



# Police Credit Union

annual report | 2011



For You, Your Family, Your Future.

## Table of Contents

Mission Statement	2
Key Statistics of the Credit Union	2
Directors' Report	3
Directors' Declaration	9
Auditor's Report	10
Statement of Comprehensive Income	11
Statement of Changes in Member Equity	12
Statement of Financial Position	13
Statement of Cash Flows	14
Notes to and Forming Part of the Accounts	15
General Information	42

# MISSION STATEMENT

The Police Credit Union is a community of Members, Directors and Staff who together form an important and integral part of the life of Police, family and associated community groups.

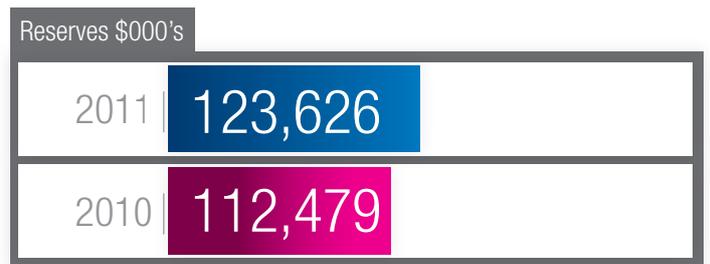
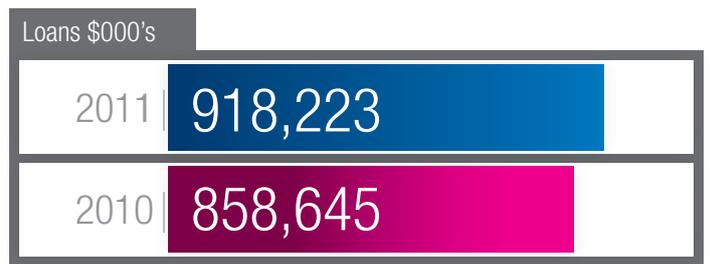
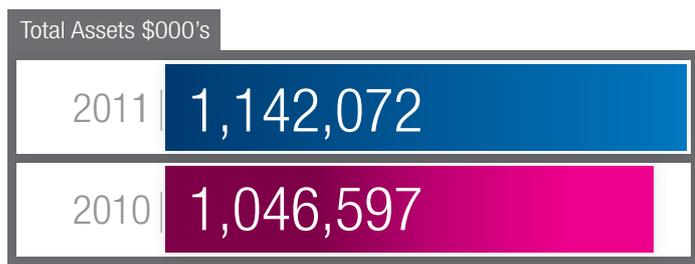
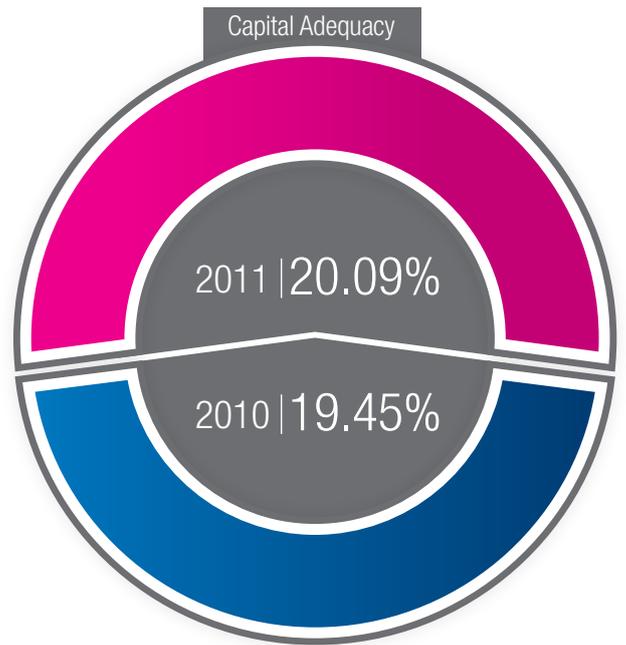
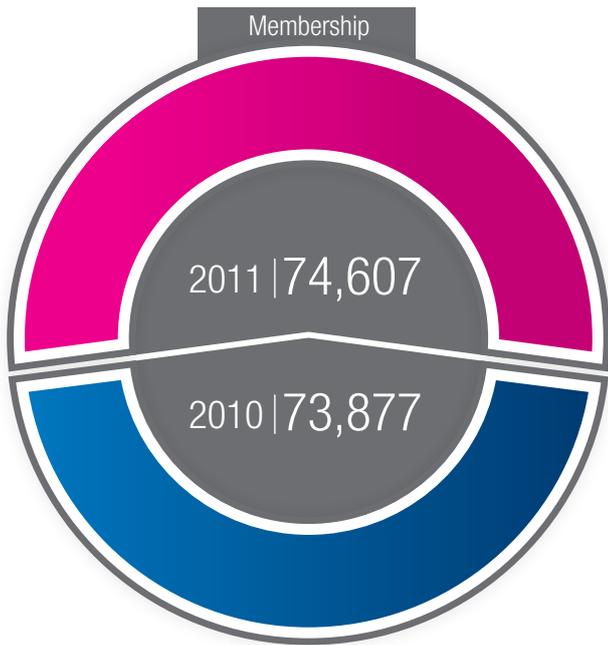
Directors and Staff operate in the interest of all Members according to the following key values:

- A flexible and caring response to Members' needs;
- Honouring excellence in relationships between and among Members, Directors and Staff;
- Personal honesty and integrity.

We provide personal attention to the financial well-being of each Member through flexible products and services in a competitive environment combined with prudential financial management in pursuing appropriate levels of growth.

We work together in building the Police Credit Union to become the best in Member service, range of relevant products and services, management practices and financial strength.

# KEY STATISTICS



# DIRECTORS' REPORT

Your Directors submit the Financial Accounts of the Credit Union for the financial year ended 30 June, 2011.

## Directors' Disclosures

The names of Directors in office at the date of this report, or who held office during the course of the financial year, are:

Kenneth Edward Moroney (Chairman)  
David Charles Walton (Deputy Chairman)  
Paul Thomas Biscoe  
Raff Del Vecchio  
Geoffrey Richard Green  
Anthony Raymond Lauer  
Graham James Loughlin  
Lloyd William Taylor

	Board		Audit Committee		Other Committees	
	Meetings Attended	Eligible Attended	Meetings Attended	Eligible Attended	Meetings Attended	Eligible Attended
Moroney	10	12	-	-	2	2
Walton	12	12	4	4	3	4
Biscoe	12	12	-	-	14	15
Del Vecchio	12	12	4	4	8	8
Green	11	12	4	4	6	6
Lauer	10	12	-	-	14	15
Loughlin	11	12	4	4	8	8
Taylor	12	12	-	-	21	21

## Directors' Benefits

No Director has received or become entitled to receive during, or since the financial year, a benefit because of a contract made by the Credit Union, controlled entity, or a related body corporate with a Director, a firm of which a Director is a member or an entity in which a Director has a substantial financial interest, other than that disclosed in note 31 of the financial report.

## Indemnification and Insurance

During the year, a premium was paid in respect of a contract insuring Directors and Officers of the Credit Union against any costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in their capacity as an Officer of the Credit Union. The Officers of the Credit Union covered by the insurance contract include the Directors, Executive Officers, Secretary and Employees. In accordance with normal commercial practice, disclosure of the total amount of premium payable under, and the nature of liabilities covered by, the insurance contract is prohibited by a confidentiality clause in the contract.

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

## Share Options

The Credit Union has not issued any options over shares. All shares issued by the Credit Union are withdrawable shares.

## Principal Activities

The principal activities of the Credit Union during the year were the provision of financial and associated services to Members. There were no significant changes in the principal activities during the year.

## Operating Results

The Credit Union's profit after providing for income tax and Minority Equity Interest amounted to \$11,136,616. The previous year's comparable result was \$10,422,069. This is an increase in profit for the year of \$714,547. Assets increased during the year by \$95.5M from \$1,046.6M to \$1,142.1M. The year's growth had no impact on the capital adequacy ratio which increased from 19.45% to 20.09%. At 20.09% the capital adequacy ratio remains well above the statutory minimum of 8%.

These results were achieved in an environment where the effects of the global financial crisis continue to be felt, and competition in the domestic banking industry continues to be intense with depositors benefiting from higher margins. The results reflect the continuing support of the Membership for the products and services offered by the Credit Union and the ongoing attention given by both the Board and Management to Member service, relevant products and the control of costs. It is envisaged that the results for the year ending 30 June 2012 will be similar to those achieved in 2011.

## Dividends

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

## Review of Operations

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

During the year a number of significant activities and events took place:

- **Annual Employee Awards.** *Star Achievers* are awarded to staff who consistently deliver an outstanding level of service, demonstrating a commitment above and beyond the normal call of duty.

Congratulations go out to our 2011 winners:

Chris Cureton – Marketing  
Teresa Scarfo – Business Development  
Craig McGinniskin – Newcastle Branch  
Tim Grove – Information Technology

In addition to the above, a new award known as the PCU *Young Achiever* was also introduced. The purpose of this award to acknowledge, encourage and most importantly promote the positive achievements of young employees of the Credit Union. Melissa Young from Transaction Services was the inaugural winner.

- **Continued Sponsorship Association with NSW Police Legacy.** The Credit Union during the year continued our sponsorship association with Police Legacy. The Credit Union is recognised as a 'major sponsor' providing financial and operational support. PCU is proud to assist Legacy to help continue their excellent work assisting police families.

- **Supporter of Credit Union Foundation Australia (CUFA).** Police Credit Union is a 'Silver Sponsor' of the Foundation. CUFA develops community access to affordable financial services in the Asia-Pacific region, working co-operatively at grass-roots through to government levels. Through programs and activities, CUFA aims to create sustainability, improve lives and relieve poverty.

- **New Customs Credit Union Branch.** The Customs Credit Union (CCU) operation continues to expand with the opening during the year of an additional branch in Melbourne. This modern facility provides our current and future Customs' Members with a more convenient banking service and is part of our strategy to continue to expand our product offerings into this new market. The Melbourne location is now the third office opened (Sydney and Canberra being the other two) since the merger of HMC Credit Union in 2009.

- **Additional Products:**

**Verified by Visa:** PCU launched a new "Verified by Visa" service during the year which provides additional security for Members when buying online. Verified by Visa ensures that only the rightful cardholder can use a Visa Card online.

**Website Improvements:** During the year the Credit Union released an upgrade to its online membership and loan application process. Joining PCU and applying for a loan online is now a more streamlined process resulting in a quicker completion process, all within a secure online environment. In addition a number of extra functions were introduced to help Members self-manage their account. PCU will launch towards the end of 2011 a 'next generation' website which will make available to Members further enhancements for interacting online.

**Introduction of Social Media sites:** Social media sites have become important communication channels around the world and PCU has joined this space with the launch during the year of both Facebook and Twitter sites. The sites are proving popular with a steady increase in usage by Members.

**Mobile Phone Banking:** We were pleased to be able to offer Members during the year the convenience of accessing Internet Banking from a mobile device whether it's to view account balances, analyse transaction listings, transfer funds or pay bills. Members with an iPhone, iPod Touch or any device that uses Windows Live can securely access PCU internet banking.

**'Bonus Saver' Account:** PCU launched a new savings account which enables Members to reach their goals faster with the ability to earn bonus interest when \$100 or more is deposited per month with no withdrawals.

- **Events:**

**Annual Police Games:** PCU was once again a proud sponsor of the NSW Police Games. Held annually in March, the Games stage around 30 sports with the theme of encouraging integrity, fair play, team work and co-operation. The Games are a wonderful opportunity for PCU to support many of our Members and promote our services.

**Family Fun Days:** This year two family fun days were held at Luna Park. The event is designed to provide an opportunity to show appreciation to Members for their support of PCU. In all, over 600 Members took the opportunity to enjoy a family oriented day at an iconic venue.

**Annual PCU Charity Golf Day:** PCU held its Annual Charity Golf Day in May 2011 at New Brighton Golf Course. The successful event was well supported by Members with all money raised from the day being donated to NSW Police Legacy

- **PCU Sponsorship Program:** Police Credit Union is strongly committed to the Police Community and through our sponsorship program we generously supported during the year a varied number of Police charities, events and fund raisers. Many of these sponsorships have contributed towards significantly improving the lives of individuals as well as assisting with community projects.

- **Recognition of Police Academic Achievement:** In partnership with Charles Sturt University, Police Credit Union sponsors an academic achievement award at the Goulburn Police Academy recognising student officers who have excelled with their studies.

- **Community Employee Engagement:** During the year PCU staff were active with various initiatives to assist individuals and communities. In addition to supporting people disadvantaged from the recent devastating natural disasters, a number of charities such as Westmead Children's Hospital, Beyond Blue, Cancer Council and the Children's Medical Research Institute all benefited from the fund raising efforts of PCU employees.

- **PCU Green Initiatives:** PCU is committed to reducing its carbon footprint by undertaking a number of environmental initiatives. Producing electronic statements, engaging environmentally efficient suppliers, recycling/reduction of paper and a level of self sufficient water and power facilities at the Goulburn Processing Centre are some of the actions currently in place.

- **Continuous Operational Improvement.** Management has maintained its focus on continuous internal improvements through re-engineering of underlying processes aimed at improving Member service and internal productivity. The desired outcomes are to grow whilst limiting the need for additional capital, keeping cost increases to a minimum and to meet price competition without significantly impacting upon profitability.

## Significant Changes In State Of Affairs

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

## Events Occurring After Balance Date

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations, or state of affairs of the Credit Union in subsequent financial years, except for:

■ **Price Competition.** Police Credit Union provides an excellent level of service, which allows it to compete on more than price alone. However, the Board and Management are mindful that competition cannot be ignored and that price is certainly a factor in Members' consideration of their ongoing relationship with the Credit Union. However, being a mutual organisation and not having to provide dividends for shareholders does allow room to pass on pricing reflective in the marketplace.

■ **Global Financial Markets.** The current global turmoil could have a flow-on effect locally and impact on asset prices. Police Credit Union has no direct exposure to any overseas activity and is well placed to weather any effects of the volatility. PCU continues to adopt safe and conservative lending and investment practices.

## Likely Developments and Results

The likely developments in the operations of the Credit Union and the expected results of those operations in the financial year subsequent to the year ended 30 June 2011 are as follows:

- The Board of Directors anticipate that the profit will be in the vicinity of 0.8% - 0.95% return on average assets.
- Planned capital expenditure on infrastructure amounts to \$1.8M for the year ending 30 June 2012. This covers general equipment and core banking upgrades.

No other matter, circumstances or likely developments in the operation has arisen since the end of the financial year that has significantly affected or may significantly affect:

- (i) The operations of the Credit Union;
- (ii) The results of those operations; or
- (iii) The state of affairs of the Credit Union.

In the financial years subsequent to this financial year.

The Auditors have provided the Declaration of Independence to the Board as prescribed by the Corporations Act 2001 as set out on this page.

## Declaration of Independence by Neville Sinclair to The Directors of the Police Department Employees' Credit Union Limited

As lead Auditor of The Police Department Employees' Credit Union Limited for the year ended 30 June 2011, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the Auditor independence requirements of the *Corporations Act* 2001 in relation to the audit, and
- (ii) any applicable code of professional conduct in relation to the audit.



Neville Sinclair  
Director

BDO Audit (NSW-VIC) Pty Ltd

Signed in Sydney this 29th day of September 2011.

## Information on Directors and Secretary

Mr K E Moroney  
AO, APM

**Chairman**  
Remuneration Committee (Chairman)

Age  
66

Qualifications  
Doctor of the University, Hons Causa (Charles Sturt University)  
Master of Arts (Macquarie University)  
Diploma Justice Administration (Charles Sturt University)  
Graduate Diploma Management (Macquarie University)

Other Qualifications  
Officer in the Order of Australia (General Division)  
Former Commissioner, NSW Police  
Former Deputy President, Police Association of NSW  
Life Member, Police Association of NSW  
Holder of Australian Police Medal for Distinguished Service  
Member, Australian Mutuals Institute  
Graduate, Federal Bureau of Investigation Academy (Quantico, Virginia, USA)  
Board Member since 1994

Other Responsibilities  
Include  
Patron, Lifeline (Macarthur)  
Patron, Youth Off the Streets  
Chairman & Presiding Officer, Australian Graduate School of Policing, Manly

Experience  
Member, State Parole Authority  
Member, Board & State Council St John's Ambulance NSW  
Member, Conduct Division, Judicial Commission  
Member, Law Enforcement Advisory Panel, World Bank

Interest in Shares  
\$10.00 in ordinary shares in the Police Credit Union



Mr D C Walton

**Deputy Chairman**  
Audit Committee (Chairman)  
Risk Management & Compliance Committee

Age  
46

Qualifications  
Bachelor of Business  
Master of Management & Leadership  
Company Directors Course Diploma, Australian Institute of Company Directors  
Fellow, Australian Institute of Company Directors  
Member, Australasian Mutuals Institute

Experience  
Manager Academic Programs - International, Australian Institute of Police Management  
Former, NSW Police Fraud Squad & Detective Inspector of Police  
Volunteer Auditor, Police RSL Sub-Branch  
Volunteer Auditor, Police Provident Fund (2006 – 2010)  
Casual Academic Staff (Charles Sturt University) (Graduate School of Policing & Faculty of Arts) (1997 – 2008)  
Casual Academic Staff, University of Western Sydney (Faculty of Arts, Policing Studies) (1999)  
Former Executive Manager of Audit & Risk, Energy Australia  
Board Member since 2001

Interest in Shares  
\$10.00 in ordinary shares in the Police Credit Union



Mr P T Biscoe

**Director**  
Credit Committee  
Remuneration Committee  
Corporate Governance Committee

Age  
60

Qualifications  
Member of the Australian Mutuals Institute

Experience  
President of the Retired Police Association  
Police Legacy Legator  
Police RSL Sub-Branch Member  
Board Member since 2000

Interest in Shares  
\$10.00 in ordinary shares in the Police Credit Union



Mr R Del Vecchio

Director

Corporate Governance Committee (Chairman)  
Audit Committee  
Risk Management & Compliance Committee

Age

42

Qualifications

Company Directors Course Diploma, Australian Institute of Company Directors  
Graduate, Australian Institute of Company Directors  
Post Graduate Diploma in Criminology  
Bachelor of Policing

Experience

Member, Australasian Mutuals Institute  
Current Head of Administrative Services, Police Association of NSW  
Chairman, Police Shop of NSW  
Director, Police Legacy NSW  
Member, Police Superannuation Advisory Board  
Member, Retired Police Association  
Senior management positions within financial institutions – specialising in fraud  
identification, risk management & card operations  
Co-author of ACTU publication on Financial Best Practices in Trade Unions  
(nationally published)

Interest in Shares

Board Member since April 2008  
\$10.00 in ordinary shares in the Police Credit Union



Mr G R Green

Director

Audit Committee  
Corporate Governance Committee  
Remuneration Committee

Age

66

Qualifications

L.L.B. (Hons)  
Barrister of the Supreme Court of NSW  
Fellow, Australasian Mutuals Institute

Experience

Former Secretary Legal & Senior Vice President of the Police Association of NSW  
Life Member, Police Association of NSW  
Member, Retired Police Association

Interest in Shares

Board Member since 1989  
\$10.00 in ordinary shares in the Police Credit Union



Mr A R Lauer

Director

Credit Committee (Chairman)  
Risk Management & Compliance Committee

Age

75

Qualifications

Diploma in Criminology (University of Sydney) (1973)  
Graduate, NSW Police Senior Executive Course (Merit) (Australian Police College) (1986)  
Graduate, Senior Executive Police Officer Course (Australian Police Staff College) (1987)  
Graduate, Seventeenth National Executive Institute – Federal Bureau of  
Investigation Academy (Quantico, Virginia, USA) (1994)  
Honorary Fellow, NSW Police Academy (1996)

Experience

Associate Fellow, Australian Mutuals Institute (1996)  
Career Police Officer (1955 – 1996)  
President, Police Association of NSW (1979 – 1982)  
Commissioner of Police 1991 – 1996  
Board Member since 1997

Interest in Shares

\$10.00 in ordinary shares in the Police Credit Union



Mr G J Loughlin

Appointed Director

Risk Management & Compliance Committee (Chairman)  
Audit Committee  
Corporate Governance Committee

Age  
Qualifications

61  
Bachelor of Arts, Hons (Adelaide)  
Graduate Certificate Management (Monash University - Mt. Eliza)  
Member, Australian Institute of Company Directors  
Associate, Chartered Secretaries Australia

Experience  
Current

Manager Group Strategic Development & Company Secretary, DataDot Technology Limited  
Director - DataDot Technology (UK) Limited  
Director - DataDot Technology (Asia) Pte. Ltd.  
Appointed Director April 2008

Previous

Director, Data Advantage Limited  
Chairman, AFCUL Service Corporation Limited  
General Manager, Credit Union Services Corporation (Aust) Limited  
Member, Australian Housing Council  
Member, Australian Payments System Council  
Director, Jetset Tours (SA) Pty. Ltd.  
Member, SA Credit Union Stabilization Board  
Executive Assistant, SA Premier & Treasurer  
Interest in Shares  
\$10.00 in ordinary shares in the Police Credit Union



Mr L W Taylor

Director

Corporate Governance Committee  
Credit Committee  
Risk Management & Compliance Committee

Age  
Qualifications

70  
Mediator, Australian Commercial Disputes Centre  
Fellow, Australasian Mutuals Institute

Experience

Former President, Federation of Police Credit Unions (Australia) (1999 – 2006)  
Convener, Juvenile Justice (1997 – 2009)  
Deputy Chairman, 1992 – 1996, Chairman (1996 – 2001)  
Former Audit Chairman  
Former Secretary Administration, Police Association of NSW  
Former President, Police Association of NSW  
Life Member, Police Association of NSW  
Life Member, Police Federation of Australia & New Zealand  
Board of Management, Retired Police Association  
Member, Police Education Advisory Committee (1988 – 1996)  
Member, Police Superannuation Advisory Committee (1986 – 1997)  
Former Honorary Secretary, Police Legacy  
Board Member since 1988

Interest in Shares

\$10.00 in ordinary shares in the Police Credit Union



Mr B A Williams

Secretary

Qualifications

Master of Business in Finance  
FCIS

Experience  
Directorships

39 years of experience in banking and finance  
Credit Union Financial Support System Limited  
Chelsea Wealth Management Pty Limited  
Chelsea Home Loans Pty Limited.



# DIRECTORS' DECLARATION

## Acknowledgments

In concluding this Report, the Board wishes to acknowledge its appreciation of Bruce Williams, Chief Executive Officer, the Management and Staff of the Credit Union without whose expertise and commitment the achievements of the past year would not have been achieved.

This Report is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors by:



Kenneth E Moroney  
Chairman  
29th September 2011



David C Walton  
Deputy Chairman

## The Police Department Employees' Credit Union Limited

### Directors' Declaration

The Directors of The Police Department Employees' Credit Union Limited declare that:

- 1 The financial statements comprising Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Members Equity, Statement of Cash Flows, and accompanying notes related thereto, are in accordance with the Corporations Act 2001; and:
  - a) comply with Accounting Standards and the Corporations Regulations 2001; and
  - b) give a true and fair view of the financial position of the Credit Union as at 30 June 2011 and the performance for the year ended on that date.
- 2 In the Directors' opinion there are reasonable grounds to believe that the Credit Union will be able to pay its debts as and when they become due and payable.

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



Kenneth E Moroney  
Chairman  
29th September 2011



David C Walton  
Deputy Chairman

# INDEPENDENT AUDITOR'S REPORT

## To the Members of The Police Department Employees' Credit Union Limited

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

### Directors' Responsibility for the Financial Report

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

### Auditor's Responsibility

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

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

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

### Independence

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

## Auditor's Opinion

In our opinion:

- a. the financial report of The Police Department Employees' Credit Union Limited is in accordance with the *Corporations Act 2001*, including:
  - i. giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
  - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*: and
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

BDO Audit (NSW-Vic) Pty Ltd

Neville Sinclair

Director

Signed in Sydney this 30th day of September 2011

# STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 30 June 2011

		Consolidated		Credit Union	
		2011	2010	2011	2010
		\$	\$	\$	\$
	Note				
Interest Revenue	2a	80,107,802	66,651,145	80,107,802	66,651,145
Borrowing Costs	2b	43,695,939	32,990,019	43,695,939	32,990,019
Net Interest Revenue		36,411,863	33,661,126	36,411,863	33,661,126
Other revenue from ordinary activities	3	7,986,509	8,816,994	7,536,432	8,424,489
Impairment losses on Loan Receivables from Members	4a	1,216,006	787,715	1,216,006	787,715
Fees and Commission		5,199,392	5,487,437	5,199,392	5,487,437
General Administration					
- Personnel expenses		12,049,383	11,661,566	12,049,383	11,661,566
- Depreciation and amortisation		1,385,112	1,954,000	1,384,260	1,954,000
- Lease expenses		1,095,277	859,223	1,095,277	859,223
- Other administration expenses		4,176,910	3,707,249	3,808,505	3,315,722
Other operating expenses		3,190,053	3,110,956	3,190,053	3,110,956
Operating Profit before Income Tax		16,086,239	14,909,974	16,005,419	14,908,996
Income Tax Expense	5	4,659,709	4,487,734	4,635,093	4,487,734
<b>Operating Profit after Income Tax</b>		<b>11,426,530</b>	<b>10,422,240</b>	<b>11,370,326</b>	<b>10,421,262</b>
Minority Equity Interest Adjustment		(9,836)	(171)	-	-
Profit attributable to Members of the parent entity		11,416,694	10,422,069	11,370,326	10,421,262
Other comprehensive income		(280,078)	-	(280,078)	-
<b>Total comprehensive income</b>		<b>11,136,616</b>	<b>10,422,069</b>	<b>11,090,248</b>	<b>10,421,262</b>

The accompanying notes form part of these accounts and are to be read in conjunction therewith.

# STATEMENT OF CHANGES IN MEMBERS EQUITY

Credit Union	Capital Account	Retained Profits	Transfer of Engagements Reserve	Reserve for Credit Losses	Asset Revaluation Reserve	Capital Profits Reserve	Other Reserves	Total
Balance 1 July 2009	292,940	61,465,792	2,459,627	2,846,306	377,671	1,430,212	33,197,000	102,069,548
Operating Profit for the year	-	10,421,262	-	-	-	-	-	10,421,262
Transfers to and from Reserves								-
- General Reserves	-	(1,200,000)	-	-	-	-	1,200,000	-
- Capital Account	21,270	(21,270)	-	-	-	-	-	-
- Reserves for Credit Losses	-	-	-	-	-	-	-	-
Transfer of Engagements	-	-	84,105	-	(84,105)	-	-	-
Balance 30 June 2010	314,210	70,665,784	2,543,732	2,846,306	293,566	1,430,212	34,397,000	112,490,810
Balance 1 July 2010	314,210	70,665,784	2,543,732	2,846,306	293,566	1,430,212	34,397,000	112,490,810
Operating Profit for the year	-	11,370,326	-	-	-	-	-	11,370,326
Transfers to and from Reserves								-
- General Reserves	-	(1,200,000)	-	-	-	-	1,200,000	-
- Capital Account	14,530	(14,530)	-	-	-	-	-	-
- Reserves for Credit Losses	-	(150,000)	-	150,000	-	-	-	-
Cash Flow Hedge Reserve	-	-	-	-	-	-	(280,078)	(280,078)
Balance 30 June 2011	328,740	80,671,580	2,543,732	2,996,306	293,566	1,430,212	35,316,922	123,581,058

Consolidated	Capital Account	Retained Profits	Transfer of Engagements Reserve	Reserve for Credit Losses	Asset Revaluation Reserve	Capital Profits Reserve	Other Reserves	Total
Balance 1 July 2009	292,940	61,451,212	2,459,627	2,846,306	377,671	1,430,212	33,199,082	102,057,050
Operating Profit for the year	-	10,422,240	-	-	-	-	-	10,422,240
Profit attributable to minority shareholders	-	(171)	-	-	-	-	211	40
Transfers to and from Reserves								-
- General Reserves	-	(1,200,000)	-	-	-	-	1,200,000	-
- Capital Account	21,270	(21,270)	-	-	-	-	-	-
- Reserves for Credit Losses	-	-	-	-	-	-	-	-
- Revaluation Reserve	-	-	-	-	-	-	-	-
Transfer of Engagements	-	-	84,105	-	(84,105)	-	-	-
Balance 30 June 2010	314,210	70,652,011	2,543,732	2,846,306	293,566	1,430,212	34,399,293	112,479,330
Balance 1 July 2010	314,210	70,652,011	2,543,732	2,846,306	293,566	1,430,212	34,399,293	112,479,330
Operating Profit for the year	-	11,426,530	-	-	-	-	-	11,426,530
Profit attributable to minority shareholders	-	(9,836)	-	-	-	-	9,836	-
Transfers to and from Reserves								-
- General Reserves	-	(1,200,000)	-	-	-	-	1,200,000	-
- Capital Account	14,530	(14,530)	-	-	-	-	-	-
- Reserves for Credit Losses	-	(150,000)	-	150,000	-	-	-	-
- Revaluation Reserve	-	-	-	-	-	-	-	-
Cash Flow Hedge Reserve	-	-	-	-	-	-	(280,078)	(280,078)
Balance 30 June 2011	328,740	80,704,175	2,543,732	2,996,306	293,566	1,430,212	35,329,051	123,625,782

# STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

		Consolidated		Credit Union	
		2011 \$	2010 \$	2011 \$	2010 \$
<b>Assets</b>	Note				
Cash and Liquid Assets	6	56,910,798	11,606,938	56,851,110	11,606,938
Receivables due from other Financial Institutions	7	72,000,000	163,500,000	72,000,000	163,500,000
Accrued Receivables	8	3,389,000	2,634,141	3,344,007	2,598,602
Investment Securities	9	80,787,158	-	80,787,158	-
Loans and Advances	10&11	916,360,594	857,424,598	916,360,594	857,424,598
Available for Sale Investments	12	6,883,082	5,610,154	6,883,089	5,610,161
Property Plant and Equipment	13	3,419,563	3,880,559	3,399,711	3,880,559
Intangible Assets	14	598,842	400,142	598,842	400,142
Taxation Assets	15	1,722,839	1,540,478	1,722,839	1,540,478
Derivative Fair Value		-	-	-	-
<b>Total Assets</b>		<b>1,142,071,876</b>	<b>1,046,597,010</b>	<b>1,141,947,350</b>	<b>1,046,561,478</b>
<b>Liabilities</b>					
Payables to other Financial Institutions	16	-	-	-	-
Deposits and Borrowings	17	997,178,757	915,621,165	997,178,757	915,621,165
Creditors and other Liabilities	18	14,997,969	13,294,365	14,996,782	13,280,385
Provisions	19	3,505,554	3,223,968	3,461,626	3,202,457
Taxation Liabilities	20	2,465,493	1,447,665	2,430,806	1,436,144
Derivative Fair Value		298,321	530,517	298,321	530,517
<b>Total Liabilities</b>		<b>1,018,446,094</b>	<b>934,117,680</b>	<b>1,018,366,292</b>	<b>934,070,668</b>
<b>Net Assets</b>		<b>123,625,782</b>	<b>112,479,330</b>	<b>123,581,058</b>	<b>112,490,810</b>
<b>Member Funds</b>					
Capital Account	21	328,740	314,210	328,740	314,210
Reserves		42,860,849	41,510,849	42,860,816	41,510,816
Retained Profits		80,704,175	70,652,011	80,671,580	70,665,784
Cash Flow Hedge Reserve		(280,078)	-	(280,078)	-
Minority Equity Interest		12,096	2,260	-	-
<b>Total Member Funds</b>		<b>123,625,782</b>	<b>112,479,330</b>	<b>123,581,058</b>	<b>112,490,810</b>

The accompanying notes form part of these accounts and are to be read in conjunction therewith.

# STATEMENT OF CASH FLOWS

For Year Ended 30 June 2011

	Consolidated		Credit Union	
	2011 \$	2010 \$	2011 \$	2010 \$
<b>Cash Flow From Operating Activities</b> Note				
Interest Received - Loans	67,778,098	58,136,357	67,778,098	58,136,357
Other Income	19,218,269	16,860,953	18,768,193	16,468,448
Dividends Received	744,620	313,434	744,620	313,434
Interest Paid	(42,476,255)	(31,946,366)	(42,476,255)	(31,946,366)
Suppliers and Employees	(26,926,529)	(21,793,368)	(26,556,844)	(21,398,253)
Taxes Paid	(2,791,246)	(3,186,919)	(2,791,246)	(3,186,919)
<b>Net Cash from Revenue Activities</b> 36c	<b>15,546,957</b>	<b>18,384,091</b>	<b>15,466,566</b>	<b>18,386,701</b>
<b>Inflows from Other Operating Activities</b>				
Net Movement in Member Loans	(60,110,319)	(53,486,100)	(60,110,319)	(53,486,100)
Net Movement in Member Shares	(14,530)	(21,310)	(14,530)	(21,310)
Net Movement in Deposits	81,572,121	67,408,052	81,572,121	67,408,052
<b>Net Cash from Operating Activities</b>	<b>36,994,229</b>	<b>32,284,733</b>	<b>36,913,838</b>	<b>32,287,343</b>
<b>Cash Flows from Investing Activities</b>				
Investment Redemption	704,547,770	530,555,422	704,547,770	530,555,422
Proceeds from Sale of Fixed Assets	50,700	1,012,950	50,700	1,012,950
Purchase of Investments	(695,107,855)	(558,119,211)	(695,107,855)	(558,119,211)
Purchase of Fixed Assets	(1,180,984)	(2,011,412)	(1,160,281)	(2,011,412)
<b>Net Cash Used in Investing Activities</b>	<b>8,309,631</b>	<b>(28,562,251)</b>	<b>8,330,334</b>	<b>(28,562,251)</b>
<b>Cash Flow from Financing Activities</b>				
Net Movement in Borrowings	-	-	-	-
<b>Net Cash Provided by Financing Activities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Increase (Decrease) in Cash</b>	<b>45,303,860</b>	<b>3,722,482</b>	<b>45,244,172</b>	<b>3,725,092</b>
Cash at Beginning of Year	11,606,938	7,884,456	11,606,938	7,881,846
Cash at End of Reporting	56,910,798	11,606,938	56,851,110	11,606,938
<b>Reconciliation of Cash at End of Reporting Period</b> 36a				
Cash	3,344,045	3,606,938	3,284,357	3,606,938
Overdraft	-	-	-	-
Deposits at Call	53,566,753	8,000,000	53,566,753	8,000,000
<b>Total</b>	<b>56,910,798</b>	<b>11,606,938</b>	<b>56,851,110</b>	<b>11,606,938</b>

# NOTES TO AND FORMING PART OF THE ACCOUNTS

## 1 Statement of Accounting Policies

The financial report is a general purpose financial report which has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board Urgent Issues Group Interpretations and the Corporations Act 2001. Compliance with Australian equivalents to International Financial Reporting Standards (AIFRS) ensures the financial statements and notes comply with the International Financial Reporting Standards (IFRS).

### a. Basis of Measurement

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

### b. Loans to Members

All loans are initially recognised at fair value, net of transaction costs incurred and inclusive of loan origination fees. Loans are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Statement of Comprehensive Income over the period of the loans using the effective interest method.

Loans to Members are reported at their recoverable amount representing the aggregate amount of principal and unpaid interest owing to the Credit Union at balance date, less any allowance or provision against debts considered doubtful. A loan is classified as impaired where recovery of the debts is considered unlikely as determined by the Board of Directors.

#### (i) Interest on Loans - Method of Calculation

Interest charged by the Credit Union on Members' loans funded before the introduction of the Consumer Credit Code on 1st November 1996, other than Overdrafts, are calculated on the basis of charging interest in the initial month from the date the loan is advanced, and thereafter on the first day of the month on the opening balance. On completion of a loan, a full month's interest is charged on the opening balance for the month in which the loan is finalised. For loans funded after 1st November 1996, the interest is calculated on the basis of the daily balance outstanding and is charged in arrears on the last day of each month.

#### (ii) Non Accrual Loan Interest

While still legally recoverable, interest is not brought to account as income when the Credit Union is informed that the Member has deceased, or on impaired loans where recovery of the debt is considered unlikely as determined by the Board of Directors. APRA has made it mandatory that interest is not recognised as revenue after the irregularity exceeds 90 days for a loan, or 15 days for an overlimit overdraft or credit facility.

#### (iii) Loan Fees

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

#### (iv) Transaction Costs

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

### c. Principles of Consolidation

The consolidated entity's financial statements comprise consolidated accounts of the Credit Union and its controlled entities. The effects of intercompany balances, transactions and unrealised profits arising between the controlled entities and the Credit Union are eliminated on consolidation.

### d. Property, Plant and Equipment

Property, Plant and Equipment are stated at the lower of cost less depreciation, or recoverable amount. Fixed Assets are depreciated using the straight line method. The following rates are used:

Building	2.50%
Office Equipment	20.00%
EDP Equipment	37.50%
Motor Vehicles	25.00%
EDP Software	37.50%
Office Furniture and Fittings	20.00%
Leasehold Improvements	25.00%

Assets less than \$1,000 are not capitalised.

### e. Deposits with other Financial Institutions

Term Deposits with other Financial Institutions are unsecured and have a carrying amount equal to their principal amount. Interest is calculated on the daily balance and paid at maturity. All deposits are in Australian currency.

The accrual for interest receivable is calculated on a proportional basis over the expired period of the term of the investment. Interest receivable, but not yet paid, is included in the amount of receivables in the Statement of Financial Position.

### f. Investments and Securities

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

Investments in shares listed on the stock exchanges are revalued to fair value based on the market bid price at the close of business on the balance sheet date. The gains and losses in fair value are reflected in equity through the asset revaluation reserve.

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

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

All investments are in Australian currency.

### g. Member Savings

#### (i) Basis for Determination

Member Savings and Term Deposits are quoted at the aggregate amount of monies owing to depositors.

#### (ii) Interest Payable

Interest is calculated on savings accounts on a daily basis and credited to most account types every six months at the end of June and December. For Term Deposits, interest is calculated on a daily basis at the agreed rate for the appropriate term and is paid as per the conditions of the term account.

### h. Provision for Employee Entitlements

Provision is made for the Credit Union's liability for employee benefits arising from services rendered by employees to balance date. Employee

benefits expected to be settled within one year, have been measured at their nominal amount.

Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits discounted using national government bond rates.

Provision for long service leave is on a pro-rata basis from commencement of employment with the credit union based on the present value of its estimated future cash flows.

Annual leave is accrued in respect of all employees on pro-rata entitlement for part years of service and leave entitlement due but not taken at balance date. Annual leave is reflected as part of the sundry creditors and accruals.

Contributions are made by the credit union to an employee's superannuation fund and are charged to the Statement of Comprehensive Income as incurred.

#### i. Loan Impairment

##### (i) Specific Provision

Losses for impairment loans are recognised when there is objective evidence that the impairment of a loan has occurred. Impairment losses are calculated on individual loans in arrears. The amount provided for doubtful debts is determined by Management and the Board to recognise the probability of loan amounts not being collected in accordance with terms of the loan agreement. The critical assumptions in the calculation are set out in Note 11.

The APRA Prudential Standards requires a minimum provision to be maintained, based on specific percentages on the loan balance which are contingent upon the length of time the repayments are in arrears. This approach is used to assess the collective provisions for impairment.

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset or a group of financial assets is impaired. Evidence of impairment may include indications that the borrower has defaulted, is experiencing significant financial difficulty, or where the debt has been restructured to reduce the burden to the borrower.

##### (ii) Reserve for Credit Losses (formerly held as a General Provision)

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

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

As a result of changes to Accounting Standards prescribed by AIFRS, the General Provision is no longer eligible for recognition as a provision to be offset against the gross balance of loans. The provision for general credit risk in the loan portfolio is now recognised as the Reserve for Credit Losses.

##### (iii) Renegotiated Loans

Loans which are subject to renegotiated terms which would have otherwise been impaired do not have the repayment arrears diminished and interest continues to accrue to income. Each renegotiated loan is retained at

the full arrears position until the normal repayments are reinstated and brought up to date and maintained for a period of 6 months.

#### j. Bad Debts Written Off

Bad debts are written off from time to time as determined by Management and the Board when it is reasonable to expect that the recovery of the debt is unlikely. Loans written off are brought to account as an expense in the Statement of Comprehensive Income. Bad debts are written off against the provision for doubtful debts if a provision for impairment had previously been recognised.

#### k. Income Tax

The income tax expense shown in the Statement of Comprehensive Income is based on the operating profit before income tax adjusted for any non tax deductible, or non assessable items between accounting profit and taxable income. Deferred tax assets and liabilities are recognised using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets or liabilities and their carrying amounts in the financial statements. Current and deferred tax balances relating to amounts recognised directly in equity are also recognised directly in equity.

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

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

#### l. Goods and Services Tax

As a Financial Institution the Credit Union is Input Taxed on all income except other income from commissions and some fees. An Input Taxed supply is not subject to GST collection, and the GST on purchases cannot be recovered. As some income is charged GST, the GST on purchases are generally recovered on a proportionate basis. In addition, certain prescribed purchases are subject to Reduced Input Tax Credits, of which 75% of the GST paid is recoverable.

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of the GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables are stated with the amount of GST included where applicable GST is collected.

The net amount of GST recoverable from, or payable to the ATO, is included as a current asset or current liability in the Statement of Financial Position.

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

#### m. Leasehold on Premises

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

A provision is recognised for the estimated make good costs on the operating leases, based on the Net Present Value of the future expenditure at the conclusion of the lease term discounted at 5%. Increases in the provision in future years shall be recognised as part of the interest expense.

#### n. Intangible Assets

Capitalised software costs that are not an integral part of the associated hardware are classified as intangibles, and are amortised over the useful life of the asset and assessed for impairment whenever there is an indication that the asset may be impaired. The amortisation of the intangible asset is recognised as an expense in the Statement of Comprehensive Income.

#### p. New or emerging standards

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

AASB Reference	Nature of Change	Application date:	Impact of Initial Application
AASB 9 Issued Dec 2009 Financial Instruments	Amends the requirements for classification and measurement of financial assets	Periods beginning on or after 1 January 2013	Due to the recent release of these amendments and that adoption is only mandatory for the 30 June 2014 year end, the entity has not yet made an assessment of the impact of these amendments.

#### q. Derivatives and Hedging Activities

The Credit Union uses derivative financial instruments to avoid or minimise possible adverse financial effects of movements in interest rates. The Credit Union designates certain derivatives as either:

##### (i) Fair Value Hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit and loss.

##### (ii) Cash Flow Hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised in profit or loss within other income or other expenses.

#### o. Impairment of Assets

At each reporting date the Credit Union assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, recoverable amount is determined and impairment losses are recognised in the Statement of Comprehensive Income where the asset's carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets. Where it is not possible to estimate recoverable amount for an individual asset, recoverable amount is determined for the cash-generating unit to which the asset belongs.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, for instance, when the forecast transaction that is hedged takes place.

Hedge accounting is discontinued when the hedging instrument expires or no longer qualifies for hedge accounting or is terminated. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is reclassified to profit or loss.

## 2 Income Statement

### a. Analysis of Interest Revenue

	Consolidated		Credit Union	
	2011 \$	2010 \$	2011 \$	2010 \$
<b>Category of Interest Bearing Liabilities</b>				
Cash - Deposit	502,158	380,474	502,158	380,474
Receivables from Financial Institutions	11,827,546	8,134,314	11,827,546	8,134,314
Securities - Trading	-	-	-	-
Securities - Investment	-	-	-	-
Loans and Advances	67,778,098	58,136,357	67,778,098	58,136,357
Others	-	-	-	-
<b>Total</b>	<b>80,107,802</b>	<b>66,651,145</b>	<b>80,107,802</b>	<b>66,651,145</b>

### b. Analysis of Interest Expense

	Consolidated		Credit Union	
	2011 \$	2010 \$	2011 \$	2010 \$
<b>Category of Interest Bearing Liabilities</b>				
Deposits held from other financial Institutions	-	-	-	-
Member Deposits	41,683,767	30,432,306	41,683,767	30,432,306
Overdraft	87,952	68,713	87,952	68,713
Long Term Borrowings	-	-	-	-
Others	1,924,220	2,489,000	1,924,220	2,489,000
<b>Total</b>	<b>43,695,939</b>	<b>32,990,019</b>	<b>43,695,939</b>	<b>32,990,019</b>

### 3 Profit from Ordinary Activities - Revenue

	Consolidated		Credit Union	
	2011 \$	2010 \$	2011 \$	2010 \$
Dividend Revenue	744,620	313,434	744,620	313,434
<b>Fee and Commission Revenue</b>				
- Loan Fee Income	1,388,436	1,640,063	1,388,436	1,640,063
- Other Fee Income	2,147,787	2,136,064	2,147,787	2,136,064
- Insurance Commissions	1,926,666	2,078,423	1,926,666	2,078,423
- Other Commissions	1,104,603	999,285	654,526	606,780
Bad Debts Recovered	147,499	189,439	147,499	189,439
<b>Total Revenue from Ordinary Activities</b>	<b>7,459,611</b>	<b>7,356,708</b>	<b>7,009,534</b>	<b>6,964,203</b>
<b>Other Revenue</b>				
- Income from Derivative Fair Value	512,274	1,324,354	512,274	1,324,354
- Other	14,624	135,932	14,624	135,932
<b>Total Revenue from Other Activities</b>	<b>526,898</b>	<b>1,460,286</b>	<b>526,898</b>	<b>1,460,286</b>
<b>Total Revenue from Ordinary and Other Activities</b>	<b>7,986,509</b>	<b>8,816,994</b>	<b>7,536,432</b>	<b>8,424,489</b>

### 4 Profit from Ordinary Activities - Expenses

<b>a. Loan Impairment Losses</b>				
Increase/(decrease) in provision for impairment	683,282	(95,296)	683,282	(95,296)
Bad Debts written off directly against profit	532,724	883,011	532,724	883,011
<b>Total Impairment Losses</b>	<b>1,216,006</b>	<b>787,715</b>	<b>1,216,006</b>	<b>787,715</b>
<b>b. Other Prescribed Expense Disclosures</b>				
Auditor's Remuneration				
- Audit Fees	140,150	147,900	140,150	147,900
- Other Services	82,551	16,188	78,170	16,188
	<b>222,701</b>	<b>164,088</b>	<b>218,320</b>	<b>164,088</b>
<b>Profit/(loss) on disposal of assets</b>				
- Property, Plant and Equipment	(7,469)	125,436	(7,469)	125,436
<b>Net movement in provision for depreciation</b>				
- Buildings	32,139	30,965	32,139	30,965
- Plant and Equipment	1,017,016	1,141,840	1,017,016	1,141,840
- Leasehold Improvements	28,447	98,970	28,447	98,970
- Intangible Assets	307,509	682,225	307,509	682,225
<b>Other Expense</b>				
- Expense from Derivative Fair Value	-	-	-	-
- Supervision Levy	47,318	46,062	47,318	46,062
- Superannuation	1,429,187	1,351,417	1,373,406	1,304,958

## 5 Income Tax

	Consolidated		Credit Union	
	2011 \$	2010 \$	2011 \$	2010 \$
<b>a. The prima facie tax payable on operating profit is reconciled to the income tax expense in the account as follows</b>				
Prima facie tax payable on operating profit before income at 30%	4,859,475	4,472,699	4,834,859	4,472,699
Loan fee income and costs deferred	8,013	48,146	8,013	48,146
Tax distribution from 'PCU 2009-1'	10,386	-	10,386	-
Entertainment	16,396	15,261	16,396	15,261
First home savers account	4,532	-	4,532	-
Building depreciation	9,642	9,642	9,642	9,642
Imputation credit	95,737	40,299	95,737	40,299
<b>Less:</b>				
Refund of income tax	(32,857)	-	(32,857)	-
<b>Other:</b>				
Rebate on fully franked dividends	(319,124)	(134,329)	(319,124)	(134,329)
Investment allowance	-	(193,729)	-	(193,729)
Deduction not allowed in accounting expenses	-	(63,481)	-	(63,481)
Over provision of Income Tax Previous Year	7,509	293,226	7,509	293,226
<b>Total</b>	<b>4,659,709</b>	<b>4,487,734</b>	<b>4,635,093</b>	<b>4,487,734</b>
<b>b. Income tax expense comprises amounts</b>				
Provision for income tax attributable to current year taxable income	4,648,172	3,902,968	4,623,556	3,902,968
Movement in future income tax benefit	(182,361)	235,368	(182,361)	235,368
Movement in deferred tax liability	186,389	56,172	186,389	56,172
Over provision of Income Tax Previous Year	7,509	293,226	7,509	293,226
	<b>4,659,709</b>	<b>4,487,734</b>	<b>4,635,093</b>	<b>4,487,734</b>

### c. Restatement of prior year tax expense

The over provided tax in 2009 of \$293,226, shown as part of the equity statement movements in the 2010 accounts, has been reclassified and included as part of the tax expense in the 2010 comparative to reflect a consistent disclosure to that of 2011 equivalent amount.

## 6 Cash and Liquid Assets

Cash on hand	2,233,839	2,171,410	2,174,151	2,171,410
Deposits at call	53,566,753	8,000,000	53,566,753	8,000,000
Cash at Bank	1,110,206	1,435,528	1,110,206	1,435,528
	<b>56,910,798</b>	<b>11,606,938</b>	<b>56,851,110</b>	<b>11,606,938</b>

## 7 Receivables Due from other Financial Institutions

Deposits - Term	72,000,000	163,500,000	72,000,000	163,500,000
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## 8 Accrued Receivables

Interest Receivable on deposits with other Financial Institutions	1,528,176	1,614,778	1,528,176	1,614,778
Prepayments	813,287	499,305	813,287	499,305
Sundry Debtors	1,047,537	520,058	1,002,544	484,519
	<b>3,389,000</b>	<b>2,634,141</b>	<b>3,344,007</b>	<b>2,598,602</b>

	Consolidated		Credit Union	
	2011 \$	2010 \$	2011 \$	2010 \$
<b>9 Investment Securities</b>				
Bank Bills and Certificates of Deposits	80,787,158	-	-	80,787,158
<b>10 Loans and Advances</b>				
<b>a. Amount Due comprises</b>				
Overdrafts and Revolving Credit Loans	48,185,136	46,935,140	48,185,136	46,935,140
Term Loans	870,037,509	811,709,909	870,037,509	811,709,909
	<b>918,222,645</b>	<b>858,645,049</b>	<b>918,222,645</b>	<b>858,645,049</b>
Less: Provision for Impaired Loans	1,194,319	511,037	1,194,319	511,037
Less: Unamortised Loan Origination Fees	800,599	819,687	800,599	819,687
Plus: Amortised Loan Transaction Costs	132,867	110,273	132,867	110,273
<b>Net Loans and Advances</b>	<b>916,360,594</b>	<b>857,424,598</b>	<b>916,360,594</b>	<b>857,424,598</b>
<b>b. Credit Quality - Security held against Loans</b>				
Secured by Mortgage	770,949,179	709,469,737	770,949,179	709,469,737
Secured Other	73,440,712	72,976,767	73,440,712	72,976,767
Unsecured	73,832,754	76,198,545	73,832,754	76,198,545
	<b>918,222,645</b>	<b>858,645,049</b>	<b>918,222,645</b>	<b>858,645,049</b>

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

Security held as mortgage against real estate is on the basis of:

	Consolidated		Credit Union	
	2011 \$	2010 \$	2011 \$	2010 \$
- loan to valuation ratio of less than 80%;	541,027,992	501,235,523	541,027,992	501,235,523
- loan to valuation ratio of more than 80% but mortgage insured; and	197,881,619	175,841,492	197,881,619	175,841,492
- loan to valuation ratio or more than 80% and not mortgage insured.	32,039,568	32,392,722	32,039,568	32,392,722
<b>Total</b>	<b>770,949,179</b>	<b>709,469,737</b>	<b>770,949,179</b>	<b>709,469,737</b>
<b>c. Concentration of Loans</b>				
(i) Individual loans which exceed 10% of Member Funds in aggregate amount to \$0.00 (2010 \$0.00)				
(ii) Loans to Members are solely in Australia				
(iii) Loan purpose dissection:				
- Residential	701,221,481	646,010,043	701,221,481	646,010,043
- Personal	131,807,162	134,494,396	131,807,162	134,494,396
- Commercial	69,731,980	63,893,706	69,731,980	63,893,706
- Lease	15,462,022	14,246,904	15,462,022	14,246,904
	<b>918,222,645</b>	<b>858,645,049</b>	<b>918,222,645</b>	<b>858,645,049</b>

## Geographical Areas

	Housing	Personal	Credit Card	Overdraft	Business	Total
Sydney City	78,403,860	23,379,993	4,003,473	3,196,654	365,773	109,349,753
Western Suburbs	236,433,911	19,564,289	2,846,920	1,587,414	-	260,432,534
Australian Capital Territory	114,113,139	13,127,337	1,901,505	1,387,734	-	130,529,715
Illawarra	102,104,433	13,352,548	1,677,951	1,068,435	-	118,203,367
Hunter Valley	67,407,874	9,549,360	1,129,884	969,667	-	79,056,785
Central Coast	38,563,234	8,806,100	976,421	650,463	-	48,996,218
NSW North Coast	44,091,760	5,172,264	775,549	1,131,947	-	51,171,520
Other States	27,243,746	3,419,245	750,726	989,322	-	32,403,039
NSW Country	24,270,191	4,274,754	564,299	382,260	-	29,491,504
Blue Mountains	24,943,034	2,200,930	369,183	270,212	-	27,783,359
South Coast	13,473,933	1,443,392	209,172	216,332	-	15,342,829
<b>Grand Total</b>	<b>771,049,115</b>	<b>104,290,212</b>	<b>15,205,083</b>	<b>11,850,440</b>	<b>365,773</b>	<b>902,760,623</b>

## 11 Provision on Impaired Loans

	Consolidated		Credit Union	
	2011 \$	2010 \$	2011 \$	2010 \$
<b>a. Total Provision Comprises</b>				
Specific Provision	-	-	-	-
Collective Provision	1,194,319	511,037	1,194,319	511,037
	<b>1,194,319</b>	<b>511,037</b>	<b>1,194,319</b>	<b>511,037</b>
<b>b. Movement in Specific Provision</b>				
Balance at the beginning of the year	511,037	606,333	511,037	606,333
Add: Transfers from Income Statement	683,282	-	683,282	-
Deduct: Bad debts written off against provision	-	-	-	-
Deduct: Transfers to Income Statement	-	(95,296)	-	(95,296)
<b>Balance at end of year</b>	<b>1,194,319</b>	<b>511,037</b>	<b>1,194,319</b>	<b>511,037</b>
<b>c. The Specific Loans Provision Consists of:</b>				
(i) Provision required under the APRA Prudential Standards	1,194,319	511,037	1,194,319	511,037
(ii) Additional specific provision	-	-	-	-
	<b>1,194,319</b>	<b>511,037</b>	<b>1,194,319</b>	<b>511,037</b>
<b>d. Impaired Loans Written Off</b>				
Amount written off against the provision for impaired loans	-	-	-	-
Amounts written off directly to expense	532,724	883,011	532,724	883,011
Total bad debts	532,724	883,011	532,724	883,011
Bad debts recovered in the period	147,499	189,439	147,499	189,439
<b>e. Impaired Loan Disclosures Impaired Loans as at Balance Date</b>				
Balance of the impaired loans	2,726,001	799,841	2,726,001	799,841
Estimated value of loans which is secured	2,174,868	260,959	2,174,868	260,959
<b>Loans with repayments Past Due but not impaired (due to security held)</b>				
- Real estate	1,262,341	145,507	1,262,341	145,507
- Other	-	-	-	-

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

	Carrying Value		Provision		Carrying Value		Provision	
	2011	2011	2010	2010	2010	2010	2010	
	\$	\$	\$	\$	\$	\$	\$	
Mortgage Insured	536,855	-	1,306,626	-				
30 up to 90 days in arrears	1,336,714	-	451,686	-				
90 to 181 days in arrears	1,179,902	471,961	418,366	167,346				
182 to 272 days in arrears	589,093	353,456	139,495	83,697				
273 to 364 days in arrears	9,622	7,698	35,503	28,402				
365 days and over in arrears	271,780	271,780	77,384	77,384				
Overlimit facilities over 14 days	130,504	89,424	238,491	154,208				
<b>Total</b>	<b>4,054,470</b>	<b>1,194,319</b>	<b>2,667,551</b>	<b>511,037</b>				

The impaired loans are generally not secured against residential property. Some impaired loans are secured by bill of sale over motor vehicles or other types of assets. It is not practicable to determine the fair value of all collateral as at the balance date due to the variety of assets and conditions of those assets.

#### The key assumptions in determining the provision for impairment

In the course of the preparation of the annual report, the Credit Union has determined the likely impairment loss on loans which have not

maintained the loan repayments in accordance with the loan contract, or where there is other evidence of potential impairment such as industrial restructuring, job losses or economic circumstances. In identifying the impairment likely from these events, the Credit Union is required to estimate the potential impairment using the length of time the loan is in arrears and the historical losses arising in the past years. Given the relatively small number of impaired loans, the circumstances may vary for each loan over time resulting in higher or lower impairment losses. An estimate is based on the period of impairment.

	2011			2010		
	Carrying Value	Value of impaired loans	Provision of impairment	Carrying Value	Value of impaired loans	Provision of impairment
Mortgages	3,931,905	2,793,828	823,380	1,597,727	406,757	111,633
Personal	749,997	330,699	197,331	666,905	372,616	228,114
Credit Cards	315,513	318,817	66,151	245,228	72,489	75,747
Overdrafts	817,769	25,347	107,457	545,617	93,778	95,543
Total to Natural Persons	5,815,184	3,468,691	1,194,319	3,055,477	945,640	511,037
Corporate Borrowers	-	-	-	-	-	-
<b>Total</b>	<b>5,815,184</b>	<b>3,468,691</b>	<b>1,194,319</b>	<b>3,055,477</b>	<b>945,640</b>	<b>511,037</b>

## 12 Available for Sale Investments

	Consolidated		Credit Union	
	2011	2010	2011	2010
	\$	\$	\$	\$
Cuscal Member Shares (i)	2,507,621	2,507,621	2,507,621	2,507,621
Chelsea Wealth Management Pty Ltd	661,869	661,869	661,876	661,876
'PCU 2009-1' Trust (ii)	3,713,592	2,440,664	3,713,592	2,440,664
	<b>6,883,082</b>	<b>5,610,154</b>	<b>6,883,089</b>	<b>5,610,161</b>

(i) Cuscal provides numerous services to the Credit Union. These are referred to in Notes 30.

The shareholding in Cuscal is measured at cost as its fair value could not be measured reliably. This company was created to supply services to the member Credit Unions. The shares are not redeemable.

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

The Credit Union is not intending to dispose of these shares.

(ii) The 'PCU 2009-1' Trust is a special purpose vehicle that issues securities under an internal securitisation program for the purpose of contingency liquidity management. The Credit Union's risk management has been strengthened with the implementation of the 're-purchase' facility with the Reserve Bank of Australia providing greater access to funds and a higher level of security for the organisation.

## 13 Property, Plant and Equipment

	Consolidated		Credit Union	
	2011 \$	2010 \$	2011 \$	2010 \$
<b>a. Property, Plant and Equipment Annual</b>				
<b>Fixed assets</b>				
Land at cost	264,440	264,440	264,440	264,440
Buildings at cost	1,285,560	1,285,560	1,285,560	1,285,560
Less: Provisions for depreciation	111,313	79,174	111,313	79,174
<b>Total Buildings</b>	<b>1,174,247</b>	<b>1,206,386</b>	<b>1,174,247</b>	<b>1,206,386</b>
<b>Total Land and Buildings</b>	<b>1,438,687</b>	<b>1,470,826</b>	<b>1,438,687</b>	<b>1,470,826</b>
Plant and Equipment at cost	9,139,701	9,370,928	9,110,358	9,370,928
Less: Provision for depreciation	7,207,820	7,016,115	7,198,329	7,016,115
<b>Total Plant and Equipment</b>	<b>1,931,881</b>	<b>2,354,813</b>	<b>1,912,029</b>	<b>2,354,813</b>
Capitalised leasehold improvements at cost	2,789,896	2,767,374	2,789,896	2,767,374
Less: Provision for depreciation	2,740,901	2,712,454	2,740,901	2,712,454
<b>Total Capitalised Leasehold Improvements</b>	<b>48,995</b>	<b>54,920</b>	<b>48,995</b>	<b>54,920</b>
<b>Closing Balance 30 June</b>	<b>3,419,563</b>	<b>3,880,559</b>	<b>3,399,711</b>	<b>3,880,559</b>

### b. Land and Buildings - Valuation

The Credit Union has a property at Goulburn with the land valued by an independent valuation as at 31 December 2009 at \$1,550,000. The increase to valuation over cost has not been brought to account in the balance sheet.

	2011			2010		
	Property	Plant & Equipment	Leasehold Improvement	Property	Plant & Equipment	Leasehold Improvement
Opening Balance 1 July	1,470,826	2,354,813	54,920	1,951,791	2,236,664	150,779
Add: Purchases in the year	-	652,253	22,522	-	1,347,503	3,111
Revaluation increase adjustments	-	-	-	(50,000)	-	-
Less: Disposal of assets	-	(50,700)	-	(400,000)	(212,950)	-
Loss on Sale	-	(7,469)	-	-	125,436	-
Depreciation charge	(32,139)	(1,017,016)	(28,447)	(30,965)	(1,141,840)	(98,970)
<b>Closing Balance 30 June</b>	<b>1,438,687</b>	<b>1,931,881</b>	<b>48,995</b>	<b>1,470,826</b>	<b>2,354,813</b>	<b>54,920</b>

## 14 Intangible Assets

	Consolidated		Credit Union	
	2011 \$	2010 \$	2011 \$	2010 \$
Computer Software	7,144,028	6,645,326	7,144,028	6,645,326
Less: Provision for Amortisation	(6,545,186)	(6,245,184)	(6,545,186)	(6,245,184)
	598,842	400,142	598,842	400,142
<b>Movement in the intangible asset balances during the year were:</b>				
Opening Balance 1 July	400,142	771,569	400,142	771,569
Add: Purchases in the year	506,209	310,798	506,209	310,798
Less: Disposal of Assets	-	-	-	-
Depreciation charge	(307,509)	(682,225)	(307,509)	(682,225)
Closing Balance 30 June	598,842	400,142	598,842	400,142

## 15 Taxation Assets

Deferred Tax Asset	1,722,839	1,540,478	1,722,839	1,540,478
<b>Deferred Tax Asset Comprises:</b>				
- Provision for Impairment	358,296	153,311	358,296	153,311
- Deferred Loan Origination Costs/Fees	240,179	245,906	240,179	245,906
- Provision for Staff Entitlements	896,217	931,218	896,217	931,218
- Fair Value of derivatives	89,120	159,155	89,120	159,155
- Provision Leasehold make good	118,200	27,000	118,200	27,000
- Other	20,827	23,888	20,827	23,888
	1,722,839	1,540,478	1,722,839	1,540,478

## 16 Amounts Payable to Other Financial Institutions

Cuscal Ltd.	-	-	-	-
- Overdraft Secured (Note 29)	-	-	-	-

## 17 Deposits

<b>Member Deposits:</b>				
- at call	396,357,664	370,166,238	396,357,664	370,166,238
- term	600,419,943	545,039,247	600,419,943	545,039,247
Total Member Deposits	996,777,607	915,205,485	996,777,607	915,205,485
Withdrawable Shares	401,150	415,680	401,150	415,680
	997,178,757	915,621,165	997,178,757	915,621,165

### Concentration of Risk

(i) There are no Members who individually have deposits which represent 10% or more of the total liabilities of the Credit Union.

(ii) Details of classes of deposits which represent 10% or more of shareholders' equity of the Credit union are set out below:

	Consolidated		Credit Union	
	2011 \$	2010 \$	2011 \$	2010 \$
<b>Industry Group</b>				
State Government	259,862,422	238,564,471	259,862,422	238,564,471
Federal Government	80,584,844	69,620,917	80,584,844	69,620,917

	Consolidated		Credit Union	
	2011	2010	2011	2010
	\$	\$	\$	\$
<b>Geographic Areas</b>				
Australian Capital Territory	47,024,408	43,931,863	47,024,408	43,931,863
Central Coast Region	40,813,412	41,280,526	40,813,412	41,280,526
Hunter Region	66,303,625	57,965,983	66,303,625	57,965,983
Illawarra Region	25,281,791	20,378,714	25,281,791	20,378,714
North Coast Region	63,773,857	50,718,981	63,773,857	50,718,981
Sydney Coast Region	23,654,201	23,315,418	23,654,201	23,315,418
Sydney Metropolitan	569,310,306	526,694,177	569,310,306	526,694,177
<b>18 Creditors and Borrowings</b>				
Creditors and Accruals	5,442,573	4,958,653	5,441,386	4,944,673
Interest Payable on Deposits	9,555,396	8,335,712	9,555,396	8,335,712
	<b>14,997,969</b>	<b>13,294,365</b>	<b>14,996,782</b>	<b>13,280,385</b>
<b>19 Provisions</b>				
Provision for:				
Employee Annual Leave	815,669	748,308	771,741	726,797
Employee Long Service Leave	824,481	816,326	824,481	816,326
Employee Sick Leave	405,168	552,265	405,168	552,265
Directors' Severance and Retirement Benefit	986,001	1,008,669	986,001	1,008,669
Lease Hold Make Good	393,999	90,000	393,999	90,000
Other	80,236	8,400	80,236	8,400
	<b>3,505,554</b>	<b>3,223,968</b>	<b>3,461,626</b>	<b>3,202,457</b>
<b>20 Taxation Liabilities</b>				
Provisions for Income tax	1,834,591	1,026,317	1,834,591	1,026,317
Provision for Deferred Income Tax	596,215	409,827	596,215	409,827
Other	34,687	11,521	-	-
	<b>2,465,493</b>	<b>1,447,665</b>	<b>2,430,806</b>	<b>1,436,144</b>
Provision for Deferred Income Tax Comprises:				
- Prepayments;	60,797	66,439	60,797	66,439
- Deferred Loan Origination Fees/Costs;	39,860	109,613	39,860	109,613
- Tax allowances relating to Property, Plant & Equipment; and	422,452	160,669	422,452	160,669
- Tax allowances relating to Chelsea Wealth Management Pty Ltd.	73,106	73,106	73,106	73,106
	<b>596,215</b>	<b>409,827</b>	<b>596,215</b>	<b>409,827</b>
<b>21 Capital Reserve Account</b>				
Balance - 1 July	314,210	292,940	314,210	292,940
Transfer from retained earnings on share redemptions	14,530	21,270	14,530	21,270
<b>Balance - 30 June</b>	<b>328,740</b>	<b>314,210</b>	<b>328,740</b>	<b>314,210</b>

#### Share Redemption

The accounts represent the amount of redeemable Preference Shares redeemed by the Credit Union since 1 July 1999. The law requires that the redemption of the Shares be made out of profits. Since the value of the Shares have been paid to Members in accordance with the terms and conditions of the share issue, the account represents the amount of profits appropriate to the account.

## 22 Financial Risk Management Objectives and Policies

The Board has endorsed a policy of compliance and risk management to suit the risk profile of the Credit Union.

The Credit Union's risk management focuses on the major areas of market risk, credit risk, liquidity risk and operational risk. Authority flows from the Board of Directors. In addition to this, the internal risk management structure is strengthened by the interaction with external audit. The Audit Committee is responsible for reviewing the external audit plan and the progress against the plan each year, and ensuring that issues raised are dealt with in an adequate and timely manner. Over and above the aforementioned the external auditor reports to Members by the way of the Auditor's Report in which the auditor expresses an opinion on the annual accounts. Please refer to the Auditor's Report for the full details. The diagram below shows the risk management structure. The main elements of risk governance are as follows:

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

**Corporate Governance Committee:** This Committee holds at least three meetings each year and the primary objectives of the Committee are:

- To ensure that the Credit Union practices good corporate governance primarily by fulfilling its obligations as set out by the Australian Prudential Regulation Authority in Australian Prudential Standards 510 and 520;
- To ensure all Directors and persons nominating for the position of Director are of good character and meet the "Fit and Proper" requirements of the Corporate Governance policy;
- To recommend to the Board on how best for the Board to achieve Board renewal to ensure that the majority of the Directors are independent and that the Board as a whole possess the required skills of directing the Credit Union; and
- To review disputes from Members relating to the Credit Union's policies, procedures, systems or service delivery, which have been unable to be resolved by Management.

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

**Risk Management and Compliance Committee:** The Risk Committee assists the Board by providing an objective non-executive review of the effectiveness of the Risk Management Policy. This Committee holds at least four meetings each year and the primary objective of the Committee is to establish and periodically review the Risk Management Policy and to formulate and regularly review the Credit Unions risk profile and risk appetite. In addition, the Committee reviews risk management practices and internal controls having regard to material business risk. These risks include:

- Credit Risk, Liquidity Risk and Market Risk;
- Operations Risk (data, legal, fraud, insurance etc);
- Financial Reporting Risk; and
- Other identified risks such as Compliance Risk, Reputation Risk, Staffing Risk.

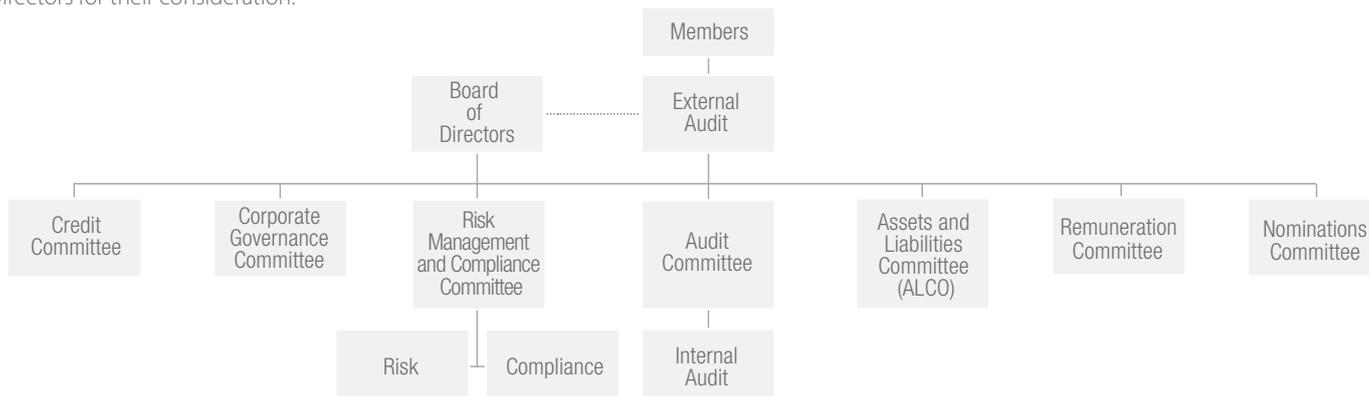
The Committee monitors the annual risk assessment.

**Credit Committee – Credit Risk:** This Committee meets monthly and has responsibility for managing and reporting credit risk exposure. It scrutinises operational reports and monitors exposures against limits determined by the Board. The Credit Committee also determines the credit risk of loans in the banking book, ensures provisioning is accurate and determines controls that need to be in place regarding the authorisation of new loans.

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

All large credit exposure facilities above policy limits are approved by the Credit Committee.

All loans are managed through the monitoring of the scheduled repayments. Accounts where the arrears are over 90 days or overlimit facilities over 14 days, have collective provisions charged against them. Other provisions are taken up on accounts considered doubtful and the status of these loans is reported to the Credit Committee monthly. Arrears are strictly controlled. The size of the loan book is such that it is possible to monitor each individual exposure to evaluate whether specific provisions are necessary and adequate. A dedicated credit control team, which reports to the Credit Committee, implements the credit union's credit risk policy. Additionally, a collective provision is held to cover any losses where there is objective evidence that losses are present in components of the loans and advances portfolio at the balance sheet date.



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

**Remuneration Committee:** The Remuneration Committee has been established to ensure that the Credit Union practices good corporate governance primarily by fulfilling its obligations as set out by the Australian Prudential Regulation Authority (APRA) in Australian Prudential Standards 510. The committee's primary responsibility is to assess the appropriateness of Director and Executive remuneration, and encourage behaviour that supports the long-term financial soundness of the Credit Union and the risk management framework.

**Nomination Committee:** The Nomination Committee has been established to independently assess the fairness and propriety of all candidates (excluding incumbents who are re-standing) for the positions of Director. In addition, the Committee ensures that those persons interviewed for the position of Director have the appropriate level of skills, experience and qualifications.

**Compliance and Risk Managers:** Their primary responsibilities involve the development and implementation of controls to manage operational risk to balance the avoidance of financial loss and damage to the Credit Union's reputation.

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

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

- Interest Rate Risk;
- Liquidity Management;
- Credit Risk Management; and
- Operations Risk Management including data risk management.

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

#### a. Market Risk and Hedging Policy

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

##### (i) Interest Rate Risk

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

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

##### (ii) Interest Rate Risk in the Banking Book

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

The interest rate risk on the banking book is measured daily, reported to the ALCO monthly, and to the Board via the ALCO Committee monthly.

In the banking book the most common risk the Credit Union faces arises from fixed rate assets and liabilities. This exposes the Credit Union to the risk of sensitivity should interest rates change.

The level of mismatch on the banking book is set out in Note 25. The table set out at note 25 displays the period that each asset and liability will reprice as at the balance date.

##### (iii) Method of Managing Risk

The Credit Union manages its interest rate risk by the use of value at risk models (VAR) and interest rate sensitivity analysis, the detail and assumptions used are set out below.

##### (iv) Hedging

To mitigate this risk the Credit Union has entered into pay fixed/receive floating interest rate swaps. The interest rate risk on fixed rate loans/assets are hedged by purchasing pay fixed/receive floating interest rate swaps. As at 30 June 2011 the notional principle amounts of the interest rate swap contracts is \$35,000,000. The fair value reflected in the Balance Sheet is (\$298,321). The valuation of the derivative transactions is based on mid-market levels as of the close of business on 30 June 2011. The valuations are derived from proprietary models based upon well recognised financial principles and reasonable estimates about relevant future market conditions.

##### (v) Interest Rate Sensitivity

The Credit Union's exposure to market risk is measured and monitored using interest rate sensitivity models.

The policy of the Credit Union to manage the risk is to monitor on a monthly basis the changes to maturity profiles within its deposit base and changes in the underlying portfolio mix to ensure that such changes will not have an unacceptable adverse outcome to the Credit Union. The policy of the Credit Union is to use derivatives to hedge against adverse consequences of interest rate risk. The Credit Union's exposure to interest rate risk is set out in Note 25 which details the contractual interest change profile.

An independent review of the interest rate risk profile is conducted by Strategic Risk International, an independent Risk Management Consultancy.

Based on the calculations as at 30 June 2011, the calculated market value of equity (EVE) is \$123.1 million, with a sensitivity of \$435,729 to a 1% change in interest rates

The Credit Union performs a sensitivity analysis to measure market risk exposures.

The method used in determining the sensitivity was to evaluate the profit based on the timing of the interest repricing on the banking book of the Credit Union for the next 12 months. In doing the calculation the assumptions applied were that:

- the interest rate change would be applied equally over to the loan products and term deposits;
- the rate change would be as at the beginning of the 12 month period and no other rate changes would be effective during the period;
- the term deposits would all reprice to the new interest rate at the term maturity, or be replaced by deposit with similar terms and rates applicable;
- savings deposits would not reprice in the event of a rate change;
- fixed rate loans would all reprice to the new interest rate at the contracted date;
- variable rate mortgage loans would all reprice to the new interest rate in one month;
- personal loans would reprice at the contracted maturity date;
- all loans would be repaid in accordance with the current average repayment rate (or contractual repayment terms);
- the value and mix of call savings to term deposits will be unchanged; and
- the value and mix of personal loans to mortgage loans will be unchanged.

There has been no change to the Credit Union's exposure to market risk or the way the Credit Union manages and measures market risk in the reporting period.

#### b. Liquidity Risk

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

The Credit Union manages liquidity risk by:

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

The Credit Union has a longstanding arrangement with the industry liquidity support company Credit Union Financial Support Services

(CUFSS) which can access industry funds to provide support to the Credit Union should it be necessary at short notice.

The Credit Union is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 24 hours under the APRA Prudential standards. The Credit Union policy is to apply a minimum of 11% of funds as liquid assets to maintain adequate funds for meeting Member withdrawal requests. The ratio is checked daily. Should the liquidity ratio fall below this level, the Management and Board are to address the matter and ensure that the liquid funds are obtained from new deposits, or borrowing facilities available. Note 29 describes the borrowing facilities as at the balance date. These facilities are in addition to the support from CUFSS.

The maturity profile of the financial liabilities, based on the contractual repayment terms are set out in the specific Note 24. The ratio of liquid funds over the past year is set out below:

APRA	2011	2010
<b>To total adjusted liabilities</b>		
As at 30 June	13.47%	14.85%
Average for the year	15.08%	15.95%
Minimum during the year	13.08%	14.62%
<b>To total Member deposits</b>		
As at 30 June	14.61%	19.12%

### c. Credit Risk

Credit risk is the risk that Members, financial institutions and other counterparties will be unable to meet their obligations to the Credit Union which may result in financial losses. Credit risk arises principally from the Credit Union's loan book, investment assets and derivative contracts.

#### (i) Credit Risk - Loans

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

	2011			2010		
	Carrying Value	Off Balance Sheet	Maximum Exposure	Carrying Value	Off Balance Sheet	Maximum Exposure
Residential	701,221,481	34,478,718	735,700,199	646,010,043	38,721,860	684,731,903
Personal	119,960,558	783,089	120,743,647	122,743,809	507,314	123,251,123
Credit Cards	15,205,083	15,259,727	30,464,810	13,731,212	13,650,728	27,381,940
Overdrafts	12,103,543	23,734,594	35,838,137	12,266,279	24,436,799	36,703,078
Total to Natural Persons	848,490,665	74,256,128	922,746,793	794,751,343	77,316,701	872,068,044
Commercial	69,731,980	-	69,731,980	63,893,706	-	63,893,706
<b>Total</b>	<b>918,222,645</b>	<b>74,256,128</b>	<b>992,478,773</b>	<b>858,645,049</b>	<b>77,316,701</b>	<b>935,961,750</b>

Carrying value is the value on the balance sheet. Maximum exposure is the value on the balance sheet plus the undrawn facilities (loans approved not advanced, redraw facilities; line of credit facilities; overdraft facilities; credit cards limits). The details are shown in Note 28 and a summary is in Note 10.c.

All loans and facilities are within Australia. The geographic distribution is not analysed into significant areas within Australia as the exposure classes are not considered material. Concentrations are described in Note 10.c.

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

The Credit Union has established policies over the:

- credit assessment and approval of loans and facilities covering acceptable risk assessment, security requirements
- limits of acceptable exposure over the value to individual borrowers, non mortgage secured loans, commercial lending and concentrations to geographic and industry groups considered at high risk of default
- reassessing and review of the credit exposures on loans and facilities
- establishing appropriate provisions to recognise the impairment of loans and facilities
- debt recovery procedures; and
- review of compliance with the above policies.

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

#### Past Due and Impaired

A financial asset is past due when the counterparty has failed to make a payment when contractually due. As an example, a Member enters into a lending agreement with the Credit Union that requires interest and a portion of the principle to be paid every month. On the first day of the next month, if the agreed repayment amount has not been paid, the loan is past due. Past due does not mean that a counterparty will never pay, but it can trigger various actions such as renegotiation, enforcement of covenants, or legal proceedings. Once the past due exceeds 90 days

the loans is regarded as impaired, unless other factors indicate the impairment should be recognised sooner.

Daily reports monitor the loan repayments to detect delays in repayments and recovery action is undertaken after 7 days. For loans where repayments are doubtful, external consultants are engaged to conduct recovery action once the loans is over 90 days in arrears. The exposures to losses arise predominantly in the personal loans and facilities not secured by registered mortgages over real estate. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised in the income statement. In estimating these cash flows, Management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral.

In addition to specific provisions against individually significant financial assets, the Credit Union makes collective assessments for each financial asset portfolio segmented by similar risk characteristics. Balance sheet provisions are maintained at a level that Management deems sufficient to absorb probable incurred losses in the Credit Union's loan portfolio from homogenous portfolios of assets and individually identified loans.

A provision for incurred losses is established on all past due loans after a specified period of repayment default where it is probable that some of the capital will not be repaid or recovered. The provisions for impaired and past due exposures relate to the loans to Members. Past due value is the 'on balance sheet' loan balances which are past due by 90 days or more. Details are as set out in Note 11.

#### Bad Debts

Amounts are written-off when collection of the loan or advance is considered to be remote. All write-offs are on a case by case basis, taking account of the exposure at the date of the write off. On secured loans, the write off takes place on ultimate realisation of collateral value, or from claims on any lender's mortgage insurance. A reconciliation in the movement of both past due and impaired exposure provisions is provided in Note 11.

### Collateral Securing Loans

A sizeable portfolio of the loan book is secured on residential property in Australia. Therefore, the Credit Union is exposed to risks in the reduction the Loan to Value (LVR) cover should the property market be subject to a decline. The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken.

The Board policy is where the outstanding loan balance exceeds 80% of the valuation, the mortgage must be 100% mortgage insured secured. Note 10 b describes the nature and extent of the security held against the loans held as at the balance date.

### Concentration Risk – Individuals

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

### Concentration Risk – Industry

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

### (ii) Credit Risk - Liquid Investment

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

There is a concentration of credit risk with respect to investment receivables with the placement of investments in Cuscal. The credit policy is that investments are only made to authorised institutions. Directors have established policies that a maximum of up to 30% of the capital base (excluding Cuscal) can be invested with any one financial institution at a time.

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

Under the liquidity support scheme at least 3.2% of the total assets must be invested in Cuscal and/or a Credit Union Financial Support Scheme (CUFSS) approved Authorised Deposit-taking Institution (ADI), to allow the scheme to have adequate resources to meet its obligations if needed.

### d. Capital Management

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

- Credit risk;
- Market risk (Trading Book); and
- Operations risk.

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

### Capital Resources

#### Tier 1 Capital

The vast majority of Tier 1 capital comprises:

- General Reserves (excluding Reserve for Credit Losses)
- Retained Earnings
- After Tax Current Year Earnings

#### Tier 2 Capital

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

Tier 2 capital generally comprises:

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

The Credit Union's available for sale (AFS) reserve, and an asset revaluation reserve on the land and buildings are discounted to 45% of the value net of any capital gains tax and estimated costs of sale.

Capital in the Credit Union is made up as shown in chart below.

	2011
<b>Tier 1</b>	
Share capital	328,740
Capital reserve	1,430,212
General reserve	35,597,000
Cash flow hedge reserve	(280,078)
Retained earnings	83,260,044
Less prescribed deductions	3,774,021
Net tier 1 capital	116,561,897
<b>Tier 2</b>	
Reserve for credit losses	2,996,306
Asset revaluation reserves on property	132,104
Less prescribed deductions	1,253,810
Net tier 2 capital	1,874,600
<b>Total Capital</b>	<b>118,436,497</b>

The Credit Union is required to maintain a minimum capital level of 8% as compared to the risk weighted assets at any given time.

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

		Carrying Value	Risk Weighted Value
Cash	0%	2,233,839	-
Deposits in Highly Rated ADI'S	20%	238,466,803	47,693,361
Deposits in Less Highly Rated ADI's	50%-150%	23,841,868	11,920,934
Loans Secured Against Eligible Residential Mortgages	35%	603,708,301	211,297,905
Loans Secured Against Eligible Residential Mortgages	50%	142,621,034	71,310,517
Loans Secured Against Eligible Residential Mortgages	75%	10,452,331	7,839,248
Loans Secured Against Eligible Residential Mortgages	100%	10,944,989	10,944,989
Investment in equity instruments	150%	-	-
Other Assets	100%	150,535,580	150,535,580
Off Balance Sheet Business		79,064,863	23,545,819
<b>Total</b>		<b>1,261,869,608</b>	<b>535,088,353</b>

The risk weighted assets processes were modified by APRA as from the 1 January 2008 as part of the Basel II Prudential framework enhancements.

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

2011	2010	2009	2008	2007
20.09%	19.45%	18.13%	18.17%	16.01%

The level of capital ratio can be affected by growth in asset relative to growth in reserves and by changes in the mix of assets.

To manage the Credit Union's capital the Credit Union reviews the ratio monthly and monitors movements in the asset levels. Policies have been implemented to require reporting to the Board and the regulator if the capital ratio falls below 13%. Further a 5 year capital budget projection of the capital levels is maintained annually to address how strategic decisions or trends may impact on the capital level.

#### Pillar 2 Capital on Operational Risk

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

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

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

- Operational Risk Regulatory Capital \$ 4,875,689

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

#### Internal Capital Adequacy Management

The Credit Union manages its internal capital levels for both current and future activities annually during the review of the budget and business plan and at times when the Credit Union's risk matrix detects an adverse movement of the Credit Union's risk profile. The outputs are reviewed by the Board in its capacity as the primary governing body. The capital required for any change in the Credit Union's forecasts for asset growth, or unforeseen circumstances, are assessed by the Board.

## 23 Categories of Financial Instruments

The following information classifies the financial instruments into measurement classes		Consolidated		Credit Union	
		2011 \$	2010 \$	2011 \$	2010 \$
<b>Financial Assets - carried at amortised cost</b>	Note				
Cash	6	56,910,798	11,606,938	56,851,110	11,606,938
Receivables from Financial Institutions	7	72,000,000	163,500,000	72,000,000	163,500,000
Accrued Receivables	8	2,575,713	2,134,836	2,530,720	2,099,297
Investment Securities	9	80,787,158	-	80,787,158	-
Loans & Advances	10	916,360,594	857,424,598	916,360,594	857,424,598
Total Loans and Receivables		1,128,634,263	1,034,666,372	1,128,529,582	1,034,630,833
Available for Sale Investments carried at cost	12	6,883,082	5,610,154	6,883,089	5,610,161
Fair Value of Derivatives		-	-	-	-
<b>Total Financial Assets</b>		<b>1,135,517,345</b>	<b>1,040,276,526</b>	<b>1,135,412,671</b>	<b>1,040,240,994</b>
<b>Financial Liabilities carried at amortised cost</b>					
Short Term Borrowings	16	-	-	-	-
Deposits from Members	17	996,777,607	915,205,485	996,777,607	915,205,485
Withdrawable Shares	17	401,150	415,680	401,150	415,680
Creditors - Interest Payable on Deposits	18	14,997,969	13,294,365	14,996,782	13,280,385
Total Carried at Amortised Cost		1,012,176,726	928,915,530	1,012,175,539	928,901,550
Fair Value of Derivatives		298,321	530,517	298,321	530,517
<b>Total Financial Liabilities</b>		<b>1,012,475,047</b>	<b>929,446,047</b>	<b>1,012,473,860</b>	<b>929,432,067</b>

## 24 Maturity Profile of Financial Assets and Liabilities

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

**Financial assets and liabilities are at the undiscounted values (including future interest expected to be earned or paid).**

**Accordingly these values will not agree to the balance sheet.**

## 2011

	Balance Sheet	Up to 3 Months	3 to 12 Months	1 to 5 Years	After 5 Years	Total Cash Flows
<b>Assets</b>						
Cash	56,910,798	56,910,798	-	-	-	56,910,798
Accrued Receivables	2,575,713	233,105	-	-	-	233,105
Receivables from Financial Institutions	72,000,000	65,007,215	3,115,989	6,435,794	-	74,558,998
Investment Securities	80,787,158	76,000,000	6,000,000	-	-	82,000,000
Loans and Advances	916,360,594	26,585,000	79,757,665	425,374,214	848,266,905	1,379,983,784
Available for Sale Investments	6,883,082	-	-	-	6,883,082	6,883,082
On Balance Sheet Financial Assets	1,135,517,345	224,736,118	88,873,654	431,810,008	855,149,987	1,600,569,767
Interest Rate Swaps	35,000,000	5,058,010	-	33,748,924	-	38,806,934
<b>Total Financial Assets</b>	<b>1,170,517,345</b>	<b>229,794,128</b>	<b>88,873,654</b>	<b>465,558,932</b>	<b>855,149,987</b>	<b>1,639,376,701</b>
<b>Liabilities</b>						
Creditors Interest Payable on Deposits	9,555,396	-	-	-	-	-
Deposits from Members - At Call	396,357,664	396,357,664	-	-	-	396,357,664
Deposits from Members - Fixed Term	600,419,943	336,703,409	210,135,726	87,065,641	501,350	634,406,126
Withdrawable Shares	401,150	401,150	-	-	-	401,150
Borrowings	-	-	-	-	-	-
On Balance Sheet Financial Liabilities	1,006,734,153	733,462,223	210,135,726	87,065,641	501,350	1,031,164,940
Undrawn Loan Commitments	74,256,128	74,256,128	-	-	-	74,256,128
Interest Rate Swaps	35,000,000	5,082,668	-	34,503,073	-	39,585,741
<b>Total Financial Liabilities</b>	<b>1,115,990,281</b>	<b>812,801,019</b>	<b>210,135,726</b>	<b>121,568,714</b>	<b>501,350</b>	<b>1,145,006,809</b>

## 2010

	Balance Sheet	Up to 3 Months	3 to 12 Months	1 to 5 Years	After 5 Years	Total Cash Flows
<b>Assets</b>						
Cash	11,606,938	11,606,938	-	-	-	11,606,938
Accrued Receivables	2,134,836	260,463	-	-	-	260,463
Receivables from Financial Institutions	163,500,000	161,399,175	3,677,206	1,129,977	-	166,206,358
Investment Securities	-	-	-	-	-	-
Loans and Advances	857,424,598	71,878,521	74,830,140	399,094,080	774,936,127	1,320,738,868
Available for Sale Investments	5,610,154	-	-	-	5,610,154	5,610,154
On Balance Sheet Financial Assets	1,040,276,526	245,145,097	78,507,346	400,224,057	780,546,281	1,504,422,781
Interest Rate Swaps	35,000,000	10,610,957	21,681,195	5,553,660	-	37,845,812
<b>Total Financial Assets</b>	<b>1,075,276,526</b>	<b>255,756,054</b>	<b>100,188,541</b>	<b>405,777,717</b>	<b>780,546,281</b>	<b>1,542,268,593</b>
<b>Liabilities</b>						
Creditors Interest Payable on Deposits	8,335,712	-	-	-	-	-
Deposits from Members - At Call	370,166,238	370,166,238	-	-	-	370,166,238
Deposits from Members - Fixed Term	545,039,247	316,289,462	172,251,131	85,822,579	470,712	574,833,884
Withdrawable Shares	415,680	415,680	-	-	-	415,680
Borrowings	-	-	-	-	-	-
On Balance Sheet Financial Liabilities	923,956,877	686,871,380	172,251,131	85,822,579	470,712	945,415,802
Undrawn Loan Commitments	77,316,701	77,316,701	-	-	-	77,316,701
Interest Rate Swaps	35,000,000	10,858,906	22,590,732	5,724,668	-	39,174,306
<b>Total Financial Liabilities</b>	<b>1,036,273,578</b>	<b>775,046,987</b>	<b>194,841,863</b>	<b>91,547,247</b>	<b>470,712</b>	<b>1,061,906,809</b>

## 25 Interest Rate Change Profile of Financial Assets and Liabilities

Monetary assets and liabilities have conditions which allow interest rates to be amended either on maturity (Term Deposits and Term Investments) or after adequate notice is given (Loans and Savings). The following table shows the respective value of funds where interest rates are capable of being altered within the prescribed time bands, being the earlier of the contractual repricing date, or maturity date.

2011	Floating Rate	1 to 3 Months	3 to 12 Months	1 to 5 Years	Non Interest Sensitive	Total
<b>Assets</b>						
Cash	54,676,959	-	-	-	2,233,839	56,910,798
Accrued Receivables	-	-	-	-	2,575,713	2,575,713
Receivables from Financial Institutions	-	64,000,000	3,000,000	5,000,000	-	72,000,000
Investment Securities	-	74,904,514	5,882,644	-	-	80,787,158
Loans and Advances	796,995,181	2,163,481	29,064,922	88,137,010	-	916,360,594
Available for Sale Investments	-	-	-	-	6,883,082	6,883,082
On Balance Sheet Financial Assets	851,672,140	141,067,995	37,947,566	93,137,010	11,692,634	1,135,517,345
Interest Rate Swaps	-	35,000,000	-	-	-	35,000,000
<b>Total Financial Assets</b>	<b>851,672,140</b>	<b>176,067,995</b>	<b>37,947,566</b>	<b>93,137,010</b>	<b>11,692,634</b>	<b>1,170,517,345</b>
<b>Liabilities</b>						
Creditors Interest Payable on Deposits	-	-	-	-	9,555,396	9,555,396
Deposits from Members - At Call	396,357,664	-	-	-	-	396,357,664
Deposits from Members - Fixed Term	-	302,101,537	226,076,797	72,241,609	-	600,419,943
Withdrawable Shares	-	-	-	-	401,150	401,150
Borrowings	-	-	-	-	-	-
On Balance Sheet Financial Liabilities	396,357,664	302,101,537	226,076,797	72,241,609	9,956,546	1,006,734,153
Undrawn Loan Commitments	74,256,128	-	-	-	-	74,256,128
Interest Rate Swaps	-	5,000,000	-	30,000,000	-	35,000,000
<b>Total Financial Liabilities</b>	<b>470,613,792</b>	<b>307,101,537</b>	<b>226,076,797</b>	<b>102,241,609</b>	<b>9,956,546</b>	<b>1,115,990,281</b>

2010	Floating Rate	1 to 3 Months	3 to 12 Months	1 to 5 Years	Non Interest Sensitive	Total
<b>Assets</b>						
Cash	9,435,528	-	-	-	2,171,410	11,606,938
Accrued Receivables	-	-	-	-	2,134,836	2,134,836
Receivables from Financial Institutions	-	159,000,000	3,500,000	1,000,000	-	163,500,000
Investment Securities	-	-	-	-	-	-
Loans and Advances	755,656,542	10,457,174	29,833,234	61,477,648	-	857,424,598
Available for Sale Investments	-	-	-	-	5,610,154	5,610,154
On Balance Sheet Financial Assets	765,092,070	169,457,174	33,333,234	62,477,648	9,916,400	1,040,276,526
Interest Rate Swaps	-	35,000,000	-	-	-	35,000,000
<b>Total Financial Assets</b>	<b>765,092,070</b>	<b>204,457,174</b>	<b>33,333,234</b>	<b>62,477,648</b>	<b>9,916,400</b>	<b>1,075,276,526</b>
<b>Liabilities</b>						
Creditors Interest Payable on Deposits	-	-	-	-	8,335,712	8,335,712
Deposits from Members - At Call	370,166,238	-	-	-	-	370,166,238
Deposits from Members - Fixed Term	-	290,895,701	179,750,429	74,393,117	-	545,039,247
Withdrawable Shares	-	-	-	-	415,680	415,680
Borrowings	-	-	-	-	-	-
On Balance Sheet Financial Liabilities	370,166,238	290,895,701	179,750,429	74,393,117	8,751,392	923,956,877
Undrawn Loan Commitments	77,316,701	-	-	-	-	77,316,701
Interest Rate Swaps	-	10,000,000	20,000,000	5,000,000	-	35,000,000
<b>Total Financial Liabilities</b>	<b>447,482,939</b>	<b>300,895,701</b>	<b>199,750,429</b>	<b>79,393,117</b>	<b>8,751,392</b>	<b>1,036,273,578</b>

## 26 Net Fair Value of Financial Assets and Liabilities

Net Fair Value is an estimate of the present market value of each asset or liability and has been calculated to show the difference between the current and future value of funds at the present time. Where the assets/liabilities are short term in nature or reprice frequently, then the net fair value is stated at book value.

The information is only relevant to circumstances at Balance Date and will vary depending on the contractual rates applied to each asset and liability. No assets held are regularly traded by the Credit Union.

Assets	Receivables from other Financial Institutions		Loans & Advances (before Provision)	
	2011 \$	2010 \$	2011 \$	2010 \$
Net Fair Value	151,934,441	162,399,139	917,904,069	858,858,421
Book Value	152,787,158	163,500,000	918,222,645	858,645,050
Variance	(852,717)	(1,100,861)	(318,576)	213,371

Liabilities	Payable to other Financial Institutions		Member Deposits		Interest Rate Swaps	
	2011 \$	2010 \$	2011 \$	2010 \$	2011 \$	2010 \$
Net Fair Value	-	-	995,861,575	914,073,869	34,701,679	34,469,483
Book Value	-	-	997,178,757	915,621,165	35,000,000	35,000,000
Variance	-	-	(1,317,182)	(1,547,296)	(298,321)	(530,517)

## 27 Expenditure Commitments

### a. Future Capital Commitments

The Credit Union has entered into contracts to purchase fixed assets at a value of \$100,372 (2010 \$338,791). The amount is to be paid over the following periods.

	Consolidated		Credit Union	
	2011 \$	2010 \$	2011 \$	2010 \$
Within 1 year	100,372	338,791	100,372	338,791
1 to 2 years	-	-	-	-
2 to 5 years	-	-	-	-
over 5 years	-	-	-	-
	100,372	338,791	100,372	338,791

### b. Future Lease Rental Commitments

Future lease rental commitments are \$5,345,448 (2010 \$5,722,455). Operating lease payments under existing lease arrangements for office accommodation are payable over the following periods:

	Consolidated		Credit Union	
	2011 \$	2010 \$	2011 \$	2010 \$
Within 1 year	1,256,042	1,554,712	1,256,042	1,554,712
1 to 2 years	1,153,380	1,138,071	1,153,380	1,138,071
2 to 5 years	2,936,026	3,029,672	2,936,026	3,029,672
over 5 years	-	-	-	-
	5,345,448	5,722,455	5,345,448	5,722,455

## 28 Financial Commitments

### a. Loan Commitments

Loans approved but not funded as at 30 June 2011 total \$23,493,319 (2010 \$27,094,825).

### b. Undrawn Loan Facilities

Loan facilities available to Members for Overdrafts, Credit Card and Redraw Loans are as follows:

	Consolidated		Credit Union	
	2011 \$	2010 \$	2011 \$	2010 \$
Total value of facilities approved	98,947,945	97,157,016	98,947,945	97,157,016
Less: Amount outstanding at balance day	48,185,136	46,935,140	48,185,136	46,935,140
Net undrawn value	50,762,809	50,221,876	50,762,809	50,221,876

## 29 Standby Borrowing Facilities

The Credit Union has the following credit facilities with Cuscal:

Overdraft	Consolidated		Credit Union	
	2011 \$	2010 \$	2011 \$	2010 \$
Approved Limit	12,000,000	12,000,000	12,000,000	12,000,000
Less: Amount drawn	0	0	0	0
Available to draw	12,000,000	12,000,000	12,000,000	12,000,000

These commitments are contingent on Members maintaining credit standards and on-going repayment terms on amounts drawn. Under the contracts, the Credit Union has the right to withdraw the facilities at any time without notice. Draw down of the loan facility is subject to the availability of funds at Cuscal. Cuscal holds an equitable mortgage charge over all of the assets of the Credit Union as security against loan and overdraft amounts drawn.

## 30 Contingent Liabilities

### Liquidity Support Scheme

The Credit Union is a Member of the Credit Union Financial Support Scheme (CUFSS), a company established to provide financial support to Member Credit Unions in the event of a liquidity or capital problem arising. As a Member, the Credit Union is committed to maintaining an amount equivalent to 3.2% of total assets as deposits with Cuscal and/or a CUFSS approved Authorised Deposit-taking Institution (ADI). The maximum call for each Member Credit Union would be 3.2% of the Credit Union's total assets. The Credit Union has the opportunity under certain circumstances to draw on this scheme.

### Employee Entitlements

The Credit Union has a potential liability for the payment of entitlements to employees consequent on the dismissal of an employee, the amount of which cannot be determined. At the time of this report there are no matters outstanding. No amount has been provided, as in the view of the Directors the reasons were justified and the matter is before the industrial relations tribunal for determination.

## 31 Disclosures on Key Management Personnel

### a. Remuneration of Key Management Personnel

Key Management Personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of the Credit Union, directly or indirectly including any Director (whether Executive or otherwise) of that entity. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Key Management Persons have been taken to comprise the Directors and the 4 Members of the Executive Management responsible for the day to day financial and operational management of the Credit Union.

The aggregate compensation of Key Management Persons during the year comprising amounts paid or payable or provided for was as follows:

	Consolidated		Credit Union	
	2011 \$	2010 \$	2011 \$	2010 \$
(i) short term employee benefits	1,510,341	1,361,968	1,510,341	1,361,968
(ii) Post-employment benefits - Superannuation Contributions	92,612	177,235	92,612	177,235
(iii) Other long-term benefits - net increases in Long Service leave provision	(12,521)	(11,368)	(12,521)	(11,368)
(iv) Termination benefits	-	-	-	-
<b>Total</b>	<b>1,590,432</b>	<b>1,527,835</b>	<b>1,590,432</b>	<b>1,527,835</b>

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.

Note the AASB 124 standard does not specifically require the separation of the Directors and Executive remuneration.

This note should be read in conjunction with note 19 of the financial statements.

### Other Transactions with Key Management Persons

The disclosures are made in accordance with AASB 124 and include disclosures relating to policy for lending to related parties and, in respect of related party transactions, the amount included in:

- (i) each of the loans and advances, deposits and acceptances and promissory notes; [disclosures may include the aggregate amounts outstanding at the beginning and end of the period, as well as advances, deposits, repayments and other changes during the period;
- (ii) each of the principal types of income, interest expense and commissions paid;
- (iii) the amount of the expense recognised in the period for impairment losses on loans and advances and the amount of any allowance at the reporting date; and
- (iv) irrevocable commitments and contingencies and commitments arising from off balance sheet items.

## b. Loans to Directors and Other Key Management Persons

	Consolidated		Credit Union	
	2011 \$	2010 \$	2011 \$	2010 \$
(i) The aggregate value of loans to Directors and other Key Management Personnel as at balance date amounted to	1,434,743	1,116,952	1,434,743	1,116,952
(ii) The total value of revolving credit facilities to Directors and other Key Management Personnel, as at balance date amounted to:	71,000	71,000	71,000	71,000
Less amounts drawn down and included in (i)	20,445	13,898	20,445	13,898
Net balance available	50,555	57,102	50,555	57,102
(iii) During the year aggregate value of loans dispersed to Directors and other Key Management Personnel amounted to:				
Revolving Credit Facilities	73,548	372,269	73,548	372,269
Personal Loans	-	-	-	-
Term Loans	7,125	32,463	7,125	32,463
<b>Total</b>	<b>80,673</b>	<b>404,732</b>	<b>80,673</b>	<b>404,732</b>
(iv) During the year the aggregate value of Revolving Credit Facility limits granted or increased to Directors and other Key Management Personnel amounted to:	-	-	-	-
(v) Interest and other revenue earned on Loans and Revolving Credit facilities to Key Management Personnel.	68,770	65,864	68,770	65,864

The Credit Union's policy for lending to Directors and Management is that the loans are approved and deposits accepted on the same terms and conditions which apply to Members for each class of loan or deposit with the exception of loans to KMP who are not Directors. There are no loans which are impaired in relation to the loan balances with Director's or other KMPs.

KMP who are not Directors received a concessional rate of interest on their loans and facilities. These benefits were subject to Fringe Benefits Tax and are included in the remunerations in 31.b. above.

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

Other transactions between related parties include deposits from Directors, and other KMP are:

Total value Term and Savings Deposits from KMP	1,096,302	567,689	1,096,302	567,689
Total Interest paid on Deposits to KMP	9,436	5,077	9,436	5,077

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

## c. Transactions with Other Related Parties

Other transactions between related parties include deposits from Director related entities or close family Members of Directors, and other KMP. The Credit Union's policy for receiving deposits from related parties is that all transactions are approved and accepted on the same terms and conditions which apply to Members.

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

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

## 32 Segmental Reporting

The Credit Union operates exclusively in the retail financial services industry within Australia.

## 33 Events Occurring after the Balance Date

There were no events that have occurred since 30 June, 2011 that will have significant impact upon the Credit Union.

## 34 Superannuation Liabilities

If an employee does not nominate a fund of choice, the Credit Union contributes to one of two superannuation funds. One being the NGS Super which is an industry fund. The Credit Union has no interest in the Superannuation Fund (other than as a contributor to comply with Superannuation Guarantee Levy) and is not liable for the performance of the plan nor the obligations of the plan.

The other fund is a Corporate Master Trust which is administered by MLC Limited. It is a contribution accumulated type fund. The Credit Union has no legal obligation to cover any shortfall in the Fund's obligation to provide benefits to employees on retirement. In the event the Fund is terminated, Members are only entitled to the balance of their account within the fund. As at the date of the last annual review being 30 June 2011, the fund had reserves equal to Members accumulated balances.

The Credit Union is legally obligated to contribute to the Fund as per the Superannuation Guarantee Levy Act and for employees who have a contract of service. These obligations are enforceable. As at the date of this report there is:-

1. No outstanding payments due by the Credit Union.
2. No former employee or any individual associated with a former employee or an entity of a former employee receiving or entitled to receive a benefit under the Corporate Master Trust.

## 35 Securitisation

The Credit Union has an arrangement with Integris Securitisation Services Pty Limited and Australian Mortgage Securities Limited whereby the Credit Union acts as an agent to manage the loans portfolio on their behalf. The Credit Union bears no credit risk exposure in respect of these loans. Securities sold subject to repurchase agreements are retained in their respective balance sheet categories as neither the risks nor rewards have been transferred away from the Credit Union.

## 36 Notes to Cash Flow Statement Liabilities

### a. Reconciliation of Cash

Cash includes cash on hand and deposits at call with Cuscal net of overdraft.

	Consolidated		Credit Union	
	2011 \$	2010 \$	2011 \$	2010 \$
Cash as at balance date comprises:				
Cash on Hand	3,344,045	3,606,938	3,284,357	3,606,938
Deposits at Call	53,566,753	8,000,000	53,566,753	8,000,000
Less: Overdraft with Cuscal	-	-	-	-
	56,910,798	11,606,938	56,851,110	11,606,938

b. Member deposits and shares are shown net of deposits and withdrawals.

c. The net cash from Operating Activities is reconciled to the Operating Profit and Extraordinary Item after Income Tax.

	Consolidated		Credit Union	
	2011 \$	2010 \$	2011 \$	2010 \$
Operating Profit & Extraordinary Item after Income Tax	11,426,530	10,422,240	11,370,326	10,421,262
Add (Deduct):				
Bad Debts Written Off	532,724	883,011	532,724	883,011
Depreciation Expense	1,385,112	1,954,000	1,384,260	1,954,000
Increase in Provision for Employee Entitlements	(94,251)	441,510	(116,668)	421,999
Accrued Expenses	1,703,605	3,740,343	1,716,399	3,769,819
Loss on Sale of Assets	7,470	(125,436)	7,470	(125,436)
Decrease (Increase) in Prepayments	(313,982)	(107,658)	(313,982)	(107,658)
Increase (Decrease) in Unearned Income	(19,090)	149,816	(19,090)	149,816
Amortised Loan Transaction Costs	(22,594)	(10,670)	(22,594)	(10,670)
Decrease (Increase) in Sundry Debtors	(440,877)	(242,125)	(431,423)	(169,539)
Increase (Decrease) in Deferred Taxes Payable	4,027	291,539	4,027	291,539
Provisions for Income Tax	831,440	1,089,025	808,274	1,010,062
Other Provisions	1,059,117	(101,504)	1,059,117	(101,504)
Derivative Fair Value	(512,274)	-	(512,274)	-
Net Cash from Operating Activities	15,546,957	18,384,091	15,466,566	18,386,701

### Compliance Statistics

#### a. Capital Adequacy

At all times the Credit Union must maintain a minimum of 8% capital adequacy ratio. The capital adequacy ratio is a measure of reserves, general provisions for doubtful debts less an amount equal to the future income tax benefit as a percentage of the risk weighted value of assets. The Credit Union's ratio as at balance date was 20.09% (2010 19.45%).

#### b. Liquidity

The Credit Union is required to maintain at all times liquid assets at a minimum level of 9% of its liability base in High Quality Liquid Assets. These percentages were exceeded for the whole year. In addition to liquid assets the Credit Union has in place confirmed standby lines available to it. The High Quality Liquid Asset Ratio as at balance date was 13.47% (2010 14.85%).

# GENERAL INFORMATION

## Auditors

BDO Audit (NSW-VIC) Pty Ltd  
Level 19  
2 Market Street  
Sydney NSW 2000

## Bankers

Cuscal Limited

## Affiliations

Abacus  
1 Margaret Street  
Sydney NSW 2000  
  
Credit Union Financial  
Support Scheme  
  
Federation of Police Credit Unions

## Head Office

The Police Department Employees' Credit Union Limited  
Level 27, 1 Market Street Sydney NSW 2000  
Phone: 131 PCU (131 728)  
Email: info@pcu.com.au

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## Police Credit Union

### PCU Assistance Centre

Level 27, 1 Market Street  
Sydney NSW 2000  
Phone: 131 PCU (131 728)  
Eaglenet: 88899  
Email: info@pcu.com.au

### Canberra

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40 Marcus Clarke Street  
Canberra ACT 2601  
Phone: (02) 6206 7000  
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Email: canberra@pcu.com.au

### Port Macquarie

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Eaglenet: 44840  
Email: portmacq@pcu.com.au

### PCU Direct

Level 27, 1 Market Street  
Sydney NSW 2000  
Phone: 131 PCU (131 728)  
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Email: direct@pcu.com.au

### Goulburn

c/o Police Academy  
McDermott Dr Goulburn NSW 2580  
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Eaglenet: 44730  
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### Parramatta

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### Wollongong

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Phone: (02) 4221 9000  
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### Gosford

9-11 Mann Street  
Gosford NSW 2250  
Phone: (02) 4320 0200  
Eaglenet: 44880  
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### Campbelltown

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Campbelltown NSW 2560  
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Eaglenet: 88839  
Email: campbelltown@pcu.com.au

### Newcastle

24 Bolton Street  
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Phone: (02) 4908 6200  
Eaglenet: 44870  
Email: newcastle@pcu.com.au

## Customs Credit Union

### Canberra

5 Constitution Avenue  
Canberra ACT 2601  
Phone: (02) 6243 8900  
Email: canberra@customscu.com.au

### Mascot

c/o Customs House  
10 Cooks River Drive  
Sydney International Airport  
NSW 2020  
Phone: (02) 8335 4200  
Email: sydney@customscu.com.au

### Melbourne

1010 LaTrobe Street  
Docklands, Melbourne VIC 3008  
Phone: (03) 9642 1003  
Email: melbourne@customscu.com.au

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## Websites:

ABN: 95 087 650 799  
AFSL/ Australian Credit Licence No: 240018  
BSB: 815 000

www.pcu.com.au www.customscu.com.au

