considered of satisfactory standard. The credit quality of the portfolio is monitored on a continual basis through benchmarking delinquency, bankruptcy and write-off trends against historical and industry levels.

** Payment terms on these amounts have not been renegotiated however credit has been stopped until full payment is made. Each operating unit has been in direct contact with the relevant debtor and is satisfied that payment will be received in full.

	2011 $'000	2010 $'000
Restructured loans (Note 2i)	**13**	22

The estimation of the fair value of collateral and other security enhancements held against loans and advances is shown below:

	2011 $'000	2010 $'000
Past due 30 days and over but not impaired	**1,619**	1,150
Individually impaired	-	-

Management monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

(b) Concentration of loans

Individual loans which exceed 5% of Members' funds in aggregate amount to $nil in 2011 (2010: $nil).

Details of classes of loans which represent, in aggregate, 5% or more of Members' funds are set out below. This information was extracted from the records of payroll deductions and residential postcodes.

	2011 $'000	2010 $'000
8 LOANS AND ADVANCES (continued)		
Geographic Areas-Residence and/ or Employed Within:		
New South Wales	**427,829**	375,699
Victoria	**104,295**	84,178
Queensland	**48,461**	40,229
Western Australia	**16,712**	16,696
South Australia	**12,464**	11,505
Tasmania	**4,435**	3,912
Other	**10,695**	10,629
Total	**624,891**	542,848

(c) Fair value

The *carrying amount* of loans and advances are as follows:

Lines of credit	**79,182**	81,231
Term loans	**545,709**	461,617
	624,891	542,848

The *fair values* of loans and advances are as follows:

Lines of credit	**79,279**	81,249
Term loans	**547,844**	464,535
	627,123	545,784

The fair values are based on cash flows discounted at a rate reflecting current market rates adjusted for counter party credit risk.

9 OTHER ASSETS

Prepayments	**1,075**	629
Sundry debtors	**30**	51
	1,105	680

Sundry debtors are neither impaired nor past due. It is expected that these balances will be received when due.

10 HELD TO MATURITY FINANCIAL INVESTMENTS

Term deposits	**79,735**	95,590
Term deposits	**79,735**	95,590

Maturity analysis

< 3 months	**61,028**	75,503
3 months - 6 months	**18,707**	20,087
Total	**79,735**	95,590

Due to the short-term nature, the carrying amount of the held-to-maturity financial investments approximate their fair value.

11 PROPERTY, PLANT AND EQUIPMENT

	2011 $'000	2010 $'000
Work in Progress		
At cost	**102**	-
Accumulated depreciation	**-**	-
Net carrying amount	**102**	-
Plant and equipment		
At cost	**562**	1,277
Accumulated depreciation	**(269)**	(1,007)
Net carrying amount	**293**	270
Leasehold property improvements		
At cost	**-**	202
Accumulated depreciation	**-**	(163)
Net carrying amount	**-**	39
Total property, plant and equipment		
At cost	**664**	1,479
Accumulated depreciation and impairment	**(269)**	(1,170)
Net carrying amount	**395**	309

Reconciliation of carrying amounts at the beginning and end of the period

	2011 $'000	2010 $'000
Work in Progress		
Balance at the beginning of the year		
At cost	**-**	-
Accumulated depreciation	**-**	-
Net carrying amount	**-**	-
Additions	**102**	-
Disposals	**-**	-
Depreciation charge for the year	**-**	-
Balance at the end of the year - Net carrying amount	**102**	-
Plant and equipment		
Balance at the beginning of the year		
At cost	**1,277**	1,173
Accumulated depreciation	**(1,007)**	(858)
Net carrying amount	**270**	315
Additions	**169**	104
Disposals	**(11)**	-
Depreciation charge for the year	**(135)**	(149)
Balance at the end of the year - Net carrying amount	**293**	270

11 PROPERTY, PLANT AND EQUIPMENT (continued)

	2011 $'000	2010 $'000
Leasehold property improvements		
Balance at the beginning of the year		
At cost	**202**	197
Accumulated depreciation	**(163)**	(135)
Net carrying amount	**39**	62
Additions	**-**	5
Disposals	**(22)**	-
Depreciation charge for the year	**(18)**	(28)
Balance at the end of the year - Net carrying amount	**(0)**	39
Total Property, plant and equipment		
At cost	**1,479**	1,370
Accumulated depreciation and impairment	**(1,170)**	(993)
Net carrying amount	**309**	377
Additions	**271**	109
Disposals	**(33)**	-
Depreciation charge for the year	**(152)**	(177)
Balance at the end of the year - Net carrying amount	**395**	309

12 INTANGIBLE ASSETS

	2011 $'000	2010 $'000
Computer software		
At Cost	**712**	1,195
Accumulated amortisation	**(569)**	(910)
Net carrying amount	**143**	285

Reconciliation of carrying amount at beginning and end of the period

	2011 $'000	2010 $'000
Computer software		
Balance at the beginning of the year		
At Cost	**1,195**	1,180
Accumulated amortisation	**(910)**	(627)
Net carrying amount	**285**	553
Additions	**53**	15
Disposal	**-**	-
Amortisation	**(195)**	(283)
Balance at the end of the year - Net carrying amount	**143**	285

13 MEMBER DEPOSITS

	2011 $'000	2010 $'000
Call deposits	**201,218**	184,989
Term deposits	**433,593**	380,677
Withdrawable shares	**66**	76
	634,877	565,742

(a) Undiscounted Maturity analysis of Member deposits

	2011 $'000	2010 $'000
At call	**201,284**	185,065
< 3 months	**246,938**	201,031
3 months - 6 months	**111,514**	115,396
6 months - 1 year	**68,709**	59,509
1 - 5 years	**15,187**	11,175
	643,632	572,176

(b) Concentration of Member deposits

No individual Member deposits represent 5% or more of the total liabilities of the Credit Union.

(c) Fair value

The carrying amount of Member deposits are as follows:

	2011 $'000	2010 $'000
Call deposits	**201,218**	184,989
Term deposits	**433,593**	380,677
Withdrawable shares	**66**	76
	634,877	565,742

13 MEMBER DEPOSITS (continued)

	2011 $'000	2010 $'000
The fair values of Member deposits are as follows:		
Call deposits	**201,218**	184,989
Term deposits	**435,282**	381,863
Withdrawable shares	**66**	76
	636,566	566,928

Discounted cash flows (based upon the deposit type and its related maturity) were used to calculate the fair value.

(d) Interest rate and liquidity risk

Information regarding the liquidity risk and effective interest rate risk of Member deposits is set out in note 3.

14 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are used by the Credit Union in the normal course of business in order to hedge exposure to fluctuations in interests rates.

The followings shows the fair values of derivative financial instruments, recorded as liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicated the volume of transactions outstanding at the year end and are not indicative or either the market risk or the credit risk:

Derivative used as cash flow hedges

	2011 $'000	2010 $'000
Interest rate swaps		
- Fair value	**101**	172
- Notional amount	**20,000**	20,000

Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amount, in relation to movements in a specified underlying index such as an interest rate.

Interest rate swaps relate to contracts taken out by the Credit Union with other financial institutions in which the Credit Union either receives or pays a floating rate of interest in return for paying or receiving, respectively, a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

Cash flow hedges

The Credit Union is exposed to variability in future interest cash flows on non-trading assets and liabilities. The Credit Union uses interest rate swaps as cash flow hedges of these interest rate risks.

14 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Below is a schedule indicating as at 30 June, the periods when the hedged cash flows are expected to occur and when they are expected to affect profit or loss:

	Within 1 year	1 - 3 years
2011	***$'000***	***$'000***
Cash inflow	**1,008**	**1,751**
Cash outflows	**(1,070)**	**(1,872)**
Net cash flows	**(62)**	**(121)**
2010		
Cash inflow	984	1,661
Cash outflows	(1,070)	(1,801)
Net cash flows	(86)	(140)

The net gain (loss) on cash flow hedges reclassified to the profit or loss during the year was as follows:

	2011	*2010*
	$'000	*$'000*
Interest expense	**(79)**	(85)
Taxation	**24**	26
Net gain (loss) on cash flow hedges reclassified to the profit or loss (Note 18)	**(55)**	(59)

In 2011, nil (2010: nil) was recognised in the profit or loss due to the hedge ineffectiveness from cash flow hedges.

15 PROVISIONS

Annual leave	**279**	275
Long Service Leave	**288**	230
Lease make-good	**29**	155
	596	660
Settlement term (years)		
Long service leave	**15**	15
Lease make-good	**7.0**	1.3

Movements in provisions

Movements in each class of provision during the financial year, other than provisions relating to employee benefits, are set out below:

	Lease Make-good	*Long Service Leave*
At 1 July 2010	155	230
Arising during the year	89	304
Utilised	(215)	(246)
At 30 June 2011	29	288

In accordance with the lease agreement, the Credit Union must restore the leased premises in Sydney to its original condition at the end of the lease term. A provision of $89,000 was raised during the year ended 30 June 2011 (2010: $92,000) in respect of the Credit Union's obligation to remove leasehold improvements from leased premises.

16 INTEREST-BEARING LOANS AND BORROWINGS

Bank overdrafts	**-**	69
	-	69

(a) Undiscounted Maturity analysis of interest bearing loans and borrowings

At call	**-**	69
	-	69

(b) Fair values

Due to the short-term nature of these borrowings, the carrying amount of the Credit Union's borrowings approximate their fair value.

(c) Terms and conditions

The bank overdraft facility is unsecured and may be drawn at any time. The committed facility is unsecured and may be drawn by giving 2 days' notice.

(d) Financing facilities available

At reporting date, the following financing facilities with the Commonwealth Bank of Australia had been negotiated and were available:

Total facilities		
Bank overdraft	**1,100**	1,100
Committed facility	**50,000**	50,000
	51,100	51,100
Facilities used at reporting date		
Bank overdraft	**-**	69
Committed facility	**-**	-
	-	69
Facilities unused at reporting date		
Bank overdraft	**1,100**	1,031
Committed facility	**50,000**	50,000
	51,100	51,031

(e) Assets pledged as security

At the reporting date, there were no assets pledged as security for interest bearing liabilities.

(f) Interest rate risk

Information regarding the interest rate risk of the interest bearing loans and borrowings is set out in note 3.

(g) Defaults and breaches

During the current and prior year, there were no defaults or breaches on any of the loans.

	2011 $'000	2010 $'000
17 CREDITORS AND OTHER LIABILITIES		
Creditors and accruals	**2,392**	2,233
	2,392	2,233
Undiscounted Maturity analysis of Creditors and accruals:		
Less than 3 months	**2,392**	2,233

Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

The payables are non-trade, non-interest bearing and have an average term of 14 days.

18 RESERVES	**Cash flow hedge reserves**
At 1 July 2009	**-**
Net unrealised gain/(loss) on cash flow hedges	**(61)**
Net gain/(loss) on cash flow hedges reclassified to profit or loss	**(59)**
At 30 June 2010	**(120)**
Net unrealised gain/(loss) on cash flow hedges	**104**
Net gain/(loss) on cash flow hedges reclassified to profit or loss	**(55)**
At 30 June 2011	**(71)**

19 CAPITAL MANAGEMENT

The Credit Union is licensed as an Australian Deposit-Taking Institution (ADI) under the Banking Act and is subject to prudential supervision by APRA. APRA has issued a series of prudential standards to implement the Basel II capital framework. The Credit Union has complied with these requirements since their implementation from 1 January 2008.

The Basel II Standards include APS 110 Capital Adequacy which:

a) Imposes on the Board a duty to ensure that the Credit Union maintains an appropriate level and quality of capital commensurate with the level and extent of the risks to which the Credit Union is exposed from its activities; and

b) Obliges the Credit Union to have in place an Internal Capital Adequacy Assessment Process (ICAAP).

19 CAPITAL MANAGEMENT (continued)

There are three pillars to the Basel II capital framework -

Pillar 1 - involves specific capital charges for credit risk, operational risk, and the risk of financial market trading activities.

Pillar 2 - involves the Credit Union making an assessment of any additional capital necessary to cover other risks not included in Pillar 1.

Pillar 3 - involves increased reporting by the Credit Union to APRA.

The Credit Union's regulatory capital is analysed into two tiers -
Tier 1 capital, which includes general reserves and current year earnings.
Tier 2 capital, which includes upper tier 2 capital of the general reserve for credit losses.

Various limits are applied to elements of the capital base. APRA may require an ADI to hold more than 50% of its required prudential capital in the form of Tier 1 capital and there are restrictions on the amount of collective impairment allowances that may be included as part of Tier 2 capital. Other deductions from capital include deferred tax assets and intangible assets.

	2011	*2010*
	$'000	*$'000*
Regulatory capital		
Tier 1 capital	**83,725**	81,414
Tier 2 capital	**2,693**	2,675
Capital Base	**86,418**	84,089
Risk weighted assets	**359,306**	311,320
Capital adequacy ratios	**24.05%**	27.01%

During the period the Credit Union has complied with all externally imposed capital requirements.

Basel III

The Credit Union is currently evaluating the impact of the recently announced Basel III capital requirements on its operations in accordance with APRA's timetable and expectations.

20 CASH FLOW STATEMENT RECONCILIATION

	2011	2010
	$'000	$'000
Reconciliation of net profit after tax to net cash flows from operations		
Profit for the year	**2,317**	2,805
Adjustments for:		
Depreciation and amortisation	**347**	460
Bad debts written off	**739**	1,271
Net (profit)/loss on disposal of property, plant and equipment	**30**	-
Movement in allowance for impairment loss	**59**	(197)
Deferred tax attributed directly to equity	**(21)**	52
Fair value adjustment on acquired deposits	**-**	(120)
Changes in assets and liabilities		
(Increase)/Decrease in other assets	**(424)**	(569)
(Increase)/Decrease in deferred tax assets	**147**	(170)
(Increase)/Decrease in accrued interest on investments	**(146)**	22
(Increase)/Decrease in loans and advances	**(82,782)**	(21,312)
(Decrease)/Increase in current tax liability	**(399)**	1,079
(Decrease)/Increase in provisions	**(65)**	142
(Decrease)/Increase in trade creditors and other liabilities	**1,028**	(93)
(Decrease)/Increase in deposits	**68,276**	20,361
Net cash flows from / (used in) operating activities	**(10,894)**	3,731

21 COMMITMENTS AND CONTINGENCIES

(a) Commitments

(i) Leasing commitments

Operating lease commitments – Credit Union as lessee

The Credit Union leases office premises at Level 16, 2 Market Street, Sydney. The lease has a life of 8 years expiring on 31 October 2018. There are no restrictions placed upon the lessee by entering into this lease.

Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

	2011	*2010*
	$'000	*$'000*
Within one year	**925**	902
After one year but not more than five years	**5,210**	5,009
After more than five years	**1,565**	2,691
Total minimum lease payments	**7,700**	8,602
(ii) Capital expenditure commitments		
Contracted but not provided for and payable within one year	**40**	97
(iii) Outstanding loan commitments		
Member loans approved but not funded	**25,546**	12,514

There is no certainty that all unfunded loans will ultimately be funded.

(iv) Outstanding line of credit commitments

Member line of credit facilities approved but not funded	**72,769**	71,497

The Credit Union retains the right, at any time, to reduce or withdraw an approved line of credit limit or facility.

(b) Contingencies

As at 30 June 2011 and 2010, there are no significant contingent liabilities.

22 AUDITORS' REMUNERATION

The auditor of Gateway Credit Union is Ernst & Young	***2011***	*2010*
	$	*$*
Amounts received or due and receivable by Ernst & Young (Australia) for:		
• an audit or review of the financial report of the entity	**154,833**	127,221
• other services in relation to the entity		
- tax compliance	**15,037**	9,800
- APS 310 compliance	**33,422**	-
	203,292	137,021

23 KEY MANAGEMENT PERSONNEL

(a) Compensation of Key Management Personnel

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

	2011	*2010*
	$	*$*
Short-term	**1,239,853**	947,948
Termination benefits	**-**	49,064
	1,239,853	997,012

In the above table, remuneration shown as short term benefits means (where applicable) wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses, value of fringe benefits received, but excludes out of pocket expense reimbursements.

All remuneration to Directors was approved by the Members at the previous Annual General Meeting of the Credit Union.

(b) Loans to Key Management Personnel

		2011	2010
(i)	The aggregate value of loans to Key Management Personnel as at balance date amounted to:		
	Personal loans - secured	**17,678**	90,550
	Term Loans - secured	**1,580,729**	1,637,860
		1,598,407	1,728,410
(ii)	During the year the aggregate value of loans disbursed to Key Management Personnel amounted to:		
	Personal loans - secured	**77,543**	190,809
	Term Loans - secured	**178,108**	1,356,064
		255,651	1,546,873
(iii)	During the year the aggregate value of repayments received amounted to:	**452,980**	1,751,508
(iv)	Interest and other revenue earned on Loans and revolving credit facilities to Key Management Personnel:	**81,678**	81,273

Secured loans are secured against residential property. All loans advanced to Key Management Personnel are to be settled in cash and are issued under the same terms and conditions as other Members.

23 KEY MANAGEMENT PERSONNEL (KMP) (continued)

Terms and conditions of loans

The Credit Union's policy for lending to Key Management Personnel is that all loans are approved and deposits accepted on the same terms and conditions that applied to Members for each class of loan or deposit.

There are no loans that are impaired in relation to the loan balances with Key Management Personnel.

There are no benefits or concessional terms and conditions applicable to the close family members of the Key Management Personnel. There are no loans which are impaired in relation to the loan balances with close family relatives of Key Management Personnel.

(c) Other transactions and balances with Key Management Personnel and their related parties

	2011	*2010*
	$	*$*
Total value term and savings deposits from Key Management Personnel	**929,875**	840,363
Total interest paid on deposits to Key Management Personnel	**31,978**	19,271

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

There are no benefits paid or payable to the close family members of Key Management Personnel.

24 EVENTS AFTER BALANCE SHEET DATE

There have been no significant events occurring after the balance date which may affect either the Credit Union's operations or results of those operations or the Credit Union's state of affairs.

25 ECONOMIC DEPENDENCY

The term "economic dependency" means that a change in existing relationships could have an economic effect on the Credit Union. It does not mean that the Credit Union is economically supported by the listed organisations in any way, whether financially or by guarantee, other than by means of normal commercial arrangements.

The Credit Union has an economic dependency on the following:

(a) The Commonwealth Bank of Australia (CBA) and the Reserve Bank of Australia (RBA), together with their subsidiary and associated companies

CBA are a provider of banking facilities to the Credit Union. In addition CBA and the RBA provided facilities for Credit Union Members to transact business direct with the Credit Union.

(b) Data Action Pty Limited

This company provides and maintains the application software and internet banking utilised by the Credit Union.

(c) NST Worldwide Pty Limited

This company provides technical management and support for the office IT Infrastructure, office Help Desk and Member internet site (non-banking site only).

(d) Cuscal Limited

This company provides a range of transactional settlement support processes, particularly in relation to the Credit Union's Visa Debit Card offering.

In accordance with a resolution of the Directors of Gateway Credit Union, I state that:

In the opinion of the Directors:

(a) the financial report of the Credit Union is in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the Credit Union's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

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

(b) the financial report also complies with the International Financial Reporting Standards as issued by the International Accounting Standards Board.

(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.

On behalf of the Board

Catherine M Hallinan
Deputy Chair

Graham B Raward
Convenor Risk & Audit Committee

Sydney, 20 September 2011

ERNST & YOUNG

Ernst & Young Centre
680 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
www.ey.com/au

Independent auditor's report to the members of Gateway Credit Union Limited

Report on the financial report

We have audited the accompanying financial report of Gateway Credit Union Limited, which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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 controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, 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 controls 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

ERNST & YOUNG

2

Opinion

In our opinion:

a. the financial report of Gateway 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 2011 and of its performance for the year ended on that date; and

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

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Ernst & Young

Ernst & Young

Andrew Harmer
Partner
Sydney
20 September 2011

THIS PAGE HAS BEEN LEFT BLANK INTENTIONALLY

Gateway Credit Union
ABN 47 087 650 093

t: 1300 302 474 www.gatewaycu.com.au
e: memberservices@gatewaycu.com.au